Part F – Information on consolidated capital

SECTION 1 – CONSOLIDATED SHAREHOLDERS' EQUITY

A. Qualitative information

The control of Group and Group company capital adequacy 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, also to run its operations. Once the underlying strategy that the Group intends to pursue has been defined, resources are allocated to the various businesses in a process that identifies specific growth potential and ability to create value in order to allow profitability, capital soundness and liquidity targets to be met.
The concept of capital at risk varies in relation to its measurement approach:
- 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 as to their coverage of risk categories. The first arises from formats defined in supervisory provisions, the second from the actual measurement of exposure amounts.
Hence, capital management activity comprises the management of current and prospective capital soundness through careful control of both regulatory constraints (Pillar 1) and operational constraints (Pillar 2). The latter are also assessed under stress conditions in order to ensure that the financial resources available are adequate to cover all risks, even in adverse conditions.
This activity is dynamic over time and first of all reflects the capital requirements linked to the multi-annual objectives set out in the Business Plan. As part of the process of defining annual budget targets, a compatibility analysis is conducted at Group level and at the level of individual entities in the Group, on the basis of the expected performance of balance sheet and income statement aggregates.
Compliance with capital adequacy is obtained via various levers, such as pay-out policy, definition of strategic finance operations (capital increases, issue of convertible loans and subordinated bonds, disposal of non-core assets, etc.) and the management of loan policy on the basis of counterparty risk.
Compliance with the target levels of capitalisation is monitored during the year and on a quarterly basis, taking appropriate actions, where necessary, for the management and control of the balance sheets aggregates.
Further analyses for preliminary assessment of capital adequacy are performed when planning extraordinary operations (mergers, acquisitions, disposals, etc.) whether internal to the Group or changing the Group's perimeter.

B. Quantitative information

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

(millions of euro)

	Banking group	Insurance companies	Other companies	Netting and adjustments on consolidation	Total	*of which: minority interests*
Share capital	**7,088**	**1**	**116**	**-117**	**7,088**	***441***
Ordinary shares	6,600	1	116	-117	6,600	438
Savings shares	488	-	-	-	488	3
Share premium reserve	**33,227**	**-**	**2**	**-2**	**33,227**	***125***
Reserves	**12,564**	**385**	**-41**	**-344**	**12,564**	***421***
Legal reserve	1,329	-	-	-	1,329	-
Extraordinary reserve	3,674	-	-	-	3,674	-
Concentration reserve (as per Art. 7, par. 3 of Law 218 of 30/7/1990)	232	-	-	-	232	-
Concentration reserve (as per Art. 7 of Law 218 of 30/7/1990)	302	-	-	-	302	-
Consolidation reserve	6,963	385	-41	-344	6,963	421
Other reserves	64	-	-	-	64	-
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
(Treasury shares)	**-6**	**-4**	**-**	**-**	**-10**	**-**
Valuation reserves	**-1,045**	**-285**	**-17**	**302**	**-1,045**	***9***
Financial assets available for sale	-358	-283	-21	-	-662	2
Property and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-	-
Cash flow hedges	-490	-	2	-2	-490	-2
Foreign exchange differences	-249	-	-	-	-249	-1
Non current assets held for sale	-	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans	-	-	-	-	-	-
Share of valuation reserves connected with investments carried at equity	-300	-2	2	304	4	2
Legally-required revaluations	352	-	-	-	352	8
Parent Company's net income (loss) and minority interest	**2,776**	**198**	**-24**	**-174**	**2,776**	***71***
Shareholders' equity	**54,604**	**295**	**36**	**-335**	**54,600**	***1,067***

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 the banking 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 here 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 shows the adjustments required to obtain the figure represented in the financial statements.

