

Shareholders' equity

As at 30 September 2012, the Group's shareholders' equity, including net income for the period, came to 49,185 million euro compared to the 47,040 million euro at the end of the previous year. The increase in shareholders' equity of 2.1 billion euro derives from the net income accrued during the period and the reduction of the negative balance of valuation reserves, which fell by 1.3 billion euro, and takes account of the distribution of reserves approved by the Shareholders' meeting in May. No changes in share capital occurred in the first nine months of the year.

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2011	Change in the period	Valuation reserves as at 30.09.2012	% breakdown
Financial assets available for sale	-2,352	1,617	-735	37.6
<i>of which: Insurance Companies</i>	-975	902	-73	3.7
Property and equipment	-	-	-	-
Cash flow hedges	-933	-301	-1,234	63.1
Legally-required revaluations	344	3	347	-17.7
Other	-357	24	-333	17.0
Valuation reserves	-3,298	1,343	-1,955	100.0

As at 30 September 2012 the negative balance of the Group's share of valuation reserves fell to 1,955 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 (+1.6 billion euro), particularly debt securities held in the insurance companies' portfolios. Cash flow hedges recorded a change of -301 million euro. Other reserves and legally required revaluation reserves recorded marginal increases.

Regulatory capital

	(millions of euro)	
Regulatory capital and capital ratios	30.09.2012	31.12.2011
Regulatory capital		
Tier 1 capital	36,675	37,295
<i>of which: instruments not included in Core Tier 1 ratio (*)</i>	2,546	4,498
Tier 2 capital	10,857	12,201
Minus items to be deducted (**)	-3,356	-3,144
REGULATORY CAPITAL	44,176	46,352
Tier 3 subordinated loans	-	-
TOTAL REGULATORY CAPITAL	44,176	46,352
Risk-weighted assets		
Credit and counterparty risks	261,203	277,498
Market risks	18,406	17,488
Operational risks	24,880	24,825
Other risks (***)	2,726	5,395
RISK-WEIGHTED ASSETS	307,215	325,206
Capital ratios %		
Core Tier 1 ratio	11.1	10.1
Tier 1 ratio	11.9	11.5
Total capital ratio	14.4	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 September 2012, total regulatory capital came to 44,176 million euro, compared to risk-weighted assets of 307,215 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 during the nine months is mainly attributable to ordinary business operations, optimisation processes, the reduction of the floor established in prudential regulations, following authorisations received from the Supervisory Authority, the elimination or decrease in specific capital requirements for certain subsidiaries and the extension of the use of internal models within the Group. The decrease may also be attributed to the contraction of lending and its different composition for the purposes of capital absorption.

Regulatory capital takes account of ordinary operations as well as the buy back of subordinated securities, 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 three-quarters 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 14.4%, while the Group's Tier 1 ratio was 11.9%. The ratio of Tier 1 capital net of ineligible instruments to risk-weighted assets (Core Tier 1) was 11.1%.

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 September 2012 account for this measure (the effect on the Core Tier 1 ratio is +15 basis points).