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 by 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 scope of consolidation of the Group.

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	**8,949**	**-**	**161**	**-161**	**8,949**	***403***
Ordinary shares	8,461	-	161	-161	8,461	*400*
Savings shares	488	-	-	-	488	*3*
Share premium reserve	**36,213**	**-**	**2**	**-2**	**36,213**	***70***
Reserves	**14,019**	**212**	**-90**	**-122**	**14,019**	***176***
Legal reserve	1,329	-	-	-	1,329	-
Extraordinary reserve	4,984	-	-	-	4,984	-
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	7,110	212	-90	-122	7,110	*176*
Other reserves	62	-	-	-	62	-
Equity instruments	**-**	**-**	**-**	**-**	**-**	-
(Treasury shares)	**-2**	**-2**	**-**	**-**	**-4**	**-**
Valuation reserves	**-3,292**	**-977**	**11**	**966**	**-3,292**	***6***
Financial assets available for sale	-1,380	-975	-	-	-2,355	*-2*
Property and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-	-
Cash flow hedges	-924	-	4	-4	-924	*-2*
Foreign exchange differences	-393	-	5	-5	-393	*1*
Non current assets held for sale	-	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans	-	-	-	-	-	-
Share of valuation reserves connected with investments carried at equity	-947	-2	2	975	28	*1*
Legally-required revaluations	352	-	-	-	352	*8*
Parent Company's net income (loss) and minority interest	**-8,127**	**-28**	**-41**	**69**	**-8,127**	***63***
Shareholders' equity	**47,760**	**-795**	**43**	**750**	**47,758**	***718***

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 show 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 31.12.2011	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	97	-2,697	65	-1,024	2	-	-67	1,024	97	-2,697
2. Equities	401	-134	9	-18	-	-	-9	18	401	-134
3. Quotas of UCI	24	-44	5	-12	-	-	-5	12	24	-44
4. Loans	14	-14	-	-	-	-	-	-	14	-14
Total as at 31.12.2011 (*)	**536**	**-2,889**	**79**	**-1,054**	**2**	**-**	**-81**	**1,054**	**536**	**-2,889**
Total as at 31.12.2010	**787**	**-1,445**	**224**	**-507**	**2**	**-22**	**-226**	**529**	**787**	**-1,445**

(*) This amount includes 2 million euro of net positive valuation reserves of financial assets available for sale attributable to investments carried at equity.

Approximately 95% of the negative reserve on equities is attributable to quoted securities classified as level 1, while the remaining 5% is attributable to securities classified as level 2 and 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	**-1,060**	**386**	**17**	**-1**
2. Positive fair value differences	**667**	**198**	**24**	**1**
2.1 Fair value increases	115	163	15	-
2.2 Reversal to the income statement of negative reserves	400	20	1	-
- impairment	*326*	*19*	*-*	-
- disposal	*74*	*1*	*1*	-
2.3 Other changes	152	15	8	1
3. Negative fair value differences	**-2,207**	**-317**	**-61**	**-**
3.1 Fair value decreases	-1,983	-171	-45	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to the income statement of positive reserves: disposal	*-50*	*-132*	*-4*	-
3.4 Other changes	-174	-14	-12	-
4. Closing amount (*)	**-2,600**	**267**	**-20**	**-**

(*) This amount includes 2 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.	4,139,257
Purchased	no.	40,279,945
Sold	no.	-41,592,526
End-of-year number	no.	2,826,676

Non-convertible savings shares:

Initial number	no.	298,254
Purchased	no.	969,299
Sold	no.	-1,105,553
End-of-year number	no.	162,000

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 provisions in effect (11th update to Circular 263 of December 2006 and 14th update to Circular 155 of December 1991) issued by the Bank of Italy following the implementation of the amendments of Community Directives that govern the capital requirements for banks and banking groups introduced by the New Basel Capital Accord (“Basel 2").

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 specific “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 up to the limit of 0.6% of assets weighted for credit and/or counterparty risk, 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;
– it should be noted that, compared to the previous year, the prudential filter on income arising from the tax realignment of goodwill has been removed pursuant to the specific notification of the Bank of Italy as a result of the provisions of Law 10/2011 on the matter of deferred tax assets.

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 total 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.

It should be noted that on 6 February Intesa Sanpaolo announced an invitation to repurchase the following Tier 1 subordinated notes issued by the Parent Company.

