Part F – Information on consolidated capital

SECTION 1 – CONSOLIDATED CAPITAL

A. Qualitative information

The control of capital adequacy both at consolidated level and at single entities level is ensured by capital management which defines the size and optimum combination of the different capital instruments in accordance with regulatory constraints and consistently with the risk exposure taken on by the Group.
The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources, considering this to be an instrument for strategic leverage, as well as a way to ensure consistency of the operating plans of the business units.
Once the Group's strategic profitability, capital soundness and liquidity objectives have been defined, capital and financial resources are allocated to the business units through a process that evaluates their growth potential, capacity to generate value and financial autonomy.
The capital at risk considered is twofold:
– regulatory capital covering Pillar 1 risks;
– overall internal capital covering Pillar 2 risks, for ICAAP purposes.

Regulatory capital and overall internal capital differ from each other by definition and by their coverage of risk categories. The first arises from formats defined in supervisory provisions, the second from operational measurements.
Hence, the capital management activity comprises the management of current and prospective capital adequacy through careful control of both regulatory Pillar 1 constraints (in compliance with Basel 3 rules, effective from 1 January 2014) and operational Pillar 2 constraints. Projections are also produced under stress conditions in order to ensure that the available resources are adequate to cover all risks, even in adverse conditions. Furthermore, since 2013, the Group has been drawing up a Recovery Plan, in line with regulatory indications ("Bank Recovery and Resolution Directive – BRRD" - 2014/59/EU transposed in Italy through Legislative Decree 180 and 181 on 16 November 2015), 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.

Starting from 1 January 2017 (ECB decision of 12 December 2016) the Common Equity Tier 1 ratio to be met was set at 7.25% under the transitional arrangements for 2017, and at 9.25% on a fully loaded basis.
This was the result of: a) the SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is Common Equity Tier 1 ratio, and a 1.5% additional Pillar 2 capital requirement, entirely in terms of Common Equity Tier 1 ratio; b) the additional requirement relating to a Capital Conservation Buffer of 1.25% under the transitional arrangements for 2017 and 2.5% on a fully loaded basis in 2019, and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) requirement of 0% under the transitional arrangements for 2017 and 0.75% on a fully loaded basis in 2021.
As at 31 December 2017 the Common Equity Tier 1 ratio to be met was 7.27% under the transitional arrangements in force for 2017 and 9.27% on a fully loaded basis, also due to the contribution from the additional requirement consisting of the Institution specific Countercyclical Capital Buffer, equal to 0.02% in the fourth quarter of 2017[15].

On 22 December 2017 Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that it has to meet, as of 1 January 2018. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.065% under the transitional arrangements for 2018 and 9.25% on a fully loaded basis.
This is the result of: a) the SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is Common Equity Tier 1 ratio, and a 1.5% additional Pillar 2 capital requirement, entirely in terms of Common Equity Tier 1 ratio; b) the additional requirement relating to a Capital Conservation Buffer of 1.875% under

[15] Calculated taking into account the exposure as at 31 December 2017 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities in force as at 31 December 2017 (this requirement was set to zero per cent for Italy for the fourth quarter of 2017).

the transitional arrangements for 2018 and 2.5% on a fully loaded basis in 2019, and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) requirement of 0.19% under the transitional arrangements for 2018 and 0.75% on a fully loaded basis in 2021.
Considering the additional requirement consisting of the Institution specific Countercyclical Capital Buffer equal to 0.07%[16], based on the latest information available, the Common Equity Tier 1 ratio to be met is 8.135% under the transitional arrangements in force for 2018 and 9.32% on a fully loaded basis.