B.2. Valuation reserves of financial assets available for sale: breakdown

(millions of euro)

	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		Total as at 31.12.2010	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	252	-1,312	191	-487	2	-22	-193	509	252	-1,312
2. Equities	486	-100	21	-11	-	-	-21	11	486	-100
3. Quotas of UCI	36	-19	12	-9	-	-	-12	9	36	-19
4. Loans	13	-14	-	-	-	-	-	-	13	-14
Total as at 31.12.2010 (*)	**787**	**-1,445**	**224**	**-507**	**2**	**-22**	**-226**	**529**	**787**	**-1,445**
Total as at 31.12.2009	**676**	**-812**	**240**	**-259**	**-**	**-30**	**-191**	**244**	**725**	**-857**

(*) This amount includes 4 million euro of net positive valuation reserves of financial assets available for sale attributable to investments carried at equity.

Approximately 74% of the negative reserve on equities is attributable to securities classified as level 1, while the remaining 26% is attributable to securities classified as level 3.

B.3. Valuation reserves of financial assets available for sale: annual changes

(millions of euro)

	Debt securities	Equities	Quotas of UCI	Loans
1. Initial amount	**-468**	**318**	**20**	**-2**
2. Positive fair value differences	**368**	**294**	**27**	**1**
2.1 Fair value increases	130	262	22	-
2.2 Reversal to the income statement of negative reserves	57	21	1	-
- impairment	*8*	*8*	*1*	-
- disposal	*49*	*13*	-	-
2.3 Other changes	181	11	4	1
3. Negative fair value differences	**-960**	**-226**	**-30**	**-**
3.1 Fair value decreases	-881	-180	-14	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to the income statement of positive reserves: disposal	*-53*	*-22*	*-7*	-
3.4 Other changes	-26	-24	-9	-
4. Closing amount (*)	**-1,060**	**386**	**17**	**-1**

(*) This amount includes 4 million euro of net positive valuation reserves of financial assets available for sale attributable to investments carried at equity.

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.	2,755,769
Purchased	no.	10,432,358
Sold	no.	-9,048,870
End-of-year number	no.	4,139,257

Non-convertible savings shares:		
Initial number	no.	106,466
Purchased	no.	1,707,702
Sold	no.	-1,515,914
End-of-year number	no.	298,254

SECTION 2 – REGULATORY CAPITAL AND CAPITAL RATIOS

2.1. Scope of application of regulations

The “Banking Group” differs from the scope of consolidation for the purposes of the financial statements prepared in accordance with the IAS/IFRS. The differences essentially relate to:

– the line-by-line consolidation in the IAS/IFRS financial statements of non-banking, financial and instrumental companies (primarily the insurance segment) not included in the “Banking group”;
– the proportional consolidation in the “Banking Group” of the jointly controlled entities conducting banking, financial and instrumental business that are consolidated at equity in the financial statements.

Regulatory capital and capital ratios have been calculated on the basis of the new provisions (4th, 5th, 6th and 7th updates to Circular 263 of December 2006 and 13th update to Circular 155 of December 1991) issued by the Bank of Italy following the implementation of the amendments of Directives 2009/27, 2009/83 and 2009/111 (known as "CRD II - Capital Requirements Directive II"), which govern the capital requirements for banks and banking groups introduced by the New Basel Capital Accord (known as "Basel 2").

In detail, stricter criteria than under the previous rules are applied to redefine the notion of capital, that may be included in regulatory capital without limits, which limited to ordinary shares or shares that do not grant rights to minimum return, do not call for the compulsory payment of dividends, do not enjoy preference in the coverage of losses or enjoy a right to residual assets upon liquidation that is subordinate to that of all other shareholders and creditors. For the Intesa Sanpaolo Group, application of the new criteria results in the exclusion of the nominal value of preferred shares (including savings shares) from Tier 1 capital on the grounds that such shares do not meet the requirements (lack of advantages in liquidation and preferential remuneration mechanisms based on the nominal value of the instrument). Conversely, Tier 1 capital may still include the share premium reserve, even the part associated with savings shares, since the different preference in distribution of dividends and pre-emption in liquidation relate to share capital only.

The exclusion of preferred shares from Core Tier 1 capital resulted in a decrease in the latter of approximately 516 million euro.