(euro)

	Nominal value issued	Purchase Price (% of Nominal value)
9,5% Fixed Rate Resettable Perpetual Subordinated Notes	1,000,000,000	90%
8,375% Fixed to Floating Rate Perpetual Subordinated Notes	1,500,000,000	91%
8,047% Fixed to Floating Rate Perpetual Subordinated Notes	1,250,000,000	88%

The above instruments were included in Tier 1 Capital but excluded from Core Tier 1 Capital as at 31 December 2011.
The transaction allows Intesa Sanpaolo to increase its Core Tier 1 Capital as a result of the capital gain arising from the repurchase of subordinated notes tendered at prices below par. It should also be noted that such instruments – pursuant to the Capital Requirements Directive (CRD IV) published by the European Commission – will be subject to grandfathering regime and, thus, progressively derecognised as Additional Tier 1 Capital.
The invitation concluded, according to the announced timetable, on 14 February 2012. As a result of the buy back finalisation, the Intesa Sanpaolo Group net income for the first quarter of 2012 will register a contribution of approximately 180 million euro, including the positive impact of the unwinding of interest rate derivatives, which corresponds to approximately 6 basis points of Core Tier 1 ratio, considering the RWAs as at 31 December 2011.

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-2016	Eur	1,000,000,000	1,000
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)								**4,000**

(*) 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 – 11th update of 31 January 2012, "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	1,222
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	21-Jun-2002	21-Jun-2012	NO	Eur	200,000,000	189
Banca CR Firenze	6-month Euribor + 0.95%	NO	05-Dec-2003	05-Dec-2013	NO	Eur	200,000,000	149
Centro Leasing Banca	3-month Euribor + 0.85%	NO	17-Jul-2007	17-Jul-2017	NO	Eur	30,000,000	27
Total hybrid instruments (Upper Tier II)								**1,707**
Banca CR Firenze	6-month Euribor + 0.15%	NO	22-May-2006	22-May-2013	NO	Eur	85,000,000	34
Banca Intesa Beograd	6-month Euribor + 2.25%	NO	15-Jun-2006	15-Dec-2012	15-Jun-2012	Eur	60,000,000	12
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	71
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	29
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	126
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	131
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	52
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	40
Intesa Sanpaolo	5.20% fixed rate	NO	15-Jan-2002	15-Jan-2012	NO	Eur	265,771,000	53
Intesa Sanpaolo	5.50% fixed rate	NO	12-Apr-2002	12-Apr-2012	NO	Eur	126,413,000	25
Intesa Sanpaolo	6.375% fixed rate; as of 12/11/2012 3-month GBP Libor	YES	12-Oct-2007	12-Nov-2017	12-Nov-2012	Gpb	250,000,000	299
Intesa Sanpaolo	5.375% fixed rate	NO	13-Dec-2002	13-Dec-2012	NO	Eur	300,000,000	60
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	732
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	198
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	495
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	491
Intesa Sanpaolo	5.87% fixed rate	NO	26-Nov-2008	26-Nov-2015	NO	Eur	415,000,000	323
Intesa Sanpaolo	6.25% fixed rate	NO	12-Nov-2008	12-Nov-2015	NO	Eur	545,000,000	427
Intesa Sanpaolo	6.16% fixed rate	NO	29-Oct-2008	29-Oct-2015	NO	Eur	382,401,000	297
Intesa Sanpaolo	4.80% fixed rate	NO	28-Mar-2008	28-Mar-2015	NO	Eur	800,000,000	636
Intesa Sanpaolo	4.00% fixed rate	NO	30-Sep-2008	30-Sep-2015	NO	Eur	1,097,000,000	846
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	972