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	**9,026**	**-**	**196**	**-196**	**9,026**	***294***
Ordinary shares	9,026	-	196	-196	9,026	*294*
Savings shares	-	-	-	-	-	-
Share premium reserve	**26,031**	**-**	**1**	**-1**	**26,031**	***25***
Reserves	**11,040**	**-437**	**-505**	**942**	**11,040**	***119***
Legal reserve	2,065	-	-	-	2,065	-
Extraordinary reserve	1,023	-	-	-	1,023	-
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	7,196	-437	-505	942	7,196	*119*
Other reserves	222	-	-	-	222	-
Equity instruments	**4,103**	**-**	**-**	**-**	**4,103**	**-**
(Treasury shares)	**-84**	**-2**	**-**	**-**	**-86**	***-2***
Valuation reserves:	**-865**	**417**	**5**	**-421**	**-864**	***-75***
Financial assets available for sale	-130	415	-	-	285	*5*
Property and equipment	1,252	-	-	-	1,252	*14*
Intangible assets	-	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-	-
Cash flow hedges	-917	3	-	-	-914	-
Foreign exchange differences	-1,076	-	5	-5	-1,076	*-86*
Non current assets held for sale	-	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans	-694	-1	-	-	-695	*-8*
Share of valuation reserves connected with investments carried at equity	354	-	-	-416	-62	-
Legally-required revaluations	346	-	-	-	346	-
Parent Company's net income (loss) and minority interest	**7,354**	**506**	**-21**	**-485**	**7,354**	***38***
Shareholders' equity	**56,605**	**484**	**-324**	**-161**	**56,604**	***399***

The table above indicates the components of net book value, adding those of the Group to those of third parties, broken down by the type of consolidated company. In further detail, the column for the Banking group indicates the amount resulting from the consolidation of the companies belonging to such group, gross of the effects on the income statement of transactions with other companies within the scope of consolidation. Subsidiaries other than those belonging to the Banking group and consolidated on a line-by-line basis are stated at equity. The columns Insurance companies and Other companies contain the amounts resulting from consolidation, gross of the effects on the income statement of transactions with companies belonging to the Banking group. The columns Netting and Adjustments on consolidation show the adjustments required to obtain the figure represented in the financial statements.

[16] Calculated taking into account the exposure as at 31 December 2017 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities for the period 2018-2019, if available, or at the latest update of the reference period (this requirement was set to zero per cent for Italy for the first quarter of 2018).

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 31.12.2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	518	-453	374	-9	-	-	-374	9	518	-453
2. Equities	213	-102	33	-3	-	-	-33	3	213	-102
3. Quotas of UCI	130	-17	32	-12	-	-	-32	12	130	-17
4. Loans	-	-	-	-	-	-	-	-	-	-
Total as at 31.12.2017	**861**	**-572**	**439**	**-24**	**-**	**-**	**-439**	**24**	**861**	**-572**
Total as at 31.12.2016	**1,064**	**-585**	**524**	**-21**	**-**	**-**	**-524**	**21**	**1,064**	**-585**

The reserve on equities classified as level 1 is negative for about 32 million euro.

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	**107**	**243**	**129**	**-**
2. Positive fair value differences	**436**	**226**	**485**	**-**
2.1 Fair value increases	346	94	141	-
2.2 Reversal to the income statement of negative reserves	42	50	344	-
- impairment	*15*	-	*344*	-
- disposal	*27*	*50*	-	-
2.3 Other changes	48	82	-	-
3. Negative fair value differences	**-478**	**-358**	**-501**	**-**
3.1 Fair value decreases	-277	-209	-417	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to the income statement of positive reserves: disposal	*-168*	*-45*	*-80*	-
3.4 Other changes	-33	-104	-4	-
4. Closing amount	**65**	**111**	**113**	**-**

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.	23,360,324
Purchases	no.	8,590,629
Sales	no.	-5,849,085
End-of-year number	no.	26,101,868

Non-convertible savings shares:
During the year no transactions on savings shares were recorded.

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

During the year the reserves in question recorded a negative change of 39 million euro (32 million euro of which referring to pension funds and 7 million euro to employee termination indemnities). As at 31 December 2017 there was an overall negative reserve equal to approximately 462 million euro for defined benefit plans.

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS FOR BANKS

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.

Own funds and capital ratios were calculated on the basis of the provisions in force (Circulars 285 and 286, both issued during 2013) issued by the Bank of Italy following the implementation of Directive 2013/36/EU (CRD IV) and Regulation (EU) 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.

2.2. Own funds of banks

A. Qualitative information

The new regulatory framework requires that Own Funds (or regulatory capital) are made up of the following tiers of capital:

– Tier 1 capital, in turn composed of:
    - Common Equity Tier 1 Capital (CET1);
    - Additional Tier 1 Capital (AT1);
– Tier 2 capital (T2).