The rules for innovative and non-innovative capital instruments call for:

– reinforcement of their capital quality in terms of the flexibility of payments and the ability to absorb losses;
– a rise in the overall limit on inclusion from the current 20% to 50% (with a specific limit of 15% for innovative instruments with incentives for early redemption or a contractual maturity and 35% for non-innovative instruments without incentives for early redemption). A new category has also been added, i.e. instruments compulsorily convertible into ordinary shares in the event of an emergency or at the Bank of Italy's request, which may be included up to 50%. The prudential provisions call for a transitional regime set out in the Directive (known as "grandfathering") for a 30-year period, which contemplates the gradual reduction of the eligibility of instruments included in regulatory capital prior to 31 December 2010 that do not meet the new eligibility requirements.

2.2. Bank regulatory capital

A. Qualitative information

Regulatory capital is calculated as the sum of positive components, with certain limits, and negative components, on the basis of their capital quality; positive components, in order to be eligible for the calculation of capital absorptions, must be fully available for the Bank.

Regulatory capital is made up of Tier 1 capital and Tier 2 capital, adjusted by the “prudential filters” and net of certain deductions. In particular:

– Tier 1 capital includes ordinary paid-in share capital, reserves, innovative and non-innovative capital instruments, grandfathered capital instruments, and retained net income for the period; plus positive “prudential filters” of Tier 1 capital; the total of these elements, net of treasury shares or quotas, intangible assets, losses recorded in previous years and in the current year, “other negative components”, as well as negative Tier 1 “prudential filters”, makes up “Tier 1 capital before items to be deducted”.
  Tier 1 capital is made up of the difference between “Tier 1 capital before items to be deducted” and 50% of “items to be deducted”;
– Tier 2 capital includes valuation reserves, innovative and non-innovative capital instruments not included in Tier 1 capital, hybrid capital instruments, Tier 2 subordinated liabilities, unrealised capital gains on equity investments, excess value adjustments with respect to expected losses, and the other positive elements that constitute capital items of a secondary nature. The positive “prudential filters” of Tier 2 capital are also included. The total of these elements, less net unrealised capital losses on equity investments, negative items related to loans, other negative elements, and negative Tier 2 "prudential filters", makes up “Tier 2 capital before items to be deducted”.
  Tier 2 capital is made up of the difference between “Tier 2 capital before items to be deducted” and 50% of “items to be deducted”.

Each caption of Tier 1 and Tier 2 capital includes minority interests pertaining to the Banking group and to third parties.

The most significant prudential filters for the Intesa Sanpaolo Group are calculated applying the following provisions:

– for financial assets available for sale, relatively to equities, quotas of UCI and debt securities, unrealised profits and losses are offset: the balance, if negative, reduces Tier 1 capital; if positive it contributes for 50% to Tier 2 capital. Furthermore, any unrealised profits and losses on loans classified among assets available for sale are excluded. It should be noted that the Group has decided to apply the Regulation issued by the Bank of Italy on 18 May 2010 which allows for the effect of valuation reserves for available-for-sale (AFS) securities issued by the central governments of EU countries on regulatory capital to be neutralised;
– for hedges, unrealised profits and losses on cash flow hedges, recorded in a specific reserve, are sterilised;
– for income deriving from the tax redemption of goodwill, the net tax benefit is reduced by 50% for prudential purposes in the first year; the resulting negative prudential filter is reduced on a straight-line basis over the next eight years.

Deductions are made, in the manner described above, 50% from "Tier 1 capital before items to be deducted" and 50% from "Tier 2 capital before items to be deducted" on equity investments and – if eligible for inclusion in the issuers' regulatory capital – on innovative and non-innovative capital instruments, hybrid capital instruments and subordinated instruments in banks, financial companies and insurance companies.
With respect to the amount by which expected losses exceed impairment provisions made on portfolios subject to internal models and expected losses on capital instruments, the amounts of those expected losses are compared with the total impairment provisions for each class of assets in the regulatory portfolio.
50% of the sum of the amounts by which the expected losses exceed total impairment provisions for each class of assets is deducted from Tier 1 capital and the other 50% from Tier 2 capital.
Conversely, the sum of the amounts by which total impairment provisions exceed the expected losses for each class of assets is added to Tier 2 capital up to the limit of 0.6% of assets weighted for credit and/or counterparty risk.
Concerning equity investments and subordinated instruments held in insurance companies, until 31 December 2012 they are deducted from Total capital, instead of 50% each from Tier 1 and Tier 2, if acquired before 20 July 2006.