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	(3-month Euribor +4%)/4	NO	24-Feb-2009	24-Feb-2016	NO	Eur	635,350,000	626
Intesa Sanpaolo	(3-month Euribor +4%)/4	NO	12-Mar-2009	12-Mar-2016	NO	Eur	165,050,000	154
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	1,500,000,000	1,459
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	792
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	473
Intesa Sanpaolo	quarterly interests according to the formula: (3-month Euribor + 2%)/4	NO	31-Mar-2011	31-Mar-2018	NO	Eur	373,400,000	371
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	10
Banca Monte Parma	4.00% up to 19/10/08, 4.25% up to 19/10/09, 4.50% up to 19/10/10, 4.75% up to 19/10/11, 5.00% up to 19/11/12	NO	19-Oct-2007	19-Oct-2012	NO	Eur	5,000,000	1
Banca Monte Parma	4.40% fixed rate	NO	21-Dec-2007	21-Dec-2012	NO	Eur	5,000,000	1
Banca Monte Parma	3.80% fixed rate	NO	20-Feb-2008	20-Feb-2013	NO	Eur	10,000,000	4
Banca Monte Parma	4.30% fixed rate	NO	27-May-2008	27-May-2013	NO	Eur	9,905,000	4
Banca Monte Parma	4.60% fixed rate	NO	25-Jun-2008	25-Jun-2013	NO	Eur	10,000,000	4
Banca Monte Parma	4.60% fixed rate	NO	26-Aug-2008	26-Aug-2013	NO	Eur	20,000,000	8
Banca Monte Parma	3.25% fixed rate	NO	04-Feb-2009	04-Feb-2014	NO	Eur	11,500,000	7
Banca Monte Parma	4.50% fixed rate	NO	05-Feb-2009	05-Feb-2014	NO	Eur	5,000,000	3
Banca Monte Parma	2.80% fixed rate	NO	22-Apr-2009	22-Apr-2014	NO	Eur	10,000,000	6
Banca Monte Parma	3.10% fixed rate	NO	09-Jul-2009	09-Jul-2014	NO	Eur	9,000,000	5
Banca Monte Parma	3.50% fixed rate	NO	11-Aug-2009	11-Aug-2016	NO	Eur	5,000,000	5
Banca Monte Parma	3.20% fixed rate	NO	25-Sep-2009	25-Sep-2016	NO	Eur	5,000,000	5
Banca Monte Parma	3.00% fixed rate	NO	30-Jul-2010	30-Oct-2015	NO	Eur	20,000,000	16
Total eligible subordinated liabilities (Lower Tier II)								**11,549**
TOTAL								**13,256**

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 "hedge" market risks.

B. Quantitative information

(millions of euro)

	31.12.2011	31.12.2010
A. Tier 1 capital before the application of prudential filters	**39,442**	**33,981**
B. Tier 1 capital prudential filters	**-669**	**-955**
B.1 Positive IAS/IFRS prudential filters (+)	-	-
B.2 Negative IAS/IFRS prudential filters (-)	*-669*	*-955*
C. Tier 1 before items to be deducted (A+B)	**38,773**	**33,026**
D. Items to be deducted from Tier 1	**1,478**	**1,851**
E. Total Tier 1 capital (C-D)	**37,295**	**31,175**
F. Tier 2 capital before the application of prudential filters	**13,737**	**18,315**
G. Tier 2 capital prudential filters	**-58**	**-116**
G.1 Positive IAS/IFRS prudential filters (+)	-	-
G.2 Negative IAS/IFRS prudential filters (-)	*-58*	*-116*
H. Tier 2 before items to be deducted (F+G)	**13,679**	**18,199**
I. Items to be deducted from Tier 2	**1,478**	**1,851**
L. Total Tier 2 capital (H-I)	**12,201**	**16,348**
M. Items to be deducted from total Tier 1 and Tier 2 capital	**3,144**	**3,721**
N. Regulatory capital (E+L-M)	**46,352**	**43,802**
O. Tier 3 capital	**-**	**-**
P. Regulatory capital including Tier 3 (N+O)	**46,352**	**43,802**

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 and subsequent amendments), 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.

Moreover, the Intesa Sanpaolo Group was subject to a capital requirement restriction, consisting in a floor of 90% of the sum of the requirements for credit, market, counterparty and operational risk, calculated based on the Basel 1 rules. This penalty was prudently introduced by the Bank of Italy on authorising the use of Internal Methods for the calculation of requirements for credit risk in relation to several aspects deemed worthy of implementing. Taking account of the improvement achieved by the Intesa Sanpaolo Group in relation to the problems detected, the Bank of Italy authorised the reduction of said floor from 90% to 85% starting from 30 June 2011.

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.