Tier 1’s predominant element is Common Equity, mainly composed of equity instruments (e.g. ordinary shares net of treasury shares), share premium reserves, retained earnings, valuation reserves and eligible minority interests, plus deducted elements.
In order to be eligible for Common Equity, the equity instruments issued must guarantee absorption of losses on going concern, by satisfying the following characteristics:

– maximum level of subordination;
– option for suspending the payment of dividends/coupons at the full discretion of the issuer and in a non-cumulative manner;
– unredeemability;
– absence of redemption incentives.

At present, with reference to the Intesa Sanpaolo Group, no equity instrument other than ordinary shares is eligible for inclusion in Common Equity.
A number of prudential filters are also envisaged with effects on Common Equity:

– filter on profits associated with future margins deriving from securitisations;
– filter on cash flow hedge (CFH) reserves;
– filter on revaluations of the real estate portfolio and of valuable art assets;
– filter on profits or losses on liabilities designated at fair value (derivatives or otherwise) associated with changes in own credit risk (DVA);
– adjustments to fair value assets associated with the “prudent valuation”.

The regulation also envisages a series of elements to be deducted from Common Equity Tier 1:

– goodwill, intangible assets and residual intangible assets;
– deferred tax assets (DTA) associated with future income not deriving from temporary differences (e.g. DTA on losses carried forward);
– expected losses exceeding total credit risk adjustments (the shortfall reserve) for exposures weighted according to IRB approaches;
– net assets deriving from defined benefit plans;
– exposures for which it is decided to opt for deduction rather than a 1.250% weighting among RWA;
– non significant investments in CET1 instruments issued by companies operating in the financial sector (less the amount exceeding the thresholds envisaged in the regulations);
– deferred tax assets (DTA) that rely on future profitability and arise from temporary differences (deducted for the amount exceeding the thresholds envisaged in the regulation);
– significant investments in CET1 instruments issued by companies operating in the financial sector (deducted for the amount exceeding the thresholds envisaged in the regulation).

In general, the AT1 category includes equity instruments other than ordinary shares, meeting the regulatory requirements for inclusion in that level of own funds (e.g. savings shares or the specific issues of Additional Tier 1 instruments).
Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of credit risk adjustments over and above expected losses (the excess reserve) for exposures weighted according to IRB approaches.
Moreover, it has been envisaged that the new regulatory framework (the so-called Basel 3 framework) be introduced gradually over a transitional period, generally until 2017, during which several elements that, when the framework is in full effect, will be eligible for full inclusion in (or deduction from) Common Equity, will only have a partial percent effect on

Common Equity Tier 1 Capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from AT1 or T2, or is considered among risk-weighted assets.
Specific transitional provisions 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).

The main contractual characteristics of the financial instruments included in Common Equity Tier 1 – CET 1, in the Additional Tier 1 – AT1 and in the Tier 2 –T2, respectively, are summarised below. A distinction is also made between the financial instruments that are subject to grandfathering and other eligible financial instruments.

For a detailed analysis of the contractual characteristics of the issued subordinated instruments such as, for example, the duration, remuneration, etc., please see the information in the "Basel 3 – Pillar 3 Disclosure".

1. Common Equity Tier 1 Capital (CET1)
The Common Equity Tier 1 only includes listed ordinary shares, for an amount equal to 34,738 million euro, including 26,006 million euro of share premium reserve.

2. Additional Tier 1 Capital (AT1)
The Additional Tier 1 includes listed savings shares for 485 million euro, in addition to the subordinated liabilities listed below.

Additional Tier 1 Capital (AT1) equity instruments eligible for grandfathering

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	up to 14/10/2019: 8.375% fixed rate; thereafter 3-month Euribor + 687 bps/year	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	YES	1,500,000,000	484
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	YES	1,250,000,000	378
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	YES	250,000,000	163
Total Additional Tier 1 instruments subject to transitional provisions									**1,025**
Intesa Sanpaolo	6,25% fixed rate	NO	16-May-2017	perpetual	16-May-2024	Eur	NO	750,000,000	750
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	19-Jan-2016	perpetual	19-Jan-2021	Eur	NO	1,250,000,000	1,250
Intesa Sanpaolo	7.75% fixed rate (up to the first call date)	NO	11-Jan-2017	perpetual	11-Jan-2027	Eur	NO	1,250,000,000	1,250
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	17-Sep-2015	perpetual	17-Sep-2025	Usd	NO	1,000,000,000	871
Total Additional Tier 1 instruments not subject to transitional provisions									**4,121**
Total Additional Tier 1 equity instruments									**5,146**

