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 (directives "Bank Recovery and Resolution Directive – BRRD" - 2014/59/EU transposed in Italy through Legislative Decrees 180 and 181 on 16 November 2015 and "Bank Recovery and Resolution Directive – BRRD II" - Directive (EU) 2019/879, not yet transposed into Italian law at the date of preparation of these financial statements), 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.
On 26 November 2019, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 January 2020.
When the regulatory amendment introduced by the ECB with effect from 12 March 2020 – which establishes that the Pillar 2 requirement may be met by partially using capital instruments other than Common Equity Tier 1 – is applied, the overall capital requirement the Bank is required to meet in terms of Common Equity Tier 1 ratio is 8.40% under the transitional arrangements for 2020 and 8.59% on a fully loaded basis.
This is the result of:

a) an SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, and an additional Pillar 2 capital requirement of 1.5%, of which 4.5% and 0.84%, respectively, in the Common Equity Tier 1 ratio and 6% and 1.13%, respectively, in the Tier 1 ratio;
b) the additional Capital Conservation Buffer requirement of 2.5% on a fully-loaded basis already from 2019 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.56% under the transitional arrangements in force for 2020 and 0.75% on a fully-loaded basis in 2021.

Considering the additional requirement consisting of the Institution-Specific Countercyclical Capital Buffer[63], the Common Equity Tier 1 ratio to be met is 8.44% under the transitional arrangements in force for 2020 and 8.63% on a fully loaded basis.

[63] Countercyclical Capital Buffer calculated taking into account the exposures as at 31 December 2020 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities and relating to the 2020-2021 period, where available, or the most recent update of the reference period (requirement was set at zero per cent in Italy for 2020 and Q1 2021).

With effect from 30 September 2019, following permission from the ECB, the Intesa Sanpaolo Group calculates capital ratios applying the so-called Danish Compromise, under which insurance investments – excluding those attributable to the UBI Group, for which an extension of the "Danish Compromise" has not yet been requested – held indirectly through Intesa Sanpaolo Vita, are risk weighted instead of being deducted from capital.
There were no changes relating to the authorisations for the internal credit risk models with respect to 31 December 2019.
There were no changes in the scope of application of the internal models concerning counterparty risk for OTC and ETD derivatives and SFTs compared to 31 December 2019.
There were no changes in the scope of application of the internal models for operational risk compared to 31 December 2019.
On 25 November 2020, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 January 2021. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.59% for 2021 on a fully loaded basis.
This is the result of:

a) an SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, and an additional Pillar 2 capital requirement of 1.5%, of which 4.5% and 0.84%, respectively, in the Common Equity Tier 1 ratio and 6% and 1.13%, respectively, in the Tier 1 ratio;
b) the additional Capital Conservation Buffer requirement of 2.5% on a fully-loaded basis already from 2019 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.75% on a fully-loaded basis in 2021.

Considering the additional requirement consisting of the Institution-Specific Countercyclical Capital Buffer[1], the Common Equity Tier 1 ratio to be met is 8.63% 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. Intesa Sanpaolo has exercised the option provided in EU Regulation 2395/2017 to adopt the "static" approach that allows the neutralisation of a progressively decreasing amount of the impact of IFRS 9 in its CET 1 relating solely to the FTA component of the impairment. In particular, the result from the comparison between the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018 – relating to performing loans and securities (stage 1 and 2) and adjustments to NPLs (stage 3), net of tax and having eliminated any existing shortfall – is re-included in the capital according to phase-in percentages of 70% in 2020, 50% in 2021 and 25% in 2022.
Within the framework of the COVID-19 pandemic scenario, Regulation (EU) 2020/873 of 24 June 2020, amending Regulations (EU) 575/2013 (CRR) and Regulation (EU) 2019/876 (CRR 2) containing temporary support provisions in terms of capital and liquidity, was published with an accelerated approval procedure (the "quick fix").
Among the provisions set out in Regulation (EU) 2020/873 relating to the calculation of own funds, the Intesa Sanpaolo Group opted not to use, at 31 December 2020, either the changes to the transitional regime for the application of IFRS 9 (art. 473 bis of the CRR) or the temporary reintroduction of the prudential filter aimed at excluding unrealised gains and losses measured at fair value through other comprehensive income (FVTOCI) on exposures to central governments and public sector entities (art. 468 CRR).
For the purposes of calculating capital ratios at 31 December 2020, the Intesa Sanpaolo Group applied Commission Delegated Regulation (EU) 2020/2176, which entered into force on 23 December 2020 and which amends Commission Delegated Regulation (EU) 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items. The Regulation, which is, inter alia, intended to support the transition to a more digitalised banking sector, introduces the criterion of prudential amortisation applied to all software assets over a three-year period, regardless of their estimated useful lives for accounting purposes. Specifically, the difference, where positive, between prudential cumulative amortisation and accounting cumulative amortisation (including impairment losses) is fully deducted from CET1.