The main contractual characteristics of innovative instruments which, together with share capital and reserves, are included in the calculation of Tier 1 and Tier 2 capital, are summarised in the following tables.

1. Tier 1 capital

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	9.5% fixed rate	NO	01-Oct-2010	perpetual	01-Jun-2021	Eur	1,000,000,000	1,000
Intesa Preferred LLC III (*)	6.988%; from 12/07/2011: 3-month Euribor + 2.60%	YES	12-Jul-2001	perpetual	12-Jul-2011	Eur	500,000,000	500
Intesa Sanpaolo (*)	up to 20/6/2018 (excluded): 8.047%; thereafter 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun-2018	Eur	1,250,000,000	1,250
Intesa Sanpaolo (*)	up to 24/9/2018 (excluded): 8.698%; thereafter 3-month Euribor + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Eur	250,000,000	250
Intesa Sanpaolo (*)	8.375% fixed rate up to 14/10/2019; thereafter 3-month Euribor + 6.87%	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	1,500,000,000	1,500
Total preference shares and innovative and non-innovative equity instruments (Tier I)								**4,500**

(*) Securities subject to grandfathering, calculated in Tier I capital in application of the transitional arrangements envisaged by Title I, Chapter 2, Section II, paragraph 1.4.1 of Circular No. 263 of 27 December 2006 – 5th update of 22 December 2010, "New regulations for the prudential supervision of banks".