It should be recalled that in late October 2011 the European Banking Authority (EBA) had proposed a capital exercise, requiring banks to strengthen their capital positions by building up a temporary capital buffer against sovereign debt exposures to reflect market prices. In further detail, it required them to establish a buffer such that the Core Tier 1 capital ratio reaches a level of 9% by the end of June 2012. The amount of any final capital shortfall identified was based on September 2011 figures. Following completion of the capital exercise conducted by the European Banking Authority, in close cooperation with the competent national authority, the exercise had determined that Intesa Sanpaolo had met the 9% Core Tier 1 ratio after the removal of the prudential filters on sovereign assets in the Available-for-Sale portfolio and prudent valuation of sovereign debt in the Held-to-Maturity and Loans and Receivables portfolios, reflecting current market prices.

For the calculation of credit and counterparty risk capital requirements, the Intesa Sanpaolo Group, having received authorisation from the Supervisory Authority, uses the Advanced IRB approach (AIRB) and the foundation IRB approach for the Corporate segment and the IRB approach[1] for the Retail Mortgage segment (Residential mortgages for private individuals), from the report as at 31 December 2008 (31 December 2010 for the Advanced approach) and 30 June 2010 respectively. With respect to the report as at 31 December 2011, it should be noted that the IRB approach was extended for the Retail Mortgage segment to the former Intesa Casse del Centro and the AIRB model was adopted for Intesa Sanpaolo Ireland. The scope of application of the foundation and Advanced IRB approaches is presented below.

[1] Given that the rating systems for retail exposures must reflect both the borrower risk and the specific risk of the transaction, in this case there is no distinction between the foundation and the advanced IRB approach.

Company	Regulatory segment		
	Corporate		Residential mortgages to private individuals
	Foundation	Advanced	
Intesa Sanpaolo S.p.A.		x	x
Banca CR Firenze S.p.A.		x	x
Banca dell'Adriatico S.p.A.		x	x
Banca di Credito Sardo S.p.A.		x	x
Banca di Trento e Bolzano S.p.A.		x	x
Banco di Napoli S.p.A.		x	x
BIIS - Banca Infrastrutture Innovazione e Sviluppo S.p.A.		x	
Cassa di Risparmio del Friuli Venezia Giulia S.p.A.		x	x
Cassa di Risparmio del Veneto S.p.A.		x	x
Cassa di Risparmio della Provincia di Viterbo S.p.A.		x	x
Cassa di Risparmio di Ascoli Piceno S.p.A.		x	x
Cassa di Risparmio di Città Castello S.p.A.		x	x
Cassa di Risparmio di Civitavecchia S.p.A.		x	x
Cassa di Risparmio di Foligno S.p.A.		x	x
Cassa dei Risparmio di Forlì e della Romagna S.p.A.		x	x
Cassa di Risparmio di Pistoia e Pescia S.p.A.		x	x
Cassa di Risparmio di Rieti S.p.A.		x	x
Cassa di Risparmio di Spoleto S.p.A.		x	x
Cassa di Risparmio di Terni e Narni S.p.A.		x	x
Cassa di Risparmio di Venezia S.p.A.		x	x
Cassa di Risparmio in Bologna S.p.A.		x	x
Intesa Sanpaolo Bank Ireland P.l.c.		x	
Leasint S.p.A.	x		
Mediocredito Italiano S.p.A.		x	
Mediofactoring S.p.A.	x		
Vseobecna Uverova Banka A.S.	x		

The Group is also proceeding with the development of the rating models for the other segments, to which the standard methods are applied, and the extension of the scope of companies for their application in accordance with the gradual rollout plan for the advanced approaches presented to the Supervisory Authority.
Banks must also comply with capital requirements for market risks calculated on the whole trading book separately for the various types of risk: position risk on debt securities and equities and concentration risk. Moreover, with reference to the entire financial statements, foreign exchange risk, settlement 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 (rate fluctuation risk) for debt securities. Banca IMI's internal model also includes the position risk on quotas of UCI (for the Constant Proportion Portfolio Insurance - CPPI component). The scope of validated risks has subsequently been extended to dividend derivatives and commodity risk positions for Banca IMI. In addition, Banca IMI and Intesa Sanpaolo S.p.A. have been using stressed VaR to calculate the requirement for market risks since December 2011. Standardised approaches are used for the other types of risk. Counterparty risk is calculated independently of the portfolio of allocation.
With respect to Operational Risks, the Group has adopted the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirements for regulatory purposes:

– effective from 31 December 2009, for an initial set including the Organisational Units, 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 from 31 December 2010, for a second set of companies within the Corporate and Investment Banking Division, in addition to Setefi, the remaining banks of the Cassa di Risparmio di Firenze Group and PBZ Banka;
– effective from 31 December 2011, a third set including Banca Infrastrutture Innovazione e Sviluppo.

