Shareholders' equity

As at 30 September 2017, the Group's shareholders' equity, including net income for the period, came to 53,743 million euro (50,243 net of the public contribution of 3.5 billion euro related to the acquisition of the Venetian banks), compared to the 48,911 million euro at the end of the previous year. The positive change in equity was due to the issue of Additional Tier 1 equity instruments for 2 billion euro and to net income for the period, which offset the payment of dividends.

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2016	Change in the period	Valuation reserves as at 30.09.2017	
				% breakdown
Financial assets available for sale	471	-159	312	-16.3
of which: Insurance Companies	*503*	*-85*	*418*	*-21.9*
Property and equipment	-	-	-	-
Cash flow hedges	-1,146	116	-1,030	53.9
Legally-required revaluations	348	-3	345	-18.1
Other	-1,527	-10	-1,537	80.5
Valuation reserves	**-1,854**	**-56**	**-1,910**	**100.0**

As at 30 September 2017, the negative balance of the Group's valuation reserves came to -1,910 million euro, slightly up compared to the negative value at the end of December 2016 (-1,854 million euro). The changes for the period were mainly driven by the reserves for financial assets available for sale (-159 million euro) related to debt securities, only partly offset by cash flow hedge reserves (+116 billion euro).

Own funds and capital ratios

(millions of euro)

Own funds and capital ratios	30.09.2017	31.12.2016
Own funds		
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	37,901	35,926
Additional Tier 1 capital (AT1) net of regulatory adjustments	5,418	3,533
TIER 1 CAPITAL	**43,319**	**39,459**
Tier 2 capital net of regulatory adjustments	8,005	8,815
TOTAL OWN FUNDS	**51,324**	**48,274**
Risk-weighted assets		
Credit and counterparty risks	251,352	243,351
Market and settlement risk	17,487	19,199
Operational risks	21,231	19,545
Other specific risks [(a)]	1,236	1,823
RISK-WEIGHTED ASSETS	**291,306**	**283,918**
% Capital ratios		
Common Equity Tier 1 capital ratio	13.0%	12.7%
Tier 1 capital ratio	14.9%	13.9%
Total capital ratio	17.6%	17.0%

[(a)] The caption includes all other elements not contemplated in the foregoing captions that are considered when calculating total capital requirements.

The figures as at 30 September 2017 include assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza and Veneto Banca

Own Funds, risk-weighted assets and the capital ratios as at 30 September 2017 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of the related Bank of Italy Circulars.

Regulatory provisions governing Own Funds envisage the gradual introduction of the new regulatory framework, through a transitional period generally lasting until 2017, during which several elements that will be eligible for full inclusion in or deduction from Common Equity when the framework is fully effective, will only have a partial percentage effect on Common Equity Tier 1 capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 capital (AT1) or Tier 2 capital (T2), or is considered among risk-weighted assets.

Specific transitional provisions (i.e. grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from Own Funds (over a period of eight years).

Accordingly, the prudential ratios as at 30 September 2017 take account of the adjustments envisaged by the transitional provisions for 2017.

As at 30 September 2017, total Own Funds came to 51,324 million euro, against risk-weighted assets of 291,306 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.

In January and May 2017, Intesa Sanpaolo issued two Additional Tier 1 (AT 1) equity instruments, respectively for 1.25 and 0.75 billion euro. These two issues complete the issue of 4 billion euro of Additional Tier 1 instruments envisaged in the 2014-17 Business Plan (a first issue of AT1 instruments had already been carried out in September 2015 for 1 billion dollars and a second one in January 2016 for 1.25 billion euro). The instruments issued in January and May 2017, both targeted to the international markets, have, as the issues of 2015 and 2016, characteristics in line with the provisions of CRD IV and the CRR, are perpetual (with maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and may be redeemed in advance by the issuer respectively after 10 and 7 years from the issue date and on every coupon payment date thereafter.

