



Basel 3 Pillar 3

Disclosure as at 30 September 2019

This is an English translation of the original Italian document "Terzo Pilastro di Basilea 3 Informativa a pubblico al 30 settembre 2019". 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.

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Contents

Introduction	7
Own funds	11
Capital requirements	19
Liquidity risk	25
Leverage ratio	27
Declaration of the Manager responsible for preparing the Company's financial reports	29
Contacts	31

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 increase banks’ transparency and disclosures. In doing so, the Committee maintained the approach founded on three Pillars, underlying 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 introduced greater transparency requirements, more information on the composition of regulatory capital and the methods used by banks to calculate capital ratios.

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

- Regulation (EU) 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 285 of 17 December 2013, which contains the prudential supervision regulations applicable to Italian banks and banking groups, reviewed and updated to adjust the internal regulations to the new elements of the international regulatory framework, with special reference to the new regulatory and institutional structure of banking supervision of the European Union and taking into account the needs detected while supervising banks and other intermediaries.

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

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

The issue of disclosure, handled for the first time in 2004, and subsequently revised in 2006 in the “Basel Framework” document, was the subject of an initial revision by the Basel Committee through its standard “Revised Pillar 3 disclosure requirements”, published in January 2015. This document contains indications that the Supervisory Authorities should incorporate in the national regulations (in our case the EU) so that they come into force. At the end of March 2017, the Basel Committee published the standard “Pillar 3 disclosure requirements - consolidated and enhanced framework” which constitutes the second phase of the review of the regulatory framework concerning public disclosure, started with the abovementioned document issued in January 2015. This second 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.

The third phase of the review process initiated by the Basel Committee on Banking Supervision (BCBS) was completed in December 2018 with the publication of the final version of the document “Pillar 3 disclosure requirements - updated framework”. This document, in line with the previous revision phases, aims to establish a single reference framework for disclosure, with a view to harmonising the market rules. The new updated framework covers the following areas:

- i. revisions and additions to the Pillar 3 regulatory framework resulting from the completion of the reform of the Basel 3 regulatory framework in December 2017, with the introduction of changes to the disclosure requirements for credit risk, operational risk, leverage ratio, credit valuation adjustment (CVA), the risk management summary models, the determination of risk-weighted assets (RWA), and the key prudential metrics;
- ii. new requirements on encumbered assets, with the introduction of a new disclosure requirement that obliges banks to provide disclosure on both encumbered and unencumbered assets;

- iii. new disclosure requirements on capital distribution restrictions to provide Pillar 3 users with additional information on the capital ratios that would give rise to capital distribution restrictions imposed by national regulators. The new information introduced is intended to strengthen the disclosure requirement, with particular regard to the risk of coupon cancellation, and to provide greater support for investment decisions, price formation and market stability.

Further information on Pillar 3 was provided by the EBA in December 2014 with a specific document regarding the guidelines on materiality, proprietary and confidentiality and on the frequency of disclosure to be provided in Pillar 3 (EBA/GL/2014/14 - Guidelines on materiality, proprietary and confidentiality and on disclosures frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) 575/2013), which governs the following additional significant aspects of the preparation of Pillar 3 disclosure:

- application by the institutions of the materiality criterion;
- application by the institutions of the proprietary and confidentiality criteria;
- need to publish the disclosure more frequently than once a year.

In this regard, on 14 December 2016, the EBA published the first version of the “Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013” (EBA/GL/2016/11), subsequently updated on 4 August 2017. These guidelines aim to increase and improve the consistency and comparability of the information to be provided for Pillar 3, requiring, from 31 December 2017, the publication of new tables in the Pillar 3 disclosure, for G-SIBs and O-SIBs banks, specifying their frequency of publication, with detailed information on credit and counterparty risk - including risk mitigation techniques and credit quality - as well as market risk. Likewise, these guidelines were also implemented in the proposed draft for the amendment of the CRR (CRR II) published in November 2016 and subject, from July 2018, to inter-institutional negotiations (trialogues) according to the usual approval procedure, which ended on 7 June 2019 with the publication in the Official Journal of the European Union of Regulation (EU) 2019/876.

With specific regard to the information on encumbered assets, in December 2017 Commission Delegated Regulation (EU) 2017/2295 was published in the Official Journal of the European Union, which adopts the EBA RTS (EBA/RTS/2017/03) and establishes the regulatory technical standards for the disclosure of encumbered and unencumbered assets. Consequently, the Intesa Sanpaolo Group is publishing this disclosure on the basis of the provisions contained in the Delegated Regulation.

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) 575/2013” (EBA/GL/2017/01), containing additional disclosure requirements for liquidity risk measured through the Liquidity Coverage Ratio.

In January 2018, the EBA issued the “Guidelines on uniform disclosures under Article 473a of Regulation (EU) 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds” (EBA/GL/2018/01) which establish the templates for the publication of information relating to the impacts on own funds resulting from the introduction of the regulation (EU) 2017/2395, containing “Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds”. As the Intesa Sanpaolo Group opted for the transitional arrangement through the “static” approach to mitigate this impact, it is also required to provide market disclosure on the amounts of its own funds, Common Equity Tier 1 Capital, Tier 1 Capital, CET1 ratio, Tier 1 ratio, Total ratio and fully loaded Leverage ratio, as if it had not adopted this transitional arrangement.