2. Tier 2 capital

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	6.625% fixed rate	NO	08-May-2008	08-May-2018	NO	Eur	1,250,000,000	1,217
Intesa Sanpaolo	6.16% fixed rate	NO	27-Jun-2008	27-Jun-2018	NO	Eur	120,000,000	120
Banca CR Firenze	6-month Euribor + 1.40%	NO	19-Jun-2002	21-Jun-2012	NO	Eur	200,000,000	197
Banca CR Firenze	6-month Euribor + 0.95%	NO	05-Dec-2003	05-Dec-2013	NO	Eur	200,000,000	145
Centro Leasing Banca S.p.A.	3-month Euribor + 0.85%	NO	17-Jul-2007	17-Jul-2017	NO	Eur	30,000,000	27
Total hybrid instruments (Upper Tier II)								**1,706**
Centro Leasing Banca S.p.A.	up to 27/9/2011 (excluded): 3-month Euribor + 0.65% p.a.; thereafter: 3-month Euribor + 1.25% p.a.	YES	27-Sep-2006	27-Sep-2016	27-Sep-2011	Eur	90,000,000	63
Cassa di Risparmio della Spezia S.p.A.	for the first 5 years: 3-month Euribor + 0.10%; for the following 5 years: 3-month Euribor + 0.30%	YES	14-Dec-2007	14-Dec-2017	14-Dec-2012	Eur	30,000,000	30
Banca CR Firenze	3-month Euribor	NO	19-Jan-2004	18-Feb-2011	NO	Eur	23,000,000	5
Banca CR Firenze	6-month Euribor	NO	21-Jun-2004	28-Jul-2011	NO	Eur	40,000,000	8
Banca CR Firenze	6-month Euribor + 0.15%	NO	10-Apr-2006	22-May-2013	NO	Eur	85,000,000	51
Banca Intesa Beograd	6-month Euribor + 2.25%	NO	15-Jun-2006	15-Dec-2012	15-Jun-2011	Eur	60,000,000	24
Intesa Sanpaolo	8% for 1st coupon, 6.375% for 2nd and 3rd coupons, 13.8% thereafter less 2 times the 12-month Libor (max 5.3%-min 4.5%)	NO	16-Jun-1998	17-Jun-2013	NO	Lit	500,000,000,000	106
Intesa Sanpaolo	8% for 1st coupon, 6.375% for 2nd and 3rd coupons, 13.8% thereafter less 2 times the 12-month Libor (max 5.3%-min 4.5%)	NO	30-Jun-1998	01-Jul-2013	NO	Lit	200,000,000,000	44
Intesa Sanpaolo	8% for 1st coupon, 5% for 2nd coupon, 4% for 3rd coupon, thereafter 70% of 10-year swap rate	NO	09-Mar-1999	09-Mar-2014	NO	Lit	480,000,000,000	168
Intesa Sanpaolo	8% 1st coupon, 5.5% 2nd coupon, 4% 3rd coupon, thereafter 65% of 10-year swap rate with minimum 4%	NO	15-Jul-1999	15-Jul-2014	NO	Eur	250,000,000	175
Intesa Sanpaolo	6.11% fixed rate; as of 23/02/2005 97% of 30-year euro swap mid rate	NO	23-Feb-2000	23-Feb-2015	NO	Eur	65,000,000	64
Intesa Sanpaolo	92% of 30-year Euro Swap mid rate: never less than that of previous coupon	NO	12-Mar-2001	23-Feb-2015	NO	Eur	50,000,000	50
Intesa Sanpaolo	5.35% fixed rate	NO	09-Apr-2001	09-Apr-2011	NO	Eur	125,478,000	25
Intesa Sanpaolo	5.20% fixed rate	NO	15-Jan-2002	15-Jan-2012	NO	Eur	265,771,000	106
Intesa Sanpaolo	5.50% fixed rate	NO	12-Apr-2002	12-Apr-2012	NO	Eur	126,413,000	49
Intesa Sanpaolo	3-month Euribor + 0.25%	YES	08-Feb-2006	08-Feb-2016	08-Feb-2011	Eur	1,500,000,000	1,462
Intesa Sanpaolo	5.50% fixed rate; as of 19/12/2011 3-month GBP Libor + 0.99%	YES	19-Jul-2006	19-Dec-2016	19-Dec-2011	Gpb	1,000,000,000	1,160
Intesa Sanpaolo	6.375% fixed rate; as of 12/11/2012 3-month GBP Libor	YES	12-Oct-2007	12-Oct-2017	12-Oct-2012	Gpb	250,000,000	290
Intesa Sanpaolo	5.375% fixed rate	NO	13-Dec-2002	13-Dec-2012	NO	Eur	300,000,000	120
Intesa Sanpaolo	up to 20/2/2013 (excluded): 3-month Euribor + 0.25% p.a.; thereafter 3-month Euribor + 0.85% p.a.	YES	20-Feb-2006	20-Feb-2018	20-Feb-2013	Eur	750,000,000	743
Intesa Sanpaolo	up to 18/03/2019 (excluded): 5.625% p.a.; thereafter: 3-month Sterling LIBOR + 1.125% p.a.	YES	18-Mar-2004	18-Mar-2024	18-Mar-2019	Gbp	165,000,000	191
Intesa Sanpaolo	up to 28/06/2011 (excluded): 3-month Euribor + 0.30% p.a.; thereafter 3-month Euribor + 0.90% p.a.	YES	28-Jun-2004	28-Jun-2016	28-Jun-2011	Eur	700,000,000	698
Intesa Sanpaolo	up to 02/03/2015 (excluded): 3.75% p.a.; thereafter: 3-month Euribor +0.89% p.a.	YES	02-Mar-2005	02-Mar-2020	02-Mar-2015	Eur	500,000,000	497

