

### Shareholders' equity

As at 30 June 2016, the Group's shareholders' equity, including net income for the period, came to 47,527 million euro compared to the 47,776 million euro at the end of the previous year. The decrease in shareholders' equity was primarily due to the distribution in May of the dividend of 2.4 billion euro and to the decrease in valuation reserves (-0.8 billion euro), only partly offset by the net income for the half-year (1.7 billion euro) and the issue of the new AT1 equity instrument (1.2 billion euro). No changes in share capital occurred during the first half of the year.

**Valuation reserves**

	Valuation reserves as at 31.12.2015	Change in the period	Valuation reserves as at 30.06.2016	(millions of euro) % breakdown
Financial assets available for sale	899	-198	701	-37.7
<i>of which: Insurance Companies</i>	682	-5	677	-36.4
Property and equipment	-	-	-	-
Cash flow hedges	-1,145	-216	-1,361	73.2
Legally-required revaluations	352	-2	350	-18.8
Other	-1,124	-426	-1,550	83.3
<b>Valuation reserves</b>	<b>-1,018</b>	<b>-842</b>	<b>-1,860</b>	<b>100.0</b>

As at 30 June 2016, the negative balance of the Group's valuation reserves came to -1,860 million euro, marking a deterioration compared to the end of December 2015 (-1,018 million euro). Performance for the period was affected by nearly all components: other reserves (-426 million euro), cash flow hedge reserves (-216 million euro), and reserves for financial assets available for sale (-198 million euro). The change recorded in the caption "Other reserves" is largely to be attributed to the reserve for actuarial gains or losses, due to the change in the discount rate on the basis of interest rate performance during the half-year.

**Own funds and capital ratios**

Own funds and capital ratios	30.06.2016	31.12.2015
<b>Own funds</b>		
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	36,327	36,908
Additional Tier 1 capital (AT1) net of regulatory adjustments	3,433	2,302
<b>TIER 1 CAPITAL</b>	<b>39,760</b>	<b>39,210</b>
Tier 2 capital net of regulatory adjustments	8,804	8,089
<b>TOTAL OWN FUNDS</b>	<b>48,564</b>	<b>47,299</b>
<b>Risk-weighted assets</b>		
Credit and counterparty risks	246,664	245,793
Market and settlement risk	17,477	16,582
Operational risks	21,117	20,653
Other specific risks (a)	1,428	1,291
<b>RISK-WEIGHTED ASSETS</b>	<b>286,686</b>	<b>284,319</b>
<b>% Capital ratios</b>		
Common Equity Tier 1 capital ratio	12.7%	13.0%
Tier 1 capital ratio	13.9%	13.8%
Total capital ratio	16.9%	16.6%

(a) The caption includes all other elements not contemplated in the foregoing captions that are considered when calculating total capital requirements.

Own funds, risk weighted assets and the capital ratios as at 30 June 2016 were calculated according to the harmonised rules and regulations 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) to European Union laws, and on the basis of Bank of Italy Circulars.

Regulatory provisions governing own funds envisage the gradual introduction of the new regulatory framework, through a transitional period generally lasting until 2017, during which several elements that will be eligible for full inclusion in or deduction from Common Equity when the framework is fully effective, will only have a partial percentage effect on Common Equity Tier 1 capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 capital (AT1) or Tier 2 capital (T2), or is considered among risk-weighted assets.

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).

Accordingly, the prudential ratios as at 30 June 2016 take account of the adjustments envisaged by the transitional provisions for 2016.

As at 30 June 2016, total Own Funds came to 48,564 million euro, against risk-weighted assets of 286,686 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.