In addition to the disclosure requirements set out in the “Guidance to banks on non-performing loans”, published by the ECB in March 2017 and applicable from the reporting dates for the financial year 2018, which formed the basis for the supplementation of existing tables, in December 2018 the EBA - at the end of the public consultation process launched in April - published the final version of the document “Guidelines on disclosures of non-performing and forborne exposures” (EBA/GL/2018/10), applicable from 31 December 2019 and aimed at promoting uniformity in the disclosure requirements for NPLs.

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

With specific reference to the information on the Leverage ratio, please note that in February 2016 Commission Implementing Regulation 2016/200 was published in the Official Journal of the European Union, laying down implementing technical standards with regard to the disclosure on the Leverage ratio, under Regulation (EU) 575/2013.

Consequently, the Intesa Sanpaolo Group is publishing the Leverage ratio on the basis of the provisions contained in the Delegated Act.

Starting from 1 January 2016, in application of Delegated Regulation 2015/1555 which sets out “regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440 of the CRR”, the disclosure obligations concerning the countercyclical capital buffers have also been applied. With effect from 31 December 2016, the disclosure includes – in addition to the amount of the countercyclical capital buffer – details on the geographical distribution of relevant credit exposures for the purpose of calculating the countercyclical capital buffer according to the regulations.

Following the publication in the Official Journal of the European Union on 7 June 2019 of Regulation (EU) 2019/876 - also known as CRR II (Capital Requirements Regulation) - which is part of the broader package of regulatory reforms that also include CRD V (Capital Requirements Directive), BRRD II (Banking Recovery and Resolution Directive) and SRMR II (Single Resolution Mechanism Regulation) - with regard to disclosure requirements, as shown by Article 3 par. 3 (k) of the above-mentioned Regulation, action is expected from the EBA to develop draft regulatory technical standards (RTS) in order to rationalise and harmonise the information to be provided periodically to the market, in line with the regulatory changes introduced by CRR II, which will apply from 2021.

* * * * *

In accordance with the above provisions and in line with the approach described above, this document has been prepared 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 2018, the scope of consolidation did not show significant changes.

The changes concerning the entities under common control – which do not have an impact at consolidated level – include the mergers by incorporation into the Parent Company of Intesa Sanpaolo Group Services, Cassa di Risparmio di Firenze, Cassa di Risparmio in Bologna, Cassa di Risparmio di Pistoia e della Lucchesia, Banca Apulia and Banca Prossima.

Under the terms of Art. 433 of the CRR, banks publish the disclosures envisaged in European regulations at least once a year, at the same time as the financial statements. They are also required to assess the need to publish some or all these disclosures more frequently, based on the significant characteristics of current activities.

In particular, entities must assess whether there is a need to publish disclosures more frequently in relation to "Own Funds" (Art. 437), "Capital Requirements" (Art. 438), and disclosures regarding risk exposure or other aspects subject to rapid change. In this regard, it is also necessary to consider the specific instructions introduced by the new EBA Guidelines (EBA/GL/2016/11), which require interim disclosures of certain information. 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 ratio", supplemented in the half-yearly report with additional information on credit, counterparty, market and operational risks.

In relation to the scope of application of the provisions of the CRR, which refers - as previously indicated - to a "prudential" consolidation scope, and the provisions of the CRR, this document does not illustrate all the types of risk that the Intesa Sanpaolo Group is exposed to. Details on own funds and capital ratios are also published in the consolidated Interim Statements for March and September and in the Half-yearly Report.

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

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

The Group's website publishes information, upon the required deadlines, on the value of the indicators of global systemic importance (Governance\Risk management Section of the website: "Indicators of the assessment methodology to identify the global systemically important banks").

Own funds

Qualitative and quantitative disclosure

Introduction

As previously mentioned, the harmonised rules for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) into European Union laws, became applicable from 1 January 2014.

These regulatory provisions were adopted in Italy through the following regulations:

- Bank of Italy Circular 285: Supervisory regulations for banks;
- Implementing Regulation No 680/2014, as amended, laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

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, retained earnings reserves, valuation reserves, eligible minority interests, net of the deducted items.

In order to be eligible for Common Equity, the equity instruments issued must guarantee absorption of losses on going concern, by satisfying the following characteristics:

- maximum level of subordination;
- option for suspending the payment of dividends/coupons at the full discretion of the issuer and in a non-cumulative manner;
- unredeemability;
- absence of redemption incentives.

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

A number of prudential filters are also envisaged with effects on Common Equity:

- filter on profits associated with future margins deriving from securitisations;
- filter on cash flow hedge (CFH) reserves;
- filter on profits or losses on liabilities designated at fair value (derivatives or otherwise) associated with changes in own credit risk (DVA);
- adjustments to fair value assets associated with the "prudent valuation".

The regulation also envisages a series of elements to be deducted from Common Equity Tier 1:

- losses for the current year;
- goodwill, intangible assets and residual intangible assets;
- deferred tax assets (DTA) associated with future income not deriving from temporary differences (e.g. DTA on losses carried forward);
- expected losses exceeding total credit risk adjustments (the shortfall reserve) for exposures weighted according to IRB approaches;
- net assets deriving from defined benefit plans;
- direct, indirect or synthetic holdings of the entity in Common Equity Tier 1 Capital instruments;
- exposures for which it is decided to opt for deduction rather than a 1,250% weighting among RWA;
- non-significant investments in CET 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);

- the applicable amount of insufficient coverage for non-performing exposures, as governed by Regulation 2019/630 of the European Parliament and Council of 17 April 2019 (minimum loss coverage for non-performing exposures - also known as calendar provisioning).

