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 position 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 (UE) 2019/879, transposed into Italian law on 8 November 2021 by Legislative Decree 193, which entered into force on 1 December 2021), 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 15 December 2022, Intesa Sanpaolo announced that it had received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 January 2023.
The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.83%.
This is the result of:

– the SREP requirement in terms of Total Capital ratio of 9.50% comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is CET1, and an additional Pillar 2 capital requirement of 1.50%[119], of which 0.84% is CET1 applying the regulatory amendment introduced by the ECB and effective from 12 March 2020[120];
– additional requirements, entirely in terms of Common Equity Tier 1 ratio, relating to:
    - A Capital Conservation Buffer of 2.5%;
    - an O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.75%;
    - a Countercyclical Capital Buffer of 0.24%[121].

[119] Following the additional Article 3 CRR ("Application of stricter requirements by institutions" – for details see what is set out below) deduction made to Own funds in June 2023 (for the calendar provisioning on exposures included in the scope of Pillar 2), the Supervisor updated the Pillar 2 Requirement (P2R) applicable in 2023 (SREP 2022). As a result, from the second half of 2023, the P2R on Total Capital is 1.50% (compared to 1.72% previously).
[120] The regulatory change establishes that the capital instruments not qualifying as Common Equity Tier 1 may be partially used to meet the Pillar 2 requirement.
[121] Countercyclical Capital Buffer calculated taking into account the exposure as at 31 December 2023 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 2025, where available, or the most recent update of the reference period (requirement was set at zero per cent in Italy for 2023 and for the first quarter of 2024).

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, held indirectly through Intesa Sanpaolo Vita, are risk weighted instead of being deducted from capital.

As stated in Part E, compared to 31 December 2022, with regard to the scope of application of internal credit risk models, the ECB's authorisations to use the new Corporate (with effect from March 2023) and Specialised Lending (with effect from December 2023) models for regulatory purposes were implemented.

With regard to counterparty risk, the Banking Group improved the measurement and monitoring of the risk, by refining the instruments required under Basel 3. For reporting purposes, the Parent Company is authorised to use the internal models approach for the reporting of the requirement with respect to counterparty risk both for derivatives and for SFTs (Securities Financing Transactions, i.e. repos/reverse repos and securities lending/borrowing). This authorisation was obtained for derivatives from the first quarter of 2014, and for SFTs from the report as at 31 December 2016.
For management purposes, the advanced risk measurement approaches have been implemented for the OTC derivatives of the Parent Company since 2010 and were subsequently extended in 2015 to Securities Financing Transactions.
Compared to 31 December 2022, starting from the fourth quarter of 2023, for counterparties with margin contracts, a monitoring process was introduced for the impact of potential missing payments that could occur before the close-out of the positions, in the event of default.
To mitigate these impacts, a process has been introduced for detecting and managing high-risk counterparties with a low credit rating and subject to settlement risk.
With regard to operational risk, the Group obtained authorisation to use the Advanced Measurement Approach (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009. As at 31 December 2023, the scope of the Advanced Measurement Approach (AMA) is comprised of Intesa Sanpaolo (including the former Banks and Companies merged into it) and the main banks and companies in the Private Banking and Asset Management Divisions, as well as of VUB Banka and Privredna Banka Zagreb.

On 30 November 2023, Intesa Sanpaolo announced that it had received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 January 2024.
The overall capital requirement to be met in terms of Common Equity Tier 1 ratio is 9.33%.
This is the result of:
- the SREP requirement in terms of Total Capital ratio of 9.50% comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is CET1, and an additional Pillar 2 capital requirement of 1.50%, of which 0.84% is CET1 applying the regulatory amendment introduced by the ECB and effective from 12 March 2020;
- additional requirements, entirely in terms of Common Equity Tier 1 ratio, relating to:
  - A Capital Conservation Buffer of 2.5%;
  - an O-SII Buffer (Other Systemically Important Institutions Buffer) of 1.25%;
  - a Countercyclical Capital Buffer of 0.24%[122].

With regard to the accounting standard IFRS 9, the transitional period (2018-2022) introduced to mitigate its impacts on capital ended on 31 December 2022. In addition, since June 2020 the Intesa Sanpaolo Group has not adopted the new IFRS 9 transitional rules relating to adjustments to loans after 31 December 2019 or the reintroduction of the prudential filter for exposures to central governments classified to the FVOCI category – the first of which is in force until 31 December 2024 while the second ended on 31 December 2022 – both introduced by the European Commission in Regulation 2020/873 of 24 June 2020 (quick fix).

Since December 2020, the Intesa Sanpaolo Group has applied Delegated Regulation (EU) 2020/2176 on the deduction of software assets from Common Equity Tier 1 items, which introduced the criterion of prudential amortisation applied to all software assets over a period of three years (regardless of their estimated useful life for accounting purposes). Specifically, the difference, if positive, between the prudential accumulated amortisation and the accounting accumulated amortisation (including impairment losses) is fully deducted from CET1 capital, while the remaining portion (the portion of the net carrying amount of each software asset that is not deducted) is included in the RWAs with a risk weight of 100%.