3. Tier 2 capital (T2).

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo (*)	8.375% fixed rate up to 14/10/2019; thereafter 3-month Euribor + 687 bps/p.a.	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	YES	1,500,000,000	247
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	YES	1,250,000,000	193
Intesa Sanpaolo (*)	8.698% up to 24/9/2018 excluded; thereafter 3-month Euribor 3 + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Eur	YES	250,000,000	83
Intesa Sanpaolo	quarterly interests according to the formula (3-month Euribor + 2%)/4	NO	31-Mar-2011	31-Mar-2018	NO	Eur	YES	373,400,000	5
Intesa Sanpaolo	up to 18/3/2019 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	YES	165,000,000	13
Total Tier 2 capital instruments subject to transition requirements									**541**
Intesa Sanpaolo	3-month Euribor + 1,9%/4	NO	26-Sep-2017	26-Sep-2024	NO	Eur	NO	724,000,000	724
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,636
Intesa Sanpaolo	6,6625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	1,409
Intesa Sanpaolo	5,71% fixed	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,236
Intesa Sanpaolo	3.928% fixed rate	NO	15-Sep-2014	15-Sep-2026	NO	Eur	NO	1,000,000,000	980
Intesa Sanpaolo	3-month Euribor + 237 bps/4	NO	30-Jun-2015	30-Jun-2022	NO	Eur	NO	781,962,000	704
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	468
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	NO	1,500,000,000	362
Intesa Sanpaolo	2,855% fixed rate	NO	23-Apr-2015	23-Apr-2025	NO	Eur	NO	500,000,000	480
Intesa Sanpaolo	6.625% fixed rate	NO	08-May-2008	08-May-2018	NO	Eur	NO	1,250,000,000	59
Intesa Sanpaolo	5.75% fixed rate; from 28/05/2013 3-month Euribor +1.98%	YES	28-May-2008	28-May-2018	NO	Eur	NO	1,000,000,000	20
Intesa Sanpaolo	6.16 % fixed rate	NO	27-Jun-2008	27-Jun-2018	NO	Eur	NO	120,000,000	12
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	NO	Eur	NO	500,000,000	11
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	NO	Eur	NO	750,000,000	4
Total Tier 2 capital instruments not subject to transition requirements									**8,105**
Total Tier 2 capital instruments									**8,646**

(*) Instrument subject to"Grandfathering" in Additional Tier 1 capital, portion subject to cap pursuant to Art. 486 of EU Regulation 575/2013 (CRR).

B. Quantitative information

(millions of euro)

	31.12.2017	31.12.2016
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**48,219**	**43,298**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**-1,272**	**-808**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**46,947**	**42,490**
D. Items to be deducted from CET 1	**-10,176**	**-7,670**
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional adjustments	**1,280**	**1,106**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**38,051**	**35,926**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**5,640**	**3,842**
of which AT1 instruments subject to transitional adjustments	1,025	1,230
H. Items to be deducted from AT1	**-**	**-**
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 pursuant to transitional adjustments	**-226**	**-309**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**5,414**	**3,533**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**8,776**	**9,154**
of which T2 instruments subject to transitional adjustments	541	410
N. Items to be deducted from T2	**-821**	**-152**
O. Transitional period - Impact on T2 (+ / -), including instruments issued by subsidiaries and included in T2 pursuant to transitional adjustments	**-47**	**-187**
P. Total Tier 2 (T2) (M - N +/- O)	**7,908**	**8,815**
Q. Total own funds (F + L + P)	**51,373**	**48,274**

Consolidated own funds benefited from the regulation which permits the gradual recognition in the regulatory capital of the effects deriving from application of IAS 19 as entered into force from 1 January 2013.
The amount of the “prudential filter” under the actuarial profits (losses) reserve on the defined benefit pension plans, negative for about 687 million euro, equals around 241 million euro.

The specific valuation reserve as part of the shareholder’s equity totalling 1,252 million euro following the amendment to the accounting standard for properties and valuable art assets was subjected to the “prudential filter” when applying the national discretion for the properties under Bank of Italy Circular 285 of 17 December 2013.
The amount of this reserve was recognised in CET 1 for about 991 million euro and in Tier 2 capital for about 138 million euro.

