Part F – Information on consolidated capital

SECTION 1 – CONSOLIDATED CAPITAL

A. Qualitative information

The control of capital adequacy both at consolidated level and at single entities level is ensured by capital management which defines the size and optimum combination of the different capital instruments in accordance with regulatory constraints and consistently with the risk exposure taken on by the Group.
The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources, considering this to be an instrument for strategic leverage, as well as a way to ensure consistency of the operating plans of the business units.
Once the Group's strategic profitability, capital soundness and liquidity objectives have been defined, capital and financial resources are allocated to the business units through a process that evaluates their growth potential, capacity to generate value and financial autonomy.
The capital at risk considered is twofold:

- regulatory capital covering Pillar 1 risks;
- overall internal capital covering Pillar 2 risks, for ICAAP purposes.

Regulatory capital and overall internal capital differ from each other by definition and by their coverage of risk categories. The first arises from formats defined in supervisory provisions, the second from operational measurements.
Hence, the capital management activity comprises the management of current and prospective capital adequacy through careful control of both regulatory Pillar 1 constraints (in compliance with Basel 3 rules, effective from 1 January 2014) and operational Pillar 2 constraints. Projections are also produced under stress conditions in order to ensure that the available resources are adequate to cover all risks, even in adverse conditions. Furthermore, since 2013, the Group has been drawing up a Recovery Plan, in line with regulatory indications ("Bank Recovery and Resolution Directive – BRRD" - 2014/59/EU transposed in Italy through Legislative Decree 180 and 181 on 16 November 2015), with international practice and in compliance with both the Group Risk Appetite Framework and the crisis management model adopted by the Bank.

As part of the process of defining budget targets, a projection compatibility analysis is conducted annually at Group level and at the level of individual entities in the Group. Depending on the expected performance of balance sheet and income statement aggregates, the appropriate capital management measures to ensure the required financial resources for the individual business units are already identified in this phase, if necessary.
Compliance with the target levels of capitalisation is monitored on a quarterly basis, taking appropriate action when necessary.
Compliance with capital adequacy is sought via various levers, such as the dividend distribution policy, the definition of strategic finance operations (capital increases, issue of convertible loans and subordinated bonds, disposal of non-core assets, etc.) and the management of investments, particularly loans, on the basis of counterparty risk.
Further analyses for preliminary assessment of capital adequacy are performed during extraordinary operations (mergers, acquisitions, disposals, etc.) whether internal to the Group or changing the scope of consolidation of the Group.

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.

Starting from 1 January 2018 (ECB decision of 22 December 2017) the Common Equity Tier 1 ratio to be met was set at 8.065% under the transitional arrangements for 2018, and at 9.25% on a fully loaded basis.
This was 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, based on the latest information available, the Common Equity Tier 1 ratio to be met is 8.125% under the transitional arrangements in force for 2018 and 9.33% on a fully loaded basis.

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

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) 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 2.5% on a fully

loaded basis in 2019, and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) requirement of 0.38% under the transitional arrangements for 2019 and 0.75% on a fully loaded basis in 2021.
Considering the additional requirement consisting of the Institution specific Countercyclical Capital Buffer equal to 0.08%[22], based on the latest information available, the Common Equity Tier 1 ratio to be met is 8.96% under the transitional arrangements in force for 2019 and 9.33% on a fully loaded basis.

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

B. Quantitative information

B.1. Consolidated book shareholders' equity: breakdown by type of company

(millions of euro)

Balance sheet captions	Prudential consolidation	Insurance companies	Other companies	Netting and adjustments on consolidation	TOTAL	TOTAL *of which minority interests*
1. Share capital	**9,473**	**-**	**328**	**-328**	**9,473**	***388***
2. Share premium reserves	**24,789**	**-**	**1**	**-1**	**24,789**	***21***
3. Reserves	**13,049**	**-382**	**-597**	**979**	**13,049**	***43***
4. Equity instruments	**4,103**	**-**	**-**	**-**	**4,103**	**-**
5. (Treasury shares)	**-84**	**-2**	**-**	**2**	**-84**	**-**
6. Valuation reserves:	**-971**	**9**	**15**	**-24**	**-971**	***-67***
- Equities designated at fair value through other comprehensive income	193	-	-	-	193	*4*
- Hedges of equities designated at fair value through other comprehensive income	-	-	-	-	-	-
- Financial assets (other than equities) measured at fair value through other comprehensive income	-489	-	-	-	-489	-
- Property and equipment	1,271	-	-	-	1,271	*16*
- Intangible assets	-	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-	-
- Cash flow hedges	-816	-	-	-	-816	-
- Hedging instruments (non-designated items)	-	-	-	-	-	-
- Foreign exchange differences	-1,110	-	15	-15	-1,110	*-84*
- Non-current assets held for sale and discontinued operations	-	-	-	-	-	-
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	-378	-	-	-	-378	*-4*
- Share of valuation reserves connected with investments carried at equity	49	-	-	-	49	-
- Legally-required revaluations	309	-	-	-	309	*1*
- Share of valuation reserves pertaining to insurance companies	-	9	-	-9	-	-
7. Parent company's net income (loss) and minority interest (+/-)	**4,072**	**627**	**-36**	**-591**	**4,072**	***22***
Shareholders' equity	**54,431**	**252**	**-289**	**37**	**54,431**	**407**