The remaining companies, currently using the Standardised approach (TSA), will migrate progressively to the Advanced approaches starting from the end of 2012, based on the roll-out plan presented to the Management and Supervisory Authorities.

B. Quantitative information

(millions of euro)

	Unweighted amounts		Weighted amounts/ requirements	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
A. RISK ASSETS				
A.1 Credit and counterparty risk	**563,946**	**544,764**	**277,498**	**289,172**
1. Standard methodology	274,917	270,698	132,167	135,773
2. Methodology based on internal ratings	284,785	268,494	139,272	147,866
2.1 Base	*29,885*	*27,798*	*22,907*	*22,589*
2.2 Advanced	*254,900*	*240,696*	*116,365*	*125,277*
3. Securitisations	4,244	5,572	6,059	5,533
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risks			**22,200**	**23,134**
B.2 Market risk			**1,399**	**1,231**
1. Standard methodology			979	978
2. Internal models			420	202
3. Concentration risk			-	51
B.3 Operational risk			**1,986**	**2,174**
1. Base methodology			87	129
2. Standard methodology			326	422
3. Advanced methodology			1,573	1,623
B.4 Other capital requirements			**-**	**-**
B.5 Other calculation elements			**432**	**34**
B.6 Total capital requirements			**26,017**	**26,573**
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**325,206**	**332,158**
C.2 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)			**11.5%**	**9.4%**
C.3 Total capital / Risk-weighted assets (Total capital ratio)			**14.3%**	**13.2%**

For the standard methodology, in compliance with regulatory provisions, "unweighted amounts" equal the value of the exposure which takes into account prudential filters, techniques for the mitigation of risk and credit conversion factors. For base methodology based on internal ratings, "unweighted amounts" equal "exposure at default" (EAD). For guarantees given and commitments to disburse funds, credit conversion factors also contribute to determining the EAD.

SECTION 3 – INSURANCE REGULATORY CAPITAL AND CAPITAL RATIOS

The insurance companies controlled solely by Intesa Sanpaolo Group and subject to insurance supervision are:
– Intesa Sanpaolo Vita;
– Intesa Sanpaolo Life;
– Intesa Sanpaolo Assicura;
– Fideuram Vita.

It should be noted that the merger by incorporation of Intesa Sanpaolo Vita (formerly Intesa Vita), Sud Polo Vita and Centrovita into Eurizon Vita (renamed Intesa Sanpaolo Vita) entered into effect on 31 December 2011 (with respect to effects on third parties). The transaction came into force for accounting and tax purposes on 1 January 2011.
As insurance parent company, Intesa Sanpaolo Vita calculates the aggregate solvency situation for insurance companies. Under ISVAP Regulation 18 of 12 March 2008 (the insurers' code), Intesa Sanpaolo Vita is required to prepare a "consolidated aggregate". Intesa Sanpaolo Assicura (formerly EurizonTutela) and Intesa Sanpaolo Life (formerly EurizonLife) fall within the scope of this aggregate, inasmuch as they are 100% subsidiaries, as does Fideuram Vita, inasmuch as it is 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 Intesa Sanpaolo 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 2011, Intesa Sanpaolo Vita had a solvency ratio in terms of adjusted solvency, defined as the ratio of available margin to required margin, of approximately 134%.
The Intesa Sanpaolo Group does not hold any investments in insurance companies subject to joint control.
The Group has an equity investment of a marginal amount in an insurance company located in Slovakia, controlled through Vseobecna Uverova Banka (VUB).

SECTION 4 – THE CAPITAL ADEQUACY OF THE FINANCIAL CONGLOMERATE

(millions of euro)

	Amounts
A. Financial conglomerate amount	50,861
B. Capital requirements for banking elements	26,016
C. Solvency margins for insurance elements	2,343
D. Total capital requirements of the financial conglomerate (B+C)	**28,359**
E. Financial conglomerate surplus (defincit) (A-D)	**22,502**

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 2011 the capital of the Intesa Sanpaolo financial conglomerate exceeded its capital requirements, defined as the conglomerate's capital needs, by approximately 22,502 million euro.