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), once the deductions of items and exemptions provided for in Regulation (EU) 575/2013 (CRR) have been applied.

Tier 2 Capital is mainly composed of items such as 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, once the deductions of items and exemptions provided for in Regulation (EU) 575/2013 (CRR) have been applied.

Following the issue of Regulation (EU) 2019/876 (CRR II), the eligibility of class 2 instruments with a residual duration of less than five years (being amortised) is determined based on the carrying amount instead of the nominal value.

With regard to the transitional period for the introduction of the “Basel 3” regulatory framework, which moreover expired on 31 December 2017 and provided for the partial inclusion within or deduction from Own Funds of certain items to enable a gradual impact of the new regulatory requirements, in accordance with the provisions of Directive 2013/36/EU (CRD IV) and the CRR, the exemption period established by Regulation (EU) 575/2013 (CRR), regarding the amendments to be applied to IAS 19, also expired at the end of 2018.

Specific transitional rules (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 that will end in 2021).

The transitional period (2018-2022), aimed at mitigating the capital impacts linked to the introduction of the new financial reporting standard IFRS 9, started from 1 January 2018. The Intesa Sanpaolo Group has exercised the option provided in EU Regulation 2395/2017 of adopting the “static” approach that allows the neutralisation of a progressively decreasing amount of the impact of IFRS 9 in its CET 1 solely for the FTA component of the impairment.

In particular, the result from the comparison between the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018 – relating to performing loans and securities (stage 1 and 2) and adjustments to NPLs (stage 3), net of tax and having eliminated any shortfall reserve – is re-included in the capital according to phase-in percentages of 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021, and 25% in 2022. During the transitional period, the Group may also elect to change this approach once only, subject to authorisation from the Supervisory Authority, moving from the “static” approach to the “dynamic” approach or suspending the application of the transitional treatment in favour of the fully loaded regime. During 2018, two EBA Q&As were published (2018_3784, 2018_4113) which specified that, during the transitional period, any Deferred Tax Assets (DTAs) connected to IFRS 9 FTA-related adjustments should not be considered as deductions from CET1 as envisaged by the CRR.

Considering that the approval of Law 145 of 30 December 2018 (2019 Budget Act) led to the recognition of DTAs linked to the deferred deductibility, over 10 financial years starting from 2018, of the value adjustments recognised in shareholders' equity because they are related to the first-time adoption of IFRS 9, as envisaged by the aforementioned Regulation and the subsequent EBA Q&As, those DTAs have been neutralised for the purposes of CET1 Capital during the transitional period established for the IFRS 9 impact (which extends until 2022) limited to the complementary portion of the phase-in percentages detailed above.

Following the publication in the Official Journal of the European Union of Regulation (EU) 2019/876 - also known as CRR II (Capital Requirements Regulation) - which is part of the broader package of regulatory reforms that also include CRD V (Capital Requirements Directive), BRRD II (Banking Recovery and Resolution Directive), SRMR II (Single Resolution Mechanism Regulation) and Regulation (EU) 2019/630 as regards minimum loss coverage for non-performing exposures (also known as calendar provisioning), please note that these are all in force at 30 September 2019 and already partially applicable.

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Article 49 of Regulation (EU) No 575/2013 (CRR) grants financial conglomerates the option to activate (with the prior permission of the competent authorities) the so-called “Danish Compromise”, which permits banks that hold own funds instruments in insurance companies not to deduct those significant investments from Common Equity Tier 1 Capital (CET 1), weighing them at 370% for the purposes of RWA, reducing capital absorption.

As a “financial conglomerate” with a Parent Company of a banking group – Intesa Sanpaolo Spa - which controls the Intesa Sanpaolo Vita Insurance Group, on 9 May 2019 the Intesa Sanpaolo Group submitted the request for authorisation to the competent supervisory authorities, and received permission from the ECB on 9 September 2019 to calculate the Group's consolidated capital ratios by risk weighing the insurance investment instead of deducting it, with effect from the report as at 30 September 2019. The amount of T2 subordinated instruments issued by the Group's insurance companies and held by the Parent Company (768 million euro as at 30 September 2019) is deducted from Tier 2 Capital, in line with the past.

Breakdown of Own Funds

The structure of the Intesa Sanpaolo Group's Own Funds as at 30 September 2019 is summarised in the table below.