The tables below show the changes in Own Funds.

Common Equity Tier 1 Capital and Additional Tier 1 Capital

(millions of euro)

INFORMATION	31.12.2017	31.12.2016
Common Equity Tier 1 capital (CET1) - Beginning of the period[a]	**35,926**	**36,908**
Common Equity Tier 1 capital (CET1) before regulatory adjustments (beginning of the period)	**43,298**	**44,134**
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	-	-
Share premium reserve	-1,343	-
Reserves [a]	1,378	-4
Accumulated other comprehensive income (b)	1,064	-836
Allocation of previous period loss	-	-
Net income for the year	7,316	3,111
Non-eligible net income for the year	-	-3,111
Dividends distributed during the period	-	-
Dividends to be distributed [c]	-3,500	-
Minority interests	6	4
Common Equity Tier 1 capital (CET1) before regulatory adjustments (end of the period)	**48,219**	**43,298**
Total regulatory adjustments to Common Equity Tier 1 capital (CET1) - (beginning of the period)	**-8,478**	**-8,683**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	4	-30
Goodwill	104	66
Other intangible assets	-281	-31
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,262	60
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-507	276
Defined benefit pension funds assets	-	-
Prudential filters	-299	2
- of which Cash Flow Hedge Reserves	*-146*	*1*
- of which Gains or Losses due to change in own credit risk (DVA)	*-89*	*13*
- of which Prudent valuation adjustements	*-64*	*-12*
- of which Other prudential filters	*-*	*-*
Exposures to securitisations deducted rather than risk weighted at 1250%	-137	-115
CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-
Deductions with 10% threshold	-28	48
- of which Deferred tax assets (DTA) that rely on future profitability and arise from temporary differences	*-*	*-*
- of which CET1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	*-28*	*48*
Deductions with 17.65% threshold [d]	-560	-
Positive or negative items - other	-4	-71
Total regulatory adjustments to Common Equity Tier 1 capital (CET1) - (end of the period)	**-11,448**	**-8,478**
Total adjustments in the transitional period (CET1) - (beginning of the period)	**1,106**	**1,457**
Changes in adjustments in the transitional period	174	-351
Total adjustments in the transitional period (CET1) - (end of the period)	**1,280**	**1,106**
Common Equity Tier 1 capital (CET1) - (end of the period)	**38,051**	**35,926**

Additional Tier 1 capital (AT1) - beginning of the period	**3,533**	**2,302**
Additional Tier 1 capital (AT1) before regulatory adjustments - (beginning of the period)	**2,612**	**1,364**
Additional Tier 1 capital (AT1)		
Savings shares	-	-
Other AT1 instruments	2,000	1,250
Minority interests	3	-2
Additional Tier 1 capital (AT1) before regulatory adjustments - (end of the period)	**4,615**	**2,612**
Total regulatory adjustments to Additional Tier 1 capital (AT1) - (beginning of the period)	**-**	**-**
Additional Tier 1 capital (AT1) : Regulatory adjustments		
AT1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-
AT1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-	-
Positive or negative items - other	-	-
Total regulatory adjustments to Additional Tier 1 capital (AT1) - (end of the period)	**-**	**-**
Total adjustments in the transitional period including minority interests (AT1) - (beginning of the period)	**-309**	**-497**
Changes in adjustments in the transitional period	83	188
Total adjustments in the transitional period including minority interests (AT1) - (end of the period)	**-226**	**-309**
AT1 instruments eligible for grandfathering - (beginning of period)	**1,230**	**1,435**
Change in AT1 instruments eligible for grandfathering	-205	-205
AT1 instruments eligible for grandfathering - (end of period)	**1,025**	**1,230**
Additional Tier 1 capital (AT1) - end of the period	**5,414**	**3,533**
TIER 1 CAPITAL (Tier 1 = CET1 + AT1)	**43,465**	**39,459**

[a] Portion eligible in CET1.

[b] The caption "Accumulated other comprehensive income" includes an increase equal to about 1,234 million euro relating to the fair value measurement of the properties and valuable art assets.

[c] As at 31 December 2017, the figure considers the dividends on 2017 results, the portion of the remuneration of the AT1 instruments issued at the date and the portion of 2017 income allocated to charity, net of the tax effect.