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	up to 19/4/2011 (excluded): 3-month Euribor + 0.20% p.a. thereafter: 3-month Euribor + 0.80% p.a.	YES	29-Apr-2006	19-Apr-2016	19-Apr-2011	Eur	500,000,000	491
Intesa Sanpaolo	up to 26/6/2013 (excluded): 4.375% p.a.; thereafter: 3-month Euribor + 1.00% p.a.	YES	26-Jun-2006	26-Jun-2018	26-Jun-2013	Eur	500,000,000	492
Intesa Sanpaolo	5.87% fixed rate	NO	26-Nov-2008	26-Nov-2015	NO	Eur	415,000,000	407
Intesa Sanpaolo	6.25% fixed rate	NO	12-Nov-2008	12-Nov-2015	NO	Eur	545,000,000	538
Intesa Sanpaolo	6.16% fixed rate	NO	29-Oct-2008	29-Oct-2015	NO	Eur	382,401,000	372
Intesa Sanpaolo	4.80% fixed rate	NO	28-Mar-2008	28-Mar-2015	NO	Eur	800,000,000	793
Intesa Sanpaolo	4.00% fixed rate	NO	30-Sep-2008	30-Sep-2015	NO	Eur	1,097,000,000	1,048
Intesa Sanpaolo	5.75% fixed rate; as of 28/5/2013 3-month Euribor + 1.98%	YES	28-May-2008	28-May-2018	28-May-2013	Eur	1,000,000,000	978
Intesa Sanpaolo	(3-month Euribor +4%)/4	NO	24-Feb-2009	24-Feb-2016	NO	Eur	635,500,000	629
Intesa Sanpaolo	(3-month Euribor +4%)/4	NO	12-Mar-2009	12-Mar-2016	NO	Eur	165,000,000	156
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	1,500,000,000	1,469
Intesa Sanpaolo	quarterly interests according to the formula (3-month Euribor + 1.6%)/4	NO	30-Sep-2010	30-Sep-2017	NO	Eur	805,400,000	805
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	1,250,000,000	1,246
Intesa Sanpaolo	quarterly interests according to the formula: (3-month Euribor + 1.60%)/4	NO	10-Nov-2010	10-Nov-2017	NO	Eur	479,050,000	479
Pravex Bank	7.025% (Libor + 5%)	NO	other issues placed as of 12/09/2000	other issues with final expiry at 31/07/2016	NO	Usd	14,100,000	11
Total eligible subordinated liabilities (Lower Tier II)								**16,043**
TOTAL								**17,749**

3. Tier 3 capital

No subordinated debts have been issued which are eligible to be considered in Tier 3 Capital, net of intragroup operations, to "cover" market risks.

B. Quantitative information

(millions of euro)

	31.12.2010	31.12.2009
A. Tier 1 capital before the application of prudential filters	**33,981**	**32,170**
B. Tier 1 capital prudential filters	**-955**	**-932**
B.1 Positive IAS/IFRS prudential filters (+)	*-*	*-*
B.2 Negative IAS/IFRS prudential filters (-)	*-955*	*-932*
C. Tier 1 before items to be deducted (A+B)	**33,026**	**31,238**
D. Items to be deducted from Tier 1	**1,851**	**1,033**
E. Total Tier 1 capital (C-D)	**31,175**	**30,205**
F. Tier 2 capital before the application of prudential filters	**18,315**	**16,599**
G. Tier 2 capital prudential filters	**-116**	**-94**
G.1 Positive IAS/IFRS prudential filters (+)	*-*	*-*
G.2 Negative IAS/IFRS prudential filters (-)	*-116*	*-94*
H. Tier 2 before items to be deducted (F+G)	**18,199**	**16,505**
I. Items to be deducted from Tier 2	**1,851**	**1,033**
L. Total Tier 2 capital (H-I)	**16,348**	**15,472**
M. Items to be deducted from total Tier 1 and Tier 2 capital	**3,721**	**2,923**
N. Regulatory capital (E+L-M)	**43,802**	**42,754**
O. Tier 3 capital	**-**	**-**
P. Regulatory capital including Tier 3 (N+O)	**43,802**	**42,754**

2.3. Capital adequacy

A. Qualitative information

According to the “New regulations for the prudential supervision of banks” (Bank of Italy Circular 263 of 27 December 2006), which adopt the provisions on the International Convergence of Capital Measurement and Capital Standards (Basel 2), the banking Group’s capital must amount to at least 8% of total risk-weighted assets (total capital ratio) 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.
In general terms, the group-level capital requirement is calculated as the sum of the individual requirements of the individual companies that make up the Banking group, net of exposures arising from intragroup relations included in the calculation of credit, counterparty and settlement risk.
In addition to the Total capital ratio referred to above, other more rigorous ratios are also used to assess capital soundness: the Tier 1 capital ratio, represented by the ratio between Tier 1 capital and risk-weighted assets, and the Core Tier 1 capital ratio, represented by the ratio between Tier 1 capital (net of preferred shares and, effective 31 December 2010, preferred savings and ordinary shares) and risk-weighted assets.