	(millions of euro)	
	30.09.2019	31.12.2018
A. Common Equity Tier 1 (CET1) before the application of prudential filters	48,548	46,466
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	586	-1,578
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	49,134	44,888
D. Items to be deducted from CET 1	-9,925	-11,916
E. Transitional period - Impact on CET1 (+/-)	2,538	4,269
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	41,747	37,241
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	4,721	4,856
of which AT1 instruments subject to transitional adjustments	615	731
H. Items to be deducted from AT1	-	-
I. Transitional period - Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 (AT1) (G - H +/- I)	4,721	4,856
M. Tier 2 (T2) before items to be deducted and effects of transitional period	7,467	8,419
of which T2 instruments subject to transitional adjustments	116	12
N. Items to be deducted from T2	-768	-788
O. Transitional period - Impact on T2 (+ / -)	-	-850
P. Total Tier 2 (T2) (M - N +/- O)	6,699	6,781
Q. Total own funds (F + L + P)	53,167	48,878

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

- grandfathered instruments;
- minority interests;
- IFRS 9 FTA filter (pursuant to Article 473a amending EU Regulation 575/2013);
- other minor captions;

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

Reconciliation of net book value and Common Equity Tier 1 Capital

Captions	(millions of euro)	
	30.09.2019	31.12.2018
Group Shareholders' equity	55,229	54,024
Minority interests	322	407
Shareholders' equity as per the Balance Sheet	55,551	54,431
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for inclusion in AT1	-4,102	-4,121
- Minority interests eligible for inclusion in AT1	-4	-4
- Minority interests eligible for inclusion in T2	-4	-4
- Ineligible minority interests on full phase-in	-282	-372
- Ineligible net income for the period (a)	-2,688	-3,534
- Treasury shares included under regulatory adjustments	232	204
- Other ineligible components on full phase-in	-155	-134
Common Equity Tier 1 capital (CET1) before regulatory adjustments	48,548	46,466
Regulatory adjustments (including transitional adjustments) (b)	-6,801	-9,225
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	41,747	37,241

(a) Common Equity Tier 1 capital as at 30 September 2019 includes the net income for the first nine months of 2019, less the related dividend, calculated according to the payout envisaged in the 2018-2021 Business Plan (80% for 2019) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(b) Adjustments for the transitional period as at 30 September 2019 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (85% in 2019) set to decrease progressively until 2022. The change compared to 31 December 2018 is substantially attributable to the effects of the application from the third quarter of 2019 of the so-called Danish Compromise, which entails risk-weighting the insurance investment instead of deducting it.

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

Common Equity Tier 1 Capital (CET1)

	(millions of euro)	
	30.09.2019	31.12.2018
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	9,086	9,085
Share premium reserve	25,074	24,767
Reserves (a)	13,201	12,975
Accumulated other comprehensive income (b)	533	-904
Net income (loss) for the period	3,310	4,050
Net income (loss) for the period not eligible	-2,688	-
Dividends and other foreseeable charges (c)	-	-3,534
Minority interests	32	27
Common Equity Tier 1 capital (CET1) before regulatory adjustments	48,548	46,466
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-232	-204
Goodwill	-4,464	-4,477
Other intangible assets	-3,293	-3,297
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,480	-1,456
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-306	-208
Defined benefit pension funds assets	-	-
Prudential filters	752	376
- of which Cash Flow Hedge Reserve	996	814
- of which Gains or Losses due to changes in own credit risk (DVA)	55	-201
- of which Prudent valuation adjustments	-299	-237
- of which Other prudential filters	-	-
Exposures to securitisations deducted rather than risk weighted at 1250%	-166	-227
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)	-	-1,727
- 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	-	-1,727
Deductions with threshold of 17.65% (e)	-	-1,955
Positive or negative elements - other	-150	-319
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-9,339	-13,494
Total adjustments in the transitional period (CET1)	2,538	4,269
Common Equity Tier 1 (CET1) - Total	41,747	37,241

(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 2018, the figure considers the dividends on 2018 results, the portion of the remuneration of the AT1 instruments issued at the date and the portion of 2018 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) As at 31.12.2018 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 (80% for 2019), and other foreseeable costs.

As envisaged by Article 253 of Regulation (EU) 575/2013 (as amended by Regulation 2017/2401) which governs the case, in place of the weighting of the positions towards securitisations that meet the requirements to receive a weighting of 1,250%, it was chosen to proceed with the direct deduction of these exposures from the Own Funds.

The amount of such deduction as at 30 September 2019 is equal to -166 million euro.

Additional Tier 1 Capital (AT1)

	(millions of euro)	
	30.09.2019	31.12.2018
Additional Tier 1 capital (AT1)		
AT1 instruments	4,102	4,121
Minority interests	4	4
Additional Tier 1 capital (AT1) before regulatory adjustments	4,106	4,125
Regulatory adjustments to Additional Tier 1 (AT1)	-	-
Adjustments in the transitional period, including minority interests (AT1)	-	-
AT1 instruments eligible for grandfathering	615	731
Additional Tier 1 (AT1) - Total	4,721	4,856

No AT1 instruments were issued in the first nine months of 2019.

