

Shareholders' equity

As at 30 June 2012, the Group's shareholders' equity, including net income for the year, came to 47,998 million euro compared to the 47,040 million euro at the end of the previous year. The change in shareholders' equity, amounting to approximately 1 billion euro, was mainly due to the dividend for 2011 distributed from the extraordinary reserve, to the net income for the period and to the 594 million euro reduction in the negative balance of valuation reserves.

Valuation reserves

	Valuation reserves as at 31.12.2011	Change in the period	Valuation reserves as at 30.06.2012	(millions of euro) % breakdown
Financial assets available for sale	-2,352	777	-1,575	58.2
<i>of which: Insurance Companies</i>	-975	581	-394	14.6
Property and equipment	-	-	-	-
Cash flow hedges	-933	-195	-1,128	41.7
Legally-required revaluations	344	3	347	-12.8
Other	-357	9	-348	12.9
Valuation reserves	-3,298	594	-2,704	100.0

As at 30 June 2012 the negative balance of the Group's share of valuation reserves fell to 2,704 million euro from 3,298 million euro reported at the end of 2011. The change for the period was mainly attributable to the appreciation in value of financial assets available for sale (+777 million euro), particularly debt securities held in the insurance companies' portfolios. Cash flow hedges recorded a change of -195 million euro. Other reserves and legally required revaluation reserves recorded marginal increases.

Regulatory capital

Regulatory capital and capital ratios	30.06.2012	31.12.2011
Regulatory capital		
Tier 1 capital	37,034	37,295
<i>of which: instruments not included in Core Tier 1 ratio (*)</i>	3,272	4,498
Tier 2 capital	11,196	12,201
Minus items to be deducted (**)	-3,273	-3,144
REGULATORY CAPITAL	44,957	46,352
Tier 3 subordinated loans	-	-
TOTAL REGULATORY CAPITAL	44,957	46,352
Risk-weighted assets		
Credit and counterparty risks	263,427	277,498
Market risks	18,764	17,488
Operational risks	24,880	24,825
Other risks (***)	9,386	5,395
RISK-WEIGHTED ASSETS	316,457	325,206
Capital ratios %		
Core Tier 1 ratio	10.7	10.1
Tier 1 ratio	11.7	11.5
Total capital ratio	14.2	14.3

(*) This caption includes preferred shares, savings shares and preference ordinary shares.

(**) 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 continue to be deducted from total capital.

(***) In relation to risk-weighted assets, this caption includes further specific capital requirements as provided for by the Supervisory Authority to the various Group entities. It also includes the supplement for the floor relating to the calculation of capital requirements for the credit risk according to IRB approaches.

As at 30 June 2012, total regulatory capital came to 44,957 million euro, compared to risk-weighted assets of 316,457 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.

The decrease in risk weighted assets recorded in the half year is mainly attributable to ordinary business activities, optimisation processes and – following Supervisory Authority approval - the elimination/decrease in specific capital requirements for certain subsidiaries and extension of the use of internal models within the Group. These effects were partly counterbalanced by the increase (in absolute terms) from integration of the floor imposed by the Supervisory Authority in relation to the calculation of the requirement according to internal methods.

Regulatory capital takes account of ordinary operations and includes an estimate of the dividends to be paid on 2012 net income, the amount of which has been determined on a conventional basis as half of the "dividend" proposed for the year 2011 (through the distribution of reserves) corresponding to 0.05 euro per ordinary and savings share.

The Total capital ratio stood at 14.2%, while the Group's Tier 1 ratio was 11.7%. The ratio of Tier 1 capital net of ineligible instruments to risk-weighted assets (Core Tier 1) was 10.7%.

Lastly, in a Regulation published on 18 May 2010, the Bank of Italy 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 June 2012 account for this measure (the effect on the Core Tier 1 ratio is +28 basis points).