In January 2016 Intesa Sanpaolo launched a second Additional Tier 1 (AT1) issue of 1.25 billion euro, targeted at the international markets (a first AT1 issue of 1 billion dollars had been launched in September 2015). This issue has characteristics in line with the

provisions of CRD IV and the CRR, is perpetual (with a maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and can be redeemed in advance by the issuer after 5 years from the issue date and on every coupon payment date thereafter. The coupon, payable semi-annually in arrears on 19 January and 19 July of each year, with first payment on 19 July 2016, is equal to 7.00% per annum. If the early redemption option is not exercised on 19 January 2021, a new fixed-rate coupon will be determined for the following five years (until the next recalculation date). As envisaged in the regulations applicable to the Additional Tier 1 issues, coupon payment is discretionary and subject to certain limitations.

In addition, on 22 April 2016, Intesa Sanpaolo received authorisation for the early repayment of an AT1 instrument with a nominal value of approximately 478 million euro. The subordinated instrument in question, issued in October 2010 and subject to grandfathering following the introduction of the Basel 3 framework, since it did not comply with the new regulations, called for the possibility of early repayment from 1 June 2016.

It should be emphasised that Common Equity Tier 1 capital does not include the net income for the period ended 30 June 2016, less the pro-rata dividend for the period, since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in Own Funds only when the amount of net income exceeds the total amount of the dividend planned for distribution for the year, equal to 3 billion euro for 2016 on the basis of the 2014-2017 Business Plan.

Based on the foregoing, the Total capital ratio stood at 16.9%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 13.9%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity ratio) was 12.7%.

The ECB's final decision concerning the capital requirements to be observed with effect from 1 January 2016, in light of the results of the Supervisory Review and Evaluation Process (SREP), imposed a consolidated capital requirement on Intesa Sanpaolo of 9.5% in terms of the CET1 ratio.

Finally, on the basis of Article 467 (2) of the CRR, adopted by the Bank of Italy in Circular 285, the Intesa Sanpaolo Group has opted to exclude unrealised gains or losses on exposures to central administrations classified among financial assets available for sale (AFS) from its Own Funds. The effect on Common Equity Tier 1 capital as at 30 June 2016 was 4 basis points positive.

### Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

Captions	(millions of euro)	
	30.06.2016	31.12.2015
Group Shareholders' equity	47,527	47,776
Minority interests	646	817
<b>Shareholders' equity as per the Balance Sheet</b>	<b>48,173</b>	<b>48,593</b>
Dividends and other expected charges (a)	-	-2,383
<b>Shareholders' equity following presumed distribution to shareholders</b>	<b>48,173</b>	<b>46,210</b>
<b>Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period</b>		
- Capital of savings shares eligible for inclusion in AT1	-485	-485
- Other equity instruments eligible for inclusion in AT1	-2,121	-871
- Minority interests eligible for inclusion in AT1	-6	-8
- Minority interests eligible for inclusion in T2	-4	-6
- Ineligible minority interests on full phase-in	-590	-763
- Ineligible net income for the period <sup>(b)</sup>	-1,707	-
- Treasury shares included under regulatory adjustments	62	68
- Other ineligible components on full phase-in	-16	-11
<b>Common Equity Tier 1 capital (CET1) before regulatory adjustments</b>	<b>43,306</b>	<b>44,134</b>
<b>Regulatory adjustments (including transitional adjustments)</b>	<b>-6,979</b>	<b>-7,226</b>
<b>Common Equity Tier 1 capital (CET1) net of regulatory adjustments</b>	<b>36,327</b>	<b>36,908</b>

<sup>(a)</sup> The figure at 31 December 2015 takes account of the dividends paid on 2015 profit, the portion of the remuneration on the AT1 instrument issued on 17 September 2015 and the portion of the 2015 profit allocated to charity, net of the tax effect.

<sup>(b)</sup> Common Equity Tier 1 capital does not take account of the profit accrued during the period ended on 30 June 2016, after deducting the pro-rated share of the dividend on that profit, since Intesa Sanpaolo has decided to request authorisation from the ECB pursuant to Art. 26 of the CRR to include profit for the period in own funds solely if the amount of such profit exceeds the total amount of the dividend that is expected to be distributed for the year, i.e., 3 billion euro for 2016, on the basis of the 2014-2017 Business Plan.