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 grandfathering	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	615
Total Additional Tier 1 instruments subject to transitional provisions									615
Intesa Sanpaolo	6.25% fixed rate	NO	16-May-2017	perpetual	16-May-2024	Eur	NO	750,000,000	744
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	1,240
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	1,240
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	877
Total Additional Tier 1 instruments not subject to transitional provisions									4,101
Total Additional Tier 1 equity instruments									4,716

Tier 2 Capital (T2)

	(millions of euro)	
	30.09.2019	31.12.2018
Tier 2 Capital (T2)		
T2 Instruments	7,347	7,553
Minority interests	4	4
Excess of provisions over expected losses eligible (excess reserve)	-	850
Tier 2 capital before regulatory adjustments	7,351	8,407
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	-768	-788
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 (T2)	-768	-788
Total adjustments in the transitional period, including minority interests (T2)	-	-850
T2 instruments eligible for grandfathering	116	12
Tier 2 Capital (T2) - Total	6,699	6,781

Tier 2 (T2) equity instruments

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	3-month Euribor + 1.94%/4	NO	26-Sep-2017	26-Sep-2024	NO	Eur	NO	724,000,000	692
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,854
Intesa Sanpaolo	6.6625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	1,263
Intesa Sanpaolo	5.71% fixed rate	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,384
Intesa Sanpaolo	3.928% fixed rate	NO	15-Sep-2014	15-Sep-2026	NO	Eur	NO	1,000,000,000	1,077
Intesa Sanpaolo	3-month Euribor + 237 bps/4	NO	30-Jun-2015	30-Jun-2022	NO	Eur	NO	781,962,000	413
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	152
Intesa Sanpaolo	2.855% fixed rate	NO	23-Apr-2015	23-Apr-2025	NO	Eur	NO	500,000,000	512
Total Tier 2 instruments									7,347

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

	(millions of euro)	
	30.09.2019	31.12.2018
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	3,921	3,665
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	3,921	3,665
C. Threshold of 17.65% for significant investments and DTA not deducted in the threshold described under point B	6,269	4,947

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 amounts not deducted are weighted among risk-weighted assets at 250%.

In the third quarter of 2018, the EBA published a Q&A which resulted in the exclusion - during the transitional period (2018-2022) - from the basis of calculation of CET1 used to determine the “thresholds”, as described above, of the gradually decreasing amount of the CET1 adjustment due to the adoption of the “static” approach to mitigate the capital impacts linked to the introduction of IFRS 9.

Capital requirements

Qualitative and quantitative disclosure

According to the regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 and subsequent amendments), which adopt the provisions on capital measurement and capital ratios (Basel 3), the Banking Group's total own funds must amount to at least 12.46% of total risk-weighted assets (total capital ratio including the minimum requirement for Pillar 1, the additional Pillar 2 requirement of 1.5%, the capital conservation buffer of 2.5% on a phased-in basis for 2019, the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.38% under the transitional arrangements in force for 2019, and the institution-specific countercyclical capital buffer of 0.08% in the third quarter of 2019) 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 as a result of 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 8 February 2019, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 March 2019. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.88% under the transitional arrangements for 2019 and 9.25% on a fully loaded basis.

This is the result of:

- a) a 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 Capital Conservation Buffer requirement of 2.5% on a fully-loaded basis in 2019 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.38% under the transitional arrangements in force for 2019 and 0.75% on a fully-loaded basis in 2021.

Considering the additional requirement consisting of the Institution-Specific Countercyclical Capital Buffer¹, the Common Equity Tier 1 ratio to be met is 8.96% under the transitional arrangements in force for 2019 and 9.35% on a fully loaded basis.

Regarding credit risks, the extension in May 2019 of the Group's Institutions, Corporate and Retail internal models to the portfolio acquired from the former Banca Apulia, subsequently merged into Intesa Sanpaolo, should be noted.

There were no changes in the scope of application of the internal models concerning counterparty risk for OTC derivatives and SFTs (securities financing transactions) and operational risks compared to 31 December 2018.

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 2019.

¹ Countercyclical Capital Buffer calculated taking into account the exposure as at 30 September 2019 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities for 2019-2020, if available, or at the latest update of the reference period (this requirement was set to zero per cent for Italy for 2019).

EU OV1 – Overview of RWAs

(millions of euro)

		RWAs		MINIMUM CAPITAL REQUIREMENTS	
		30.09.2019	30.06.2019	30.09.2019	
	1	Credit risk (excluding CCR)	237,283	213,115	18,982
Article 438(c)(d)	2	Of which the standardised approach	73,835	71,117	5,906
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	1,008	1,033	81
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	136,147	135,574	10,892
Article 438(d)	5	Of which equity with simple risk-weighted approach or PD/LGD	26,293	5,391	2,103
Article 107	6	CCR	8,358	8,164	668
Article 438(c)(d)	7	Of which mark to market	1,758	1,661	141
Article 438(c)(d)	8	Of which original exposure	-	-	-
	9	Of which the standardised approach	-	-	-
	10	Of which internal model method (IMM)	5,154	5,156	412
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	244	258	19
Article 438(c)(d)	12	Of which CVA	1,202	1,089	96
Article 438(e)	13	Settlement risk	-	-	-
Article 449(o)(i)	14	Securitisation exposures in the banking book (after the cap)	6,941	7,211	555
	15	Of which IRB approach	1,178	1,193	94
	16	Of which IRB supervisory formula approach (SFA)	2,245	2,291	180
	17	Of which internal assessment approach (IAA)	-	-	-
	18	Of which standardised approach	3,518	3,727	281
Article 438 (e)	19	Market risk	20,558	20,116	1,645
	20	Of which the standardised approach	2,262	2,596	181
	21	Of which IMA	18,296	17,520	1,464
Article 438(e)	22	Large exposures	-	-	-
Article 438(f)	23	Operational risk	18,344	18,344	1,468
	24	Of which basic indicator approach	496	496	40
	25	Of which standardised approach	2,006	2,006	161
	26	Of which advanced measurement approach	15,842	15,842	1,267
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	6,909	13,310	553
Article 500	28	Floor adjustment	-	-	-
	29	TOTAL	298,393	280,260	23,871