Finally, with regard to the regulatory provision set out in Art. 3 of the CRR ("Application of stricter requirements by institutions"), the voluntary deduction from CET1 relating to the calendar provisioning on exposures included in the Pillar 2 scope is included for the purposes of the calculation of Own funds as at 31 December 2023[123].

[122] See the previous note.

[123] The addendum to the ECB Guidance on non-performing loans of 2018 contemplates the possibility that banks "deduct" on their own initiative specific amounts from CET1, to anticipate supervisory requests, in the event of divergence between the prudential framework, which expects adjustments not based on credit risk measurement criteria, and the accounting framework.

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	**10,435**	**-**	**56**	**-**	**10,491**	***122***
2. Share premium reserves	**28,019**	**-**	**-**	**-**	**28,019**	***16***
3. Reserves	**14,876**	**-2**	**-784**	**753**	**14,843**	***146***
3.5 (Interim dividend)	**-2,629**	**-**	**-**	**-**	**-2,629**	**-**
4. Equity instruments	**7,948**	**-**	**-**	**-**	**7,948**	-
5. (Own shares)	**-140**	**-5**	**-**	**5**	**-140**	-
6. Valuation reserves:	**-2,160**	**-298**	**107**	**194**	**-2,157**	***-148***
- Equities designated at fair value through other comprehensive income	-477	-	-	-	-477	-
- Hedges of equities designated at fair value through other comprehensive income	-	-	-	-	-	-
- Financial assets (other than equities) measured at fair value through other comprehensive income	-1,506	-3,172	-	-	-4,678	*2*
- Property and equipment	1,843	-	39	-	1,882	*19*
- Intangible assets	-	-	-	-	-	-
- Hedges of foreign investments	-24	-	-	-	-24	-
- Cash flow hedges	-318	41	-	-	-277	-
- Hedging instruments (non-designated items)	-	-	-	-	-	-
- Foreign exchange differences	-1,476	-	62	-	-1,414	*-166*
- Non-current assets held for sale and discontinued operations	-	-	-	-	-	-
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-125	-	-	-	-125	-
- Actuarial gains (losses) on defined benefit plans	-189	-	-	-	-189	*-3*
- Share of valuation reserves connected with investments carried at equity	-199	-	6	194	1	-
- Finance income or expenses from insurance contracts issued	-	2,829	-	-	2,829	-
- Finance income or expenses from reinsurance contracts held	-	4	-	-	4	-
- Legally-required revaluations	311	-	-	-	311	-
7. Parent company's net income (loss) and minority interest (+/-)	**7,750**	**945**	**-53**	**-890**	**7,752**	***28***
Shareholders' equity	**64,099**	**640**	**-674**	**62**	**64,127**	**164**

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 presented 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	454	-5,115	333	-3,505	-	-	-331	3,505	456	-5,115
2. Equities	93	-570	-	-	-	-	-	-	93	-570
3. Loans	10	-29	-	-	-	-	-	-	10	-29
Total as at 31.12.2023	**557**	**-5,714**	**333**	**-3,505**	**-**	**-**	**-331**	**3,505**	**559**	**-5,714**
Total as at 31.12.2022	**235**	**-8,617**	**42**	**-6,392**	**-**	**-**	**-42**	**6,392**	**235**	**-8,617**

The reserve for debt securities attributable to insurance companies (negative for 3,172 million euro) is to be considered in conjunction with the valuation reserve “Finance income or expenses from insurance contracts issued” (positive for 2,829 million euro), which includes the effect of mirroring – a mechanism introduced by IFRS 17 – whereby the financial result is attributed to policyholders.

The reserve on equities classified as level 1 is negative for about 472 million euro.

The caption Loans include includes the reserve for tax credits of the HTCS business model.

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

	Debt securities	Equities	Loans
1. Opening balance	**-8,082**	**-258**	**-42**
2. Increases	**6,711**	**48**	**60**
2.1. Fair value increases	5,932	42	45
2.2. Adjustments for credit risk	24	X	1
2.3. Reversal to the income statement of negative reserves from disposal	529	-	14
2.4. Transfer to other shareholders' equity items (equities)	-	4	-
2.5. Other increases	226	2	-
3. Decreases	**-3,288**	**-267**	**-37**
3.1. Fair value decreases	-2,894	-247	-26
3.2. Recoveries for credit risk	-10	-	-11
3.3. Reversal to the income statement of positive reserves from disposal	-218	-	-
3.4. Transfer to other shareholders' equity items (equities)	-	-9	-
3.5. Other decreases	-166	-11	-
4. Final balance	**-4,659**	**-477**	**-19**

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 of the Parent Company Intesa Sanpaolo:

Ordinary shares:		
Initial number	no.	56,706,787
Purchases	no.	743,397,746
of which to be annulled (buyback)	*no.*	*706,004,171*
Sales	no.	-736,049,785
of which annulment of shares subject to buyback	*no.*	*-706,004,171*
End-of-year number	no.	64,054,748

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

During the year, the reserves at issue recorded an increase of 53 million euro. Therefore, as at 31 December 2023 there was an overall negative reserve equal to approximately 189 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 2023 for the disclosure on own funds and capital adequacy.