With regard to the January 2017 issue for 1.25 billion euro, the coupon, payable semi-annually in arrears on 11 January and 11 July of each year, with first payment on 11 July 2017, is equal to 7.75% per annum. With regard to the May 2017 issue for 0.75 billion euro, the issuer will pay a fixed rate coupon of 6.25% per annum, payable semi-annually in arrears on 16 May and 16 November of each year, with first coupon payment on 16 November 2017. For both issues, if the early redemption option is not exercised on 11 January 2027 and 16 May 2024, respectively, a new fixed-rate coupon will be determined for the following five years (until the next recalculation date). As envisaged by the regulations applicable to AT 1 instruments, the payment of coupons for both instruments is discretionary and subject to certain limitations.

Moreover, the offering period relating to the subordinated Tier 2 bond issue targeted to qualified investors and high-net-worth individuals on the domestic market ended on 21 September 2017 with the assignment of a nominal amount of 723.7 million euro. This floating-rate bond has a 7-year duration and will be redeemed in whole at maturity. The coupon, payable quarterly in arrears on 26 March, 26 June, 26 September and 26 December of each year, from 26 December 2017 to 26 September 2024, is equal to 3-month Euribor plus 190 basis points per annum.

Common Equity Tier 1 capital includes the 3.5 billion euro public contribution received to offset the impact of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca; this amount was recognised in the income statement for the period and shall not be considered as a distributable amount. Conversely, net income for the period, net of the abovementioned contribution, was not included in Common Equity Tier 1 capital (just as the relative pro-rata dividend for

the period), since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in Own Funds only when the amount of the net income exceeds the total amount of the planned dividend distribution for the year, equal to 3.4 billion euro for 2017 based on the overall objective of 10 billion euro in cumulative cash dividends as indicated in the 2014-2017 Business Plan.
With regard to the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca, please note that, in calculating the Group's prudential ratios as at 30 September 2017, risk-weighted assets of the acquired operations and the subsidiary banks included in the aggregated scope of the sale contract for which the authorisation process for inclusion in the banking Group had been completed as at 30 September 2017 were taken into consideration. Conversely, the banking subsidiaries for which the authorisation process and related fulfilments were still pending, in the case in point Veneto Banka sh.a. (Albania) and Eximbank s.a. (Moldova), were considered among the elements deducted from own funds.
Based on the foregoing, the Total capital ratio was 17.6%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 14.9%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity ratio) was 13.0%.
You are reminded that, on 12 December 2016, Intesa Sanpaolo received the ECB's final decision regarding the capital requirements to be observed with effect from 1 January 2017, in light of the results of the Supervisory Review and Evaluation Process (SREP). The capital requirement at consolidated level in terms of Common Equity Tier 1 ratio is 7.25% under the transition arrangements in force for 2017 and 9.25% on a fully loaded basis.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

Captions	30.09.2017	31.12.2016
Group Shareholders' equity	53,648	48,911
Minority interests	391	408
Shareholders' equity as per the Balance Sheet	**54,039**	**49,319**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Capital of savings shares eligible for inclusion in AT1	-485	-485
- Other equity instruments eligible for inclusion in AT1	-4,120	-2,121
- Minority interests eligible for inclusion in AT1	-8	-6
- Minority interests eligible for inclusion in T2	-5	-2
- Ineligible minority interests on full phase-in	-333	-356
- Ineligible net income for the period [a]	-2,388	-3,111
- Treasury shares included under regulatory adjustments	96	98
- Other ineligible components on full phase-in	-24	-38
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**46,772**	**43,298**
Regulatory adjustments (including transitional adjustments)	**-8,871**	**-7,372**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**37,901**	**35,926**

[a] Common Equity Tier 1 capital includes the public contribution of 3.5 billion euro recognised in the income statement, received to offset the impact of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca on the capital ratios. Conversely, net income for the period, net of the abovementioned contribution, was not included in Common Equity Tier 1 capital (just as the related pro-rata dividend for the period), since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in Own Funds only when the amount of the net income exceeds the total amount of the planned dividend distribution for the year, equal to 3.4 billion euro for 2017, based on the 2014-2017 Business Plan.

The figures as at 30 September 2017 include assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza and Veneto Banca.