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	*of which minority interests*
1. Share capital	**10,140**	**-**	**101**	**-**	**10,241**	***157***
2. Share premium reserves	**27,463**	**-**	**-**	**-**	**27,463**	***19***
3. Reserves	**17,760**	**358**	**-450**	**114**	**17,782**	***321***
4. Equity instruments	**7,441**	**-**	**-**	**-**	**7,441**	-
5. (Treasury shares)	**-130**	**-3**	**-**	**3**	**-130**	-
6. Valuation reserves:	**236**	**808**	**58**	**-863**	**239**	***-55***
- Equities designated at fair value through other comprehensive income	-107	-	-	-	-107	*6*
- Hedges of equities designated at fair value through other comprehensive income	-	-	-	-	-	-
- Financial assets (other than equities) measured at fair value through other comprehensive income	202	-	-	-	202	*3*
- Property and equipment	1,589	-	9	-	1,598	*28*
- Intangible assets	-	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-	-
- Cash flow hedges	-781	-	-	-	-781	-
- Hedging instruments (non-designated items)	-	-	-	-	-	-
- Foreign exchange differences	-1,319	-	49	-	-1,270	*-86*
- Non-current assets held for sale and discontinued operations	-	-	-	-	-	-
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-102	-	-	-	-102	-
- Actuarial gains (losses) on defined benefit plans	-427	-1	-	-	-428	*-6*
- Share of valuation reserves connected with investments carried at equity	873	-	-	-863	10	-
- Legally-required revaluations	308	-	-	-	308	-
- Share of valuation reserves pertaining to insurance companies	-	809	-	-	809	-
7. Parent company's net income (loss) and minority interest (+/-)	**3,325**	**743**	**-83**	**-700**	**3,285**	***8***
Shareholders' equity	**66,235**	**1,906**	**-374**	**-1,446**	**66,321**	**450**

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.

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

(millions of euro)

	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		TOTAL	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,182	-287	690	-3	-	-	-690	3	1,182	-287
- of which measured pursuant to IAS 39	*690*	*-3*	*690*	*-3*	-	-	*-690*	*3*	*690*	*-3*
2. Equities	245	-321	37	-4	-	-	-37	4	245	-321
- of which measured pursuant to IAS 39	*37*	*-4*	*37*	*-4*	-	-	*-37*	*4*	*37*	-4
2bis. Quotas of UCI (pursuant to IAS 39)	51	-14	51	-14	-	-	-51	14	51	-14
4. Loans	3	-4	-	-	-	-	-	-	3	-4
Total as at 31.12.2020	**1,481**	**-626**	**778**	**-21**	**-**	**-**	**-778**	**21**	**1,481**	**-626**
Total as at 31.12.2019	**1,204**	**-479**	**500**	**-16**	**-**	**-**	**-500**	**16**	**1,204**	**-479**

The reserve on equities classified as level 1 is negative for about 244 million euro.

B.3. Valuation reserves of financial assets measured 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)	Loans
1. Opening balance	**485**	**421**	**207**	**31**	**32**	**-**
2. Increases	*2,622*	*1,915*	*516*	*420*	*490*	*6*
2.1. Fair value increases	2,436	*1,857*	510	*417*	487	-
2.2. Adjustments for credit risk	*74*	-	*X*	-	-	*3*
2.3. Reversal to the income statement of negative reserves from disposal	*54*	-	-	-	-	-
2.3bis Reversal to the income statement of negative reserves from impairment (pursuant to IAS39)	-	-	-	-	*1*	-
2.4. Transfer to other shareholders' equity items (equities)	-	-	*1*	-	-	-
2.5. Other increases	*58*	*58*	*5*	*3*	*2*	*3*
3. Decreases	**-2,212**	***-1,649***	**-799**	***-418***	**-485**	**-7**
3.1. Fair value decreases	*-1,787*	*-1,568*	*-682*	*-393*	*-470*	*-7*
3.2. Recoveries for credit risk	*-49*	-	-	-	-	-
3.2bis Impairment losses (pursuant to IAS39)	-	-	*-8*	*-8*	*-4*	-
3.3. Reversal to the income statement of positive reserves from disposal	*-306*	*-22*	*-13*	*-13*	*-8*	-
3.4. Transfer to other shareholders' equity items (equities)	-	-	*-34*	-	-	-
3.5. Other decreases	*-70*	*-59*	*-62*	*-4*	*-3*	-
4. Final balance	**895**	***687***	**-76**	***33***	**37**	**-1**

Trading on treasury shares

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

Ordinary shares:

Initial number	no.	43,882,399
Purchases	no.	32,416,226
Sales	no.	-10,364,881
End-of-year number	no.	65,933,744

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

During the year, the reserves at issue recorded a decrease of 13 million euro. Therefore, as at 31 December 2020, there was an overall negative reserve equal to approximately 428 million euro for defined benefit plans.

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS FOR BANKS

Reference is made to the "Basel 3 Pillar 3" public disclosure as at 31 December 2020 for the disclosure on own funds and capital adequacy.