The total amount of risk-weighted exposures recorded as at 30 September 2019 was 298.4 billion euro, with a change of +18.1 billion euro compared to June 2019. In particular, please note the following:

- for credit risk (excluding counterparty risk), the increase is mainly attributable to the introduction during the third quarter, of the “Danish Compromise”² and the increase in value during the quarter in insurance investments. Other effects can be attributed to the increase in transactions in portfolios using the standardised approach (specifically, Corporate and Other Exposures);
- for counterparty risk, there was a slight increase, mainly due to Securities Financing Transactions and the CVA component on OTC derivatives;
- for market risk, the slight growth in RWA, mainly attributable to internal models due to the greater volatility of interest rates and a partial repositioning on the credit market, was partially offset by models using the standardised approach;
- for operational risk, there was no change, in line with the half-yearly update of the models;
- the decrease in the amounts below the deduction thresholds (250%) is attributable to the weight assigned to insurance assets (370%), as a result of the aforementioned introduction of the “Danish Compromise”, and the resulting reallocation of those assets using the simple risk weight approach.

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

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

		(millions of euro)	
		RWA amounts	Capital requirements
1	RWAs as at 30 June 2019	150,246	12,020
2	Asset size	1,695	136
3	Asset quality	-1,954	-156
4	Model updates	9	-
5	Methodology and policy	14,298	1,144
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	657	52
8	Other	189	15
9	RWAs as at 30 September 2019 (*)	165,140	13,211

(*) As at 30 September 2019, the RWA relating to IRB models amounted to 165,140 million euro and was attributable to the Foundation IRB approach for 1,008 million euro (Row 3 EU OV1), to the Advanced IRB approach for 136,147 million euro (Row 4 EU OV1), to equity instruments measured using the simple weighted average or PD/LGD approach for 26,293 million euro (Row 5 EU OV1), and to amounts below the deduction thresholds for 1,692 million euro (of which Row 27 EU OV1).

The aggregate of the RWAs relating to the exposures subject to credit risk measured using advanced approaches³ was identified as 165,140 million euro in September 2019, compared to the amount of 150,246 million euro in the previous quarter. The increase of 14,894 million euro between the two periods is mainly due to the following effects:

- -1,954 million euro attributable to an improvement in the credit rating of the counterparties in the portfolio;
- +657 million euro attributable to foreign currency exposures due to changes in exchange rates, in particular for the exposures denominated in US dollars;
- 1,695 million euro due to the increase in volumes in the quarter;
- 14,298 million euro due to the aforementioned application of the “Danish Compromise”, by virtue of which, starting from 30 September, insurance investments are treated as risk-weighted assets instead of being deducted from capital.

² As previously indicated, this regards the ECB authorisation (pursuant to Article 49 of Regulation (EU) no. 575/2013) – obtained by Intesa Sanpaolo with effect from the report as at 30 September 2019 -, by virtue of which insurance investments are treated as risk-weighted assets instead of being deducted from capital.

³ The risk-weighted exposures have been calculated in accordance with the instructions of the CRR, Part Three, Title II, Chapter 3, and the capital requirement has been calculated in accordance with Article 92(3)(a).

EU CCR7 - RWA flow statements of CCR exposures under the IMM (Internal Model Method) in the third quarter

(millions of euro)

	RWA amounts	Capital requirements
1 RWAs as at 30 June 2019	5,156	412
2 Asset size	593	47
3 Credit quality of counterparties	-352	-27
4 Model updates (IMM only)	-244	-20
5 Methodology and policy (IMM only)	-	-
6 Acquisitions and disposals	-	-
7 Foreign exchange movements	1	-
8 Other	-	-
9 RWAs as at 30 September 2019	5,154	412

RWAs related to CCR exposures (calculated with the Internal Model on OTC derivatives and SFTs, in accordance with part 3, title II, chapter 6 of the CRR) is substantially stable between the two quarters: 5,156 million euro on June 2019 and 5,154 million euro on September 2019. In particular the increase of 593 million euro in terms of RWA is due to an increase in exposures, almost fully offset by a decrease of -352 million euro, due to the improvement of risk profile for the transactions in the portfolio, and of -244 million euro due to the reduction of the prudential factor required by regulatory guidelines for determining exposures.

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

(millions of euro)

	VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
1 RWAs as at 30 June 2019	4,019	9,178	4,278	-	45	17,520	1,401
1a Regulatory adjustment	-	-	-	-	-	-	-
1b RWAs at the previous quarter-end (end of the day)	4,124	12,323	4,278	-	46	20,771	1,662
2 Movement in risk levels	328	884	-454	-	18	776	63
3 Model updates/changes	-	-	-	-	-	-	-
4 Methodology and policy	-	-	-	-	-	-	-
5 Acquisitions and disposals	-	-	-	-	-	-	-
6 Foreign exchange movements	-	-	-	-	-	-	-
7 Other	-	-	-	-	-	-	-
8a RWAs at the end of the reporting period (end of the day)	4,458	9,864	3,433	-	58	17,813	1,425
8b Regulatory adjustment	-	-	-	-	-	-	-
8 RWAs as at 30 September 2019	4,347	10,062	3,824	-	63	18,296	1,464

The Market Risk RWA slightly increased (+776 million euro) with respect to the second quarter of 2019. The increase was driven by the VaR (+328 million euro) and Stressed VaR (+884 million euro) figures, affected by a greater volatility of interest rates and a partial portfolio rebalancing on the credit market. The Incremental Risk Charge (-454 million euro) recorded a decrease compared to the previous quarter due to the lower exposure on credit indices, and includes a regulatory add-on of 391 million euro.