[d] The deductions reported refer solely to DTAs and material investments not deducted in the 10% threshold.

Development of Own Funds - Tier 2 Capital

(millions of euro)

INFORMATION	31.12.2017	31.12.2016
Tier 2 Capital (T2) - beginning of the period	**8,815**	**8,089**
Tier 2 Capital (T2) before regulatory adjustments - (beginning of the period)	**8,744**	**7,603**
Tier 2 Capital (T2)		
T2 instruments	-398	906
Minority interests	3	-4
Excess of provisions over expected losses eligible (excess reserve)	-114	239
Tier 2 capital (T2) before regulatory adjustments - (end of the period)	**8,235**	**8,744**
Total regulatory adjustments to Tier 2 capital (T2) - (beginning of the period)	**-152**	**-152**
Tier 2 capital (T2): Regulatory adjustments		
T2 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-
T2 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-669	-
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 capital (T2) - (end of the period)	**-821**	**-152**
Total adjustments in the transitional period including minority interests (T2) - (beginning of the period)	**-187**	**-239**
Changes in adjustments in the transitional period	140	52
Total adjustments in the transitional period including minority interests (T2) - (end of the period)	**-47**	**-187**
T2 instruments eligible for grandfathering - (beginning of period)	**410**	**877**
Change in T2 instruments eligible for grandfathering	131	-467
T2 instruments eligible for grandfathering - (end of period)	**541**	**410**
Tier 2 Capital (T2) - (end of the period)	**7,908**	**8,815**
TOTAL CAPITAL (TC = T1 + T2)	**51,373**	**48,274**

2.3. Capital adequacy

A. Qualitative information

According to the regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 and subsequent amendments), which adopt the provisions on capital measurement and capital ratios (Basel 3), the Banking Group’s total own funds must amount to at least 10.77% of total risk-weighted assets (total capital ratio including the minimum requirement for Pillar 1, the additional Pillar 2 requirement equal to 1.5%, and capital conservation buffer, equal to 1.25% under the transitional arrangements in force for 2017, and the Institution specific Countercyclical Capital Buffer, equal to 0.02% in the fourth quarter of 2017) 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 and the decrease in operational risks following insurance coverage. The competent authorities, as part of the Supervisory Review and Evaluation Process (SREP), may require higher capital requirements compared to those resulting from the application of the regulatory provisions.

In order to calculate the capital requirements at Consolidated level, the Group was authorised to use internal models for credit, counterparty, market, and operational risks. For additional information reference should be made to Part E of these Notes, paragraph “Basel 3 regulations and the Internal Project” and to the disclosure required by Basel 3 (so-called “Pillar 3”).

As already illustrated in Section 2.2 on “Own funds of banks” above, the total regulatory capital is made up of the algebraic sum of the elements specified below:
- Tier 1 Capital (capable of absorbing losses under going concern conditions). This capital is divided into Common Equity Tier 1 Capital and Additional Tier 1 Capital;
- Tier 2 Capital (capable of absorbing losses in the event of a crisis).

The elements indicated above are subject to the following limits:
- Common Equity Tier 1 must at all times be equal to at least 4.5% of risk-weighted assets;
- Tier 1 Capital must at all times be equal to at least 6% of risk-weighted assets;
- Own funds (i.e. the total regulatory capital), equal to Tier 1 plus Tier 2 capital, must at all times be equal to at least 8.0% of risk-weighted assets.

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.

Starting from 1 January 2017 (ECB decision of 12 December 2016) the Common Equity Tier 1 ratio to be met was set at 7.25% under the transitional arrangements for 2017, and at 9.25% on a fully loaded basis.
This was the result of: a) the SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is Common Equity Tier 1 ratio, and a 1.5% additional Pillar 2 capital requirement, entirely in terms of Common Equity Tier 1 ratio; b) the additional requirement relating to a Capital Conservation Buffer of 1.25% under

the transitional arrangements for 2017 and 2.5% on a fully loaded basis in 2019, and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) requirement of 0% under the transitional arrangements for 2017 and 0.75% on a fully loaded basis in 2021.
As at 31 December 2017 the Common Equity Tier 1 ratio to be met was 7.27% under the transitional arrangements in force for 2017 and 9.27% on a fully loaded basis, also due to the contribution from the additional requirement consisting of the Institution specific Countercyclical Capital Buffer, equal to 0.02% in the fourth quarter of 2017[17].