As for credit and counterparty risks, the “New regulations for the prudential supervision of banks” enable banks and banking groups to adopt internal risk measurement systems for calculating capital requirements subject to the prior authorisation of the Bank of Italy, provided that the bank or banking group meets specific minimum organisational and quantitative requirements.
Following obtainment of authorisation from the Supervisory Authority, the Intesa Sanpaolo Group calculates capital requirements for credit risk and counterparty risk, respectively, according to the IRB approach for the Retail Mortgage segment (Residential mortgages to private individuals) on a scope consisting of the Parent Company and network banks (excluding Casse del Centro banks) effective 30 June 2010, and according to the advanced internal rating-based approach (AIRB) with regard to the regulatory trading portfolio "Exposures to corporates" for the Parent Company, network banks (including Casse del Centro banks), Banca Infrastrutture Innovazione e Sviluppo and Mediocredito, effective 31 December 2010. Leasint and Mediofactoring - effective 31 December 2008 - and Intesa Sanpaolo Bank Ireland P.l.c. - effective 31 March 2010 - use the foundation IRB approach (FIRB - Foundation Internal Rating Based) for the corporate segment pending authorisation of the use of the Advanced approach from the Supervisory Authority. Effective 31 December 2010, the Slovakian entity VUB also obtained authorisation of the FIRB approach for the corporate segment.
With respect to market risks, banks must comply with capital requirements calculated on the whole trading portfolio separately for the various types of risk: position risk on debt securities and equities, settlement risk and concentration risk. Moreover, with reference to the entire financial statements, foreign exchange risk and position risk on commodities must be calculated. The use of internal models to calculate the capital requirement for market risks is permitted. In particular, Intesa Sanpaolo and Banca IMI apply the internal model to calculate general position risk (price fluctuation risk) and specific risk (issuer risk) for equities, and general position risk for debt securities. Intesa Sanpaolo’s internal model also includes the calculation of the specific risk for certain types of credit derivatives in the trading book, whereas Banca IMI’s model includes the position risk on quotas of UCI (for the CPPI - Constant Proportion Portfolio Insurance - component). Effective the third quarter of 2009, the scope of validated risks has subsequently been extended to dividend derivatives and, with effect from June 2010, to the commodity risk for Banca IMI. Standardised approaches are used for the other types of risk. Counterparty risks is calculated independently of the portfolio of allocation according to the Current Exposure Method (CEM).

With regard to operational risks, the Group was authorised, effective from 31 December 2009, to use the Advanced AMA Approach (internal model) to determine the associated capital requirement on an initial scope that includes the Banks and Companies of the Banca dei Territori Division (excluding network banks belonging to Cassa di Risparmio di Firenze Group, but including Casse del Centro), Leasint, Eurizon Capital and VUB Banka. Effective 31 December 2010, the Group was also authorised to extend the advanced approaches to a second set of companies that includes not only Setefi and PBZ Banka, but also several companies within the Corporate and Investment Banking Division and the banks of the Cassa di Risparmio di Firenze Group not included in the first set. The remaining companies, currently using the Standardised approach, will migrate progressively to the Advanced approaches starting from the end of 2011, based on the rollout plan presented to the Management Bodies and the Supervisory Authority.

B. Quantitative information

(millions of euro)