Non-deducted participations in insurance undertakings

The Intesa Sanpaolo Group has exercised the option provided by Article 49 of the CRR regarding the treatment of positions in insurance undertakings because, as previously indicated, it obtained authorisation from the ECB not to deduct equity instruments in insurance companies of the Group (“Danish Compromise”).

Institution-specific Countercyclical Capital Buffer

Below is the information relating to the “Countercyclical capital buffer”, prepared based on the ratios applicable at 30 September 2019 and Delegated Regulation (EU) 2015/1555 of the Commission of 28 May 2015 which integrates regulation (EU) No. 575/2013 of the European Parliament and of the Council (so-called CRR) regarding the regulatory technical standards pertaining to the publication of information in relation to the compliance of the institutions' obligation to hold a countercyclical capital buffer pursuant to Article 440 of the same CRR. As established by Article 140, paragraph 1, of directive 2013/36/EU (so-called CRD IV), the institution-specific countercyclical capital buffer is the weighted average of the countercyclical ratios which are applied in the countries where the relevant credit exposures of the institutions are located.

CRD IV established the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer (CCyB) starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Italy with Bank of Italy circular 285, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical buffer rate (for exposures towards Italian counterparties) at 0% also for the fourth quarter of 2019.

The relevant credit exposures include all the classes of exposure other than those under Article 112, letters from a) to f), of regulation (EU) 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.

With reference to 30 September 2019:

- 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 (2.50%), Norway (2.00%), Hong Kong (2.50%), Czech Republic (1.50%), Slovakia (1.50%), United Kingdom (1.00%), Lithuania (1.00%), Denmark (1.00%), Iceland (1.75%), France (0.25%) and Ireland (1.00%);
- at consolidated level, Intesa Sanpaolo's specific countercyclical ratio amounts to 0.078%.

Amount of the Institution-specific Countercyclical Capital Buffer

(millions of euro)

Total risk exposure	298,393
Specific countercyclical ratio of the institution	0.078%
Specific countercyclical capital buffer requirement of the institution	233

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

(millions of euro)

Available capital (amounts)		30.09.2019	30.06.2019	31.03.2019	31.12.2018	30.09.2018
1	Common Equity Tier 1 capital (CET1)	41,747	38,015	37,231	37,241	37,189
2	Common Equity Tier 1 capital (CET1) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	39,208	34,351	33,534	33,072	34,219
3	Tier 1 capital	46,468	42,755	41,971	42,097	42,044
4	Tier 1 capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	43,929	39,091	38,274	37,928	39,074
5	Total capital	53,167	49,241	48,719	48,878	48,957
6	Total capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	51,486	46,430	45,881	45,560	46,850
Risk-weighted assets (amounts)						
7	Total risk-weighted assets	298,393	280,260	283,641	276,446	275,944
8	Total risk-weighted assets if IFRS 9 or analogous ECLs transitional arrangements had not been applied	300,284	279,410	282,831	275,533	275,424
Capital ratios						
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	14.0%	13.6%	13.1%	13.5%	13.5%
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	13.1%	12.3%	11.9%	12.0%	12.4%
11	Tier 1 capital (as a percentage of the risk exposure amount)	15.6%	15.3%	14.8%	15.2%	15.2%
12	Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.6%	14.0%	13.5%	13.8%	14.2%
13	Total capital (as a percentage of the risk exposure amount)	17.8%	17.6%	17.2%	17.7%	17.7%
14	Total capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.1%	16.6%	16.2%	16.5%	17.0%
Leverage ratio						
15	Leverage ratio total exposure measure	724,167	700,805	702,039	668,562	675,453
16	Leverage ratio	6.4%	6.1%	6.0%	6.3%	6.2%
17	Leverage ratio if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6.1%	5.6%	5.5%	5.7%	5.8%

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 September 2019 (with and without applying the transitional provisions for IFRS 9) shown in the table above due to the following:

- the reduction of CET1, due to the FTA impact linked to the first-time adoption of IFRS 9, after eliminating the shortfall existing as at 31 December 2017 on IRB exposures;
- the increase in CET1 due to the re-inclusion of the gradually decreasing transitional component as a result of the adoption of the adjustment introduced by the afore-mentioned Regulation, aimed at mitigating the impact of FTA;
- a positive impact on CET1 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 CET1 due to the exceeding of the prudential thresholds, only when there is no requirement for their deduction under the local tax regulations;
- the increase in the excess reserve, based on the provisions of the aforementioned Regulation, may be added to the Tier 2 Capital, up to the amount of 0.6% of IRB RWA, solely for the part in excess of the amount re-included in CET1 as a result of the adoption of said transitional adjustment;
- the reduction of the risk-weighted assets (RWA) on standard exposures which, as a result of the increase in the provisions linked to the first-time adoption of IFRS 9, reduced the risk exposure (EAD);
- the increase in risk-weighted assets (RWA) on standard exposures due to the application, under said provisions, of the scaling factor set out in Regulation (EU) 2017/2395.