On 22 December 2017 Intesa Sanpaolo received the ECB’s final decision concerning the capital requirement that it has to meet, as of 1 January 2018. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.065% under the transitional arrangements for 2018 and 9.25% on a fully loaded basis.
This is the result of: a) the SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is Common Equity Tier 1 ratio, and a 1.5% additional Pillar 2 capital requirement, entirely in terms of Common Equity Tier 1 ratio; b) the additional requirement relating to a Capital Conservation Buffer of 1.875% under the transitional arrangements for 2018 and 2.5% on a fully loaded basis in 2019, and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) requirement of 0.19% under the transitional arrangements for 2018 and 0.75% on a fully loaded basis in 2021.
Considering the additional requirement consisting of the Institution specific Countercyclical Capital Buffer equal to 0.07%[18], based on the latest information available, the Common Equity Tier 1 ratio to be met is 8.135% under the transitional arrangements in force for 2018 and 9.32% on a fully loaded basis.

For the sake of completeness, please note that Directive 2013/36/EU (CRD IV) establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the Institution specific Countercyclical Capital Buffer (CCyB) starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Italy with Bank of Italy circular no. 285, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical ratio (relating to the exposures towards Italian counterparties) for the first three months of 2018 at 0%.

[17] Calculated taking into account the exposure as at 31 December 2017 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities in force as at 31 December 2017 (this requirement was set to zero per cent for Italy for the fourth quarter of 2017).

[18] Calculated taking into account the exposure as at 31 December 2017 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities for the period 2018-2019, if available, or at the latest update of the reference period (this requirement was set to zero per cent for Italy for the first quarter of 2018).

B. Quantitative information

	31.12.2017		31.12.2016	
	Unweighted amounts (*)	**Weighted amounts/ requirements**	**Unweighted amounts (*)**	**Weighted amounts/ requirements**
A. RISK ASSETS				
A.1 Credit and counterparty risk	**624,979**	**248,839**	**571,335**	**242,312**
1. Standardised approach	260,095	103,122	270,507	114,333
2. Internal rating based approach	355,616	142,470	291,705	123,656
2.1 Basic	*3,577*	*7,550*	*2,842*	*6,622*
2.2 Advanced	*352,039*	*134,920*	*288,863*	*117,034*
3. Securitisations	9,268	3,247	9,123	4,323
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risks		**19,907**		**19,385**
B.2 Credit valuation adjustment risk		**76**		**83**
B.3 Settlement risk		**-**		**-**
B.4 Market risk		**1,426**		**1,536**
1. Standardised approach		208		130
2. Internal models		1,218		1,406
3. Concentration risk		-		-
B.5 Operational risk		**1,488**		**1,563**
1. Basic indicator approach		61		39
2. Standardised approach		186		224
3. Advanced measurement approach		1,241		1,300
B.6 Other calculation elements		**49**		**146**
B.7 Total capital requirements		**22,946**		**22,713**
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets		**286,825**		**283,918**
C.2 Common Equity Tier 1 /Risk-weighted assets (CET1 capital ratio)		**13.3%**		**12.7%**
C.3 Tier 1 Capital / Risk-weighted assets (Tier 1 capital ratio)		**15.2%**		**13.9%**
C.4 Total own funds / Risk-weighted assets (Total capital ratio)		**17.9%**		**17.0%**

(*) In the case of the standardised approach, "unweighted amounts" correspond – in accordance with regulatory provisions – to the exposure value, which takes into account prudential filters, risk mitigation techniques and credit conversion factors. In the case of the internal rating based approach, "unweighted amounts" correspond to "exposure at default" (EAD). For guarantees given and commitments to disburse funds, credit conversion factors are also included when determining EAD.

The validated risk profiles for market risks are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) position risk on dividend derivatives and (iv) position risk on commodities for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

The Supervisory Authority authorised the Group to extend the internal model to specific risk on debt securities from the third quarter of 2012.

Effective from June 2014, market risks are to be reported according to the internal model for capital requirements for the Parent Company's hedge fund portfolios.

Starting from 1 July 2014, the capital requirements deriving from the use of internal models will benefit from the reduction in the prudential multipliers established by the Surveillance Body following completion of the previously recommended corrective actions.