The table above indicates the components of net book value, adding those of the Group to those of third parties, broken down by the type of consolidated company. In further detail, the column for the Banking group indicates the amount resulting from the consolidation of the companies belonging to such group, gross of the effects on the income statement of transactions with other companies within the scope of consolidation. Subsidiaries other than those belonging to the Banking group and consolidated on a line-by-line basis are stated at equity. The columns Insurance companies and Other companies contain the amounts resulting from consolidation, gross of the effects on the income statement of transactions with companies belonging to the Banking group. The columns Netting and Adjustments on consolidation show the adjustments required to obtain the figure represented in the financial statements.

[22] Calculated taking into account the exposures as at 31 December 2018 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities and relating either to 2019-2020, where available, or to the latest update of the reference period (requirement was set at zero per cent in Italy for the first quarter of 2019).

B.2. Valuation reserve of financial assets designated at fair value through other comprehensive income: breakdown

(millions of euro)

	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		TOTAL 31.12.2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	146	-616	25	-10	-	-	-25	10	146	-616
- of which measured pursuant to IAS 39	*25*	*-10*	*25*	*-10*	-	-	*-25*	*10*	*25*	*-10*
2. Equities	220	-26	1	-	-	-	-1	-	220	-26
- of which measured pursuant to IAS 39	*1*	-	*1*	-	-	-	*-1*	-	*146*	*-616*
2bis. Quotas of UCI (pursuant to IAS 39)	1	-10	1	-10	-	-	-1	10	1	-10
4. Loans	-	-	-	-	-	-	-	-	-	-
Total as at 31.12.2018	**367**	**-652**	**27**	**-20**	**-**	**-**	**-27**	**20**	**367**	**-652**
Total as at 31.12.2017	**861**	**-572**	**439**	**-24**	**-**	**-**	**-439**	**24**	**861**	**-572**

The reserve on equities classified as level 1 is negative for about 10 million euro.

B.3. Valuation reserve of financial assets designated at fair value through other comprehensive income: annual changes

(millions of euro)

	Debt securities	*Debt securities: of which measured pursuant to IAS39*	Equities	*Equities: of which measured pursuant to IAS39*	Quotas of UCI (pursuant to IAS39)	TOTAL
1. Opening balance	**479**	**365**	**114**	**30**	**20**	**613**
2. Increases	*333*	*35*	*158*	*22*	*16*	*507*
2.1. Fair value increases	245	*15*	121	*4*	11	377
2.2. Adjustments for credit risk	*10*	-	-	-	-	*10*
2.3. Reversal to the income statement of negative reserves from disposal	*24*	-	-	-	-	24
2.3bis Reversal to the income statement of negative reserves from impairment (pursuant to IAS39)	-	-	-	-	*1*	1
2.4. Transfer to other shareholders' equity items (equities)	-	-	*2*	-	-	2
2.5. Other increases	*54*	*20*	*35*	*18*	*4*	93
3. Decreases	**-1,282**	***-385***	**-78**	***-51***	**-45**	**-1,405**
3.1. Fair value decreases	*-953*	*-307*	*-45*	*-25*	*-27*	-1,025
3.2. Recoveries for credit risk	*-6*	-	-	-	-	-6
3.2bis Impairment losses (pursuant to IAS39)	-	-	-	-	-	-
3.3. Reversal to the income statement of positive reserves from disposal	*-244*	*-52*	-	-	*-12*	-256
3.4. Transfer to other shareholders' equity items (equities)	-	-	*-1*	-	-	-1
3.5. Other decreases	*-79*	*-26*	*-32*	*-26*	*-6*	-117
4. Final balance	**-470**	***15***	**194**	***1***	**-9**	**-285**

Trading on treasury shares

During the year, Intesa Sanpaolo and Group companies – on the basis of specific Shareholders' Meeting authorisations – carried out the following transactions on treasury shares:

Ordinary shares:

Initial number	no.	26,101,868
Purchases	no.	30,131,551
Sales	no.	-23,481,054
End-of-year number	no.	32,752,365

B.4. Valuation reserves relating to the defined benefit plans: annual changes

During the year, the reserves at issue recorded an increase of 300 million euro, therefore as at 31 December 2018, there was an overall negative reserve equal to approximately -375 million euro for defined benefit plans.

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS FOR BANKS

Reference is made to the disclosure on own funds and capital adequacy contained in the public disclosure ("Pillar 3").