The methods for determining the measurement of the overall exposure of the leverage ratio during the transitional period, following a Q&A published in 2019, were extended to exposures subject to internal models (IRB) for the purposes of credit risk, thus adopting the same scaling factor already applied to standard exposures in line with the aforementioned regulation.

Liquidity risk

LIQUIDITY RISK

The Group's liquidity position - supported by suitable high quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained within the risk limits set out in the current Group Liquidity Policy for the first nine months of 2019: both regulatory indicators, LCR and NSFR, were met, already reaching a level well above the minimum limits provided for by the EU Regulatory requirements. Over the last 12 months, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) no. 2015/61, has amounted to an average of 161.8%.

The table below shows the average value of HQLA liquidity reserves and net cash outflows recorded for the purposes of the Group's consolidated LCR, as the simple average of the last 12 monthly observations⁴, in line with Regulation (EU) 575/2013.

EU LIQ1 - LCR disclosure template and additional disclosure

(millions of euro)

SCOPE OF CONSOLIDATION	TOTAL WEIGHTED VALUE (AVERAGE)			
	September 30th 2019	June 30th 2019	March 31th 2019	December 31th 2018
Quarter ending				
Number of data points used in the calculation of averages	12	12	12	12
21 HQLA LIQUIDITY BUFFER ^(a)	91,819	82,866	77,263	75,133
22 TOTAL NET CASH OUTFLOWS	56,811	51,154	48,178	46,034
23 LIQUIDITY COVERAGE RATIO (%)	161.8%	162.0%	160.4%	163.2%

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

At the end of September 2019, the unencumbered HQLA reserves were more than 33% composed of cash and deposits held with Central Banks. Including the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, the Group's unencumbered liquidity reserves amounted to a total of about 116 billion euro.

(millions of euro)

	Unencumbered (net of haircut)	
	30.09.2019	31.12.2018
HQLA Liquidity Reserves	110,577	84,346
Cash and Deposits held with Central Banks (HQLA)	36,371	40,156
Highly liquid securities (HQLA)	74,206	44,190
Other eligible and/or marketable reserves	4,956	4,251
Total Group's Liquidity Buffer	115,533	88,597

In view of the high stock of unencumbered liquidity reserves (liquid and/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 maximum 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.

⁴EBA – "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No. 575/2013", June 2017

Leverage Ratio

Qualitative and quantitative disclosure

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

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

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

Leverage ratio of the Intesa Sanpaolo Group

The disclosure of the Leverage ratio of the Intesa Sanpaolo Group as at 30 September 2019 is presented below, disclosed in accordance with the regulatory principles of the CRR and set out according to the provisions of (EU) Implementing Regulation 2016/200.

The Leverage ratio is indicated according to the transitional provisions.

	(millions of euro)	
Capital and total exposure measure	30.09.2019	31.12.2018
Tier 1 capital	46,468	42,097
Leverage ratio total exposure measure	724,167	668,562
Leverage ratio	6.4%	6.3%

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

The Manager responsible for preparing the Company's financial reports, Fabrizio Dabbene, declares, pursuant to par. 2 of art. 154-bis of the Consolidated Law on Finance, that the accounting information contained in this document "Basel 3 - Pillar 3 as at 30 September 2019" corresponds to the corporate records, books and accounts.

Milan, 5 November 2019

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



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

Through the Gallerie d'Italia, 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, coming from the art collections of Fondazione Cariplo and Intesa Sanpaolo, along with a collection representative of twentieth-century Italian art.

Gallerie d'Italia - Palazzo Leoni Montanari in Vicenza exhibits works of eighteenth-century Veneto art and a collection of Attic and Magna Graecia pottery. Moreover, one of the most important collections of Russian icons in the West is safeguarded here.

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:



ANGELO INGANNI

(Brescia, 1807 - 1880)

Piazza della Scala under the snow, seen from the Gallery 1874

oil on canvas, 65,5 x 55,5 cm

Intesa Sanpaolo Collection

Gallerie d'Italia - Piazza Scala, Milan

Angelo Inganni's vedute are fine works offering a valuable insight into the urban transformations that Milan experienced during the 19th century. In *Piazza della Scala under the snow, seen from the Gallery*, the artist depicts Teatro alla Scala before the square it faces was opened, which involved the demolition of a housing block next to the Palazzo Marino, and subsequently led to the construction of the Galleria Vittorio Emanuele II and the erection of the Leonardo da Vinci monument.

Despite the structural balance of the work, the resulting image - created with free and vibrant brushstrokes with no concern for defined outlines - seems somewhat random, almost like a snapshot of the path running between the snowy square and the Galleria.

The work is part of the permanent collection at the **Gallerie d'Italia**, Intesa Sanpaolo's museum complex located in **Piazza Scala, Milan**. The exhibition dedicated principally to 19th century art opens with Neoclassical works and continues through to the turn of the 20th century, with a century's worth of Italian paintings depicting historical events, battles of the Risorgimento (the Italian Unification), vedute and landscapes, as well as genre paintings and masterpieces of Symbolism.