In compliance with the recommendation of the Financial Stability Board, the Basel Committee on Banking Supervision developed a methodology to identify the Global Systemically Important Banks ("G-SIBs") subject to additional requirements to absorb the losses starting from 1 January 2016.
The Committee has included since 2013 a new obligation of minimum disclosure of the 12 indicators used in the assessment methodology for the banks with a leverage ratio exposure measure at the end of the year exceeding 200 billion euro and for those which though being below this threshold - were designated as G-SIBs in the year before the reference one, or were added based on the judgement of the national Supervisory Authority.
Based on the provisions of the Financial Stability Board, for Italian banks with a leverage ratio exposure measure exceeding 200 billion euro – like the Intesa Sanpaolo Group - the Bank of Italy has envisaged the obligation of publication on their website of the information concerning the 12 significant indicators. The publication will take place within the terms provided at the link www.group.intesasanpaolo.com

SECTION 3 – REGULATORY CAPITAL AND CAPITAL RATIOS FOR INSURANCE COMPANIES

The insurance companies controlled solely by the Intesa Sanpaolo Group and subject to insurance supervision are:

- Intesa Sanpaolo Vita;
- Intesa Sanpaolo Life;
- Intesa Sanpaolo Assicura;
- Fideuram Vita.

The new Solvency II framework of prudential supervision regulations, applicable to the entire European insurance segment, came into force on 1 January 2016. The new regulatory framework completely revised the calculation method for synthetic indicators to measure the solvency of insurance companies.

For 2017, the Group's insurance companies implemented all the new obligations required in that regard by the calendar for sending data reports to the Supervisory Authorities IVASS. The main data included in these reports concerned Eligible Own Funds, the Solvency Capital Requirement (SCR) and the Solvency Ratio.

Intesa Sanpaolo Vita calculates the aggregate Solvency Ratio for the insurance companies as the Parent Company of the Insurance Group within the Intesa Sanpaolo Banking Group. Based on Art. 96 of Legislative Decree 209/2005 (the Insurers' Code), Intesa Sanpaolo Vita is also required to prepare the "consolidated aggregate" financial statements of the Insurance Group that includes Intesa Sanpaolo Assicura and Intesa Sanpaolo Life, inasmuch as they are 100% subsidiaries, and Fideuram Vita, inasmuch as it is subject to unitary management in accordance with the insurers' code.

As at 31 December 2017, the Intesa Sanpaolo Vita Group had a solvency ratio of 236%, understood as the ratio of Group eligible own funds to the solvency capital requirement, both calculated according to Solvency II.
The figure corresponds to what is expected to be sent to the Supervisory Authority with reference to the fulfilment relating to the fourth quarter of 2017.

Lastly, on 07 November 2017, the Ordinary Shareholders' Meeting of Intesa Sanpaolo Vita resolved to distribute a portion of other shareholders' equity reserves in the amount of around 256 million euro. The dividends were paid on 14 November 2017, according to the terms decided.

SECTION 4 – THE CAPITAL ADEQUACY OF THE FINANCIAL CONGLOMERATE

(millions of euro)

	Amounts
A. Financial conglomerate amount	55,064
B. Capital requirements for banking elements	30,211
C. Solvency margins for insurance elements	3,382
D. Total capital requirements of the financial conglomerate (B+C)	**33,593**
E. Financial conglomerate surplus (defincit) (A-D)	**21,471**

The Intesa Sanpaolo Group operates as a financial conglomerate that engages in universal banking activity and insurance services.
As at 31 December 2017 the capital of the Intesa Sanpaolo financial conglomerate exceeded its capital requirements, defined as the conglomerate's capital needs, by 21,471 million euro. For the purpose of calculating the capital requirements of the banks, a Total Capital Ratio of 10.77% was considered, as taken from the outcomes of the Supervisory Review and Evaluation Process (SREP) for 2017.
According to Art. 62 – Transitional provisions of IVASS Measure no. 53/2016, the figures regarding the Solvency Capital Requirement and the Minimum Capital Requirement used to calculate the Solvency Ratio are to be understood as estimates. The final figures will be reported to the supervisory authority and included in the Solvency and Financial Condition Report (SFCR) drawn up by the Parent Company of the Insurance Group Intesa Sanpaolo Vita according to the timeline set out in the IVASS regulation on Solvency II.