	Unweighted amounts		Weighted amounts/ requirements	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
A. RISK ASSETS				
A.1 Credit and counterparty risk	**544,764**	**540,605**	**289,172**	**316,258**
1. Standard methodology	270,698	344,625	135,773	165,206
2. Methodology based on internal ratings	268,494	191,735	147,866	148,331
2.1 Base	*27,798*	*191,735*	*22,589*	*148,331*
2.2 Advanced	*240,696*	*-*	*125,277*	*-*
3. Securitisations	5,572	4,245	5,533	2,721
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risks			**23,134**	**25,301**
B.2 Market risk			**1,231**	**1,344**
1. Standard methodology			978	1,191
2. Internal models			202	96
3. Concentration risk			51	57
B.3 Operational risk			**2,174**	**2,249**
1. Base methodology			129	109
2. Standard methodology			422	794
3. Advanced methodology			1,623	1,346
B.4 Other capital requirements			**-**	**-**
B.5 Other calculation elements			**34**	**38**
B.6 Total capital requirements			**26,573**	**28,932**
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**332,158**	**361,648**
C.2 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)			**9.4%**	**8.4%**
C.3 Total capital / Risk-weighted assets (Total capital ratio)			**13.2%**	**11.8%**

SECTION 3 – INSURANCE REGULATORY CAPITAL AND CAPITAL RATIOS

The following is a list of the insurance companies controlled solely by Intesa Sanpaolo Group and subject to insurance supervision:
- Centrovita Assicurazioni;
- EurizonLife;
- EurizonTutela;
- Eurizon Vita;
- Fideuram Vita;
- Intesa Vita;
- Sud Polo Vita.

In accordance with ISVAP Regulation 18 of 12 March 2008 (the Insurers' Code), the company required to prepare the consolidated/aggregated financial statements due to unitary management as at 31 December 2010 is Intesa Vita, in its capacity as company that presents the greatest amount of total assets. However, a specific exception has been requested from ISVAP for 2010 to allow Eurizon Vita to prepare the consolidated financial statements due to unitary management. The request was granted by notice dated 22 December 2010. Accordingly, as at 31 December 2010 Eurizon Vita prepared the consolidated/aggregated financial statements due to unitary management, the scope of which extends to EurizonTutela and EurizonLife, which are 100% owned by Eurizon Vita, and Centrovita, Fideuram Vita, Intesa Vita and Sud Polo Vita, which are subject to unitary management in accordance with the insurers' code.
The elements that constitute the solvency margin are therefore calculated separately from the figures in the consolidated/aggregate financial statements due to unitary management prepared by Eurizon Vita. Corrections represented by the "prudential filters" are then applied to these figures. The application of these filters, which involves an asymmetrical approach, aims to eliminate only the effects of the application of IAS/IFRS deemed inconsistent with the objective of a calculation for prudential purposes. Prudential filter provisions refer to:
- the re-measurement of technical reserves;
- unrealised capital gains;
- other filters.

For the purposes of the adjusted solvency situation, the elements that make up the available solvency margin are compared with the associated capital use, represented by the required solvency margin. The latter, which is computed according to the provisions of ISVAP Regulation 28 of 17 February 2009, consists of the sum of the parent insurance company's minimum solvency margin and the proportional share of the minimum solvency margin of the subsidiary or associate insurance companies of the parent insurance company or insurance companies subject to unitary management.
As at 31 December 2010, Eurizon Vita showed a solvency ratio in terms of adjusted solvency, defined as the ratio of available margin to required margin, of approximately 216%.

The Intesa Sanpaolo Group does not hold any investments in insurance companies subject to joint control.
Two insurance investments of a marginal amount in Slovakia and Croatia held through the subsidiaries Vseobecna Uverova Banka (VUB) and Privredna Banka Zagreb (PBZ) are also included.

SECTION 4 – THE CAPITAL ADEQUACY OF THE FINANCIAL CONGLOMERATE

(millions of euro)

	Amounts
A. Financial conglomerate amount	49,313
B. Capital requirements for banking elements	26,573
C. Solvency margins for insurance elements	2,229
D. Total capital requirements of the financial conglomerate (B+C)	**28,802**
E. Financial conglomerate surplus (definicit) (A-D)	**20,511**

The Intesa Sanpaolo Group operates as a financial conglomerate that engages in universal banking activity and insurance services.
The capital adequacy of the Intesa Sanpaolo financial conglomerate was calculated in accordance with the supplementary supervisory provisions issued by the Bank of Italy.
As at 31 December 2010 the capital of the Intesa Sanpaolo financial conglomerate exceeded its capital requirements, defined as the conglomerate's capital needs, by approximately 20,511 million euro.