

Shareholders' equity

As at 30 September 2010, the Group's shareholders' equity, including net income for the period, came to 52,978 million euro compared to the 52,681 million euro at the end of the previous year. The change in shareholders' equity was primarily due to the performance of reserves and the distribution of the 2009 dividend. No changes in share capital occurred in the first nine months of the year.

Valuation reserves

	Valuation reserves as at 31.12.2009	Change in the period	Valuation reserves as at 30.09.2010 (millions of euro)	
				% breakdown
Financial assets available for sale	-135	-181	-316	27.9
Property and equipment	-	-	-	-
Cash flow hedges	-451	-465	-916	80.8
Legally-required revaluations	343	-	343	-30.2
Other	-187	-58	-245	21.5
Valuation reserves	-430	-704	-1,134	100.0

Valuation reserves increased their negative balance, reaching -1,134 million euro as at 30 September 2010 compared to -430 million euro at the end of 2009. The deterioration may be attributed to cash flow hedges (change for the period of 465 million euro), and financial assets available for sale (-181 million euro). Reserves recognised in accordance with special revaluation laws remained unchanged.

Regulatory capital

Regulatory capital and related capital ratios as at 30 September 2010 have been determined by applying the Bank of Italy's instructions in accordance with Basel 2 provisions.

The Intesa Sanpaolo Group has been using the Foundation Internal Rating Based (FIRB) approach to calculate capital requirements credit risk with reference to the regulatory portfolio Exposures to corporates since 31 December 2008. In addition, in early 2010 the Intesa Sanpaolo Group received authorisation to use the internal AMA to determine capital requirements for operational risks effective from reporting as at 31 December 2009.

Moreover, the Bank of Italy has authorised the Group to use the internal approach to determine the credit risk requirement relating to the regulatory segment of residential mortgages for private individuals effective 30 June 2010.

Regulatory capital and capital ratios	30.09.2010	31.12.2009
Regulatory capital		
Tier 1 capital	31,680	30,205
<i>of which: preferred shares</i>	4,500	4,499
Tier 2 capital	16,305	15,472
Minus items to be deducted	-3,576	-2,923
REGULATORY CAPITAL	44,409	42,754
Tier 3 subordinated loans	-	-
TOTAL REGULATORY CAPITAL	44,409	42,754
Risk-weighted assets		
Credit and counterparty risks	310,345	316,258
Market risks	15,669	16,804
Operational risks	28,507	28,113
Other risks	449	473
RISK-WEIGHTED ASSETS	354,970	361,648
Capital ratios %		
Core Tier 1 ratio	7.7	7.1
Tier 1 ratio	8.9	8.4
Total capital ratio	12.5	11.8

In compliance with the provisions of the Bank of Italy Circular 263/2006, in the calculation of capital ratios, elements to be deducted from total regulatory capital have been deducted separately and for an equal amount from Tier 1 and Tier 2 capital, with the exception of the contributions deriving from the insurance business that refer to contracts which arose prior to 20 July 2006, and as such continue to be deducted from total capital.

As at 30 September 2010, total regulatory capital came to 44,409 million euro, compared to risk-weighted assets of 354,970 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk. Regulatory capital takes into account ordinary operations and an estimate of the dividends to be paid out on net income for 2010, the amount of which has been determined on a conventional basis as three fourths of the dividends distributed on the 2009 net income (774 million euro of the total 1,033 million euro).

All capital ratios improved compared to 31 December 2009. The Total capital ratio stood at 12.5%, while the Group's Tier 1 ratio was 8.9%. The ratio of Tier 1 capital net of preferred shares to risk-weighted assets (Core Tier 1) was 7.7%.

The improvement in ratios compared to 31 December 2009 was the result not only of ordinary operations, but also of the sale of the securities services business (+37 basis points on the Core Tier 1 ratio) and the application of the internal approach to determine capital requirements for residential mortgages for private individuals following authorisation from the Bank of Italy (+13 basis points on the Core Tier 1 ratio). The acquisition of the Monte dei Paschi di Siena branches and the purchase of 50% of Intesa Vita had a negative impact (respectively, -7 and -11 basis points on the Core Tier 1). Regarding the latter transaction, in the statements as at 30 September 2010 accounting according to IFRS 3 was provisional, and therefore also the impact on regulatory capital could change slightly in the final accounting on closing of the Annual Report 2010.

Lastly, the Bank of Italy, in a Regulation issued on 18 May 2010, provided new supervisory instructions concerning the prudential treatment of reserves associated with debt securities issued by the central governments of EU countries and classified among "Financial assets available for sale". In particular, the Regulation allows the capital gains and losses recognised through such reserves associated with the foregoing securities to be completely neutralised effective 1 January 2010, as an alternative to the already established asymmetrical approach (full deduction of the net capital loss from Tier 1 capital and partial inclusion of the net capital gain in Tier 2 capital). The Intesa Sanpaolo Group has elected to apply this approach. Accordingly, the regulatory capital and capital ratios as at 30 September 2010 account for this measure (the effect on the Core Tier 1 ratio is +7 basis points).