

Shareholders' equity

As at 31 March 2013, the Group's shareholders' equity, including net income for the period, came to 49,377 million euro compared to the 49,320 million euro at the end of the previous year. The change in shareholders' equity was primarily due to the performance of reserves, which include the net income accrued in 2012 and not yet distributed, as well as the net income accruing in 2013. No changes in share capital occurred during the quarter.

Valuation reserves

	Valuation reserves as at 31.12.2012	Change in the period	Valuation reserves as at 31.03.2013	(millions of euro) % breakdown
Financial assets available for sale	-59	-265	-324	17.1
<i>of which: Insurance Companies</i>	221	-89	132	-7.0
Property and equipment	-	-	-	-
Cash flow hedges	-1,306	95	-1,211	64.0
Legally-required revaluations	351	8	359	-19.0
Other	-678	-40	-718	37.9
Valuation reserves	-1,692	-202	-1,894	100.0

As at 31 March 2013 the negative balance of the Group's share of valuation reserves increased to -1,894 million euro from -1,692 million euro reported at the end of 2012. The change for the period was attributable to the decrease in value of financial assets available for sale (-265 million euro), particularly debt securities and equities. Cash flow hedges showed an improvement of 95 million euro. By contrast, other reserves registered a decrease of 40 million euro, while legally-required revaluation reserves underwent marginal change.

Regulatory capital

	31.03.2013	31.12.2012
Regulatory capital and capital ratios		
Regulatory capital		
Tier 1 capital	34,455	36,013
<i>of which: instruments not included in Core Tier 1 ratio (*)</i>	2,544	2,544
Tier 2 capital	6,126	8,141
Minus items to be deducted (**)	-	-3,410
REGULATORY CAPITAL	40,581	40,744
Tier 3 subordinated loans	-	-
TOTAL REGULATORY CAPITAL	40,581	40,744
Risk-weighted assets		
Credit and counterparty risks	248,668	253,309
Market risks	19,475	18,427
Operational risks	25,734	25,745
Other risks (***)	3,781	1,138
RISK-WEIGHTED ASSETS	297,658	298,619
Capital ratios %		
Core Tier 1 ratio	10.7	11.2
Tier 1 ratio	11.6	12.1
Total capital ratio	13.6	13.6

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

(**) Effective from 1 January 2013, the elements of an insurance nature previously deducted from total regulatory capital have instead been deducted from tier 1 and tier 2 capital (at 50% each), on a par with the other elements deducted, according to the specific indications contained in Bank of Italy Circulars 155 and 263.

(***) 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.

Regulatory capital and related capital ratios as at 31 March 2013 have been determined in accordance with Basel 2 provisions, by applying the Bank of Italy's instructions.

As at 31 March 2013, total regulatory capital came to 40,581 million euro, compared to risk-weighted assets of 297,658 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.

The decrease in risk-weighted assets posted during the quarter is primarily attributable to ordinary operations and optimisation processes. The decrease was partially offset by the greater impact of the floor for calculating capital requirements for credit risk according to the AIRB approach.

With respect to regulatory capital, it should be noted that effective 1 January 2013 the option granted by the Bank of Italy allowing for the deduction of insurance investments made prior to July 2006 from total regulatory capital is no longer in force. Accordingly, effective reports as at 31 March 2013, such investments are included 50% among deductions from Tier 1 capital and the remaining 50% among deductions from Tier 2 capital; the pro-forma effect, on the basis of the figures as at 31 December 2012, would have been a negative 57 hundredths of a point on the Core Tier 1 ratio.

In addition, regulatory capital takes account not only of ordinary operations, but also an estimate of the dividends to be paid on 2013 net income, the amount of which has been determined on a conventional basis as one-fourth of the dividend proposed by the Shareholders' Meeting of 22 April 2013 for 2012 (0.05 euro per ordinary share and 0.061 euro per savings share).

With respect to the method for determining regulatory capital, it should be remarked that following the notice received from the Bank of Italy on 9 May 2013, a negative prudential filter has been applied in the amount of one-fifth of the DTAs resulting from multiple cases of tax realignment of goodwill. The application of this filter entailed a negative effect on the Core Tier 1 ratio of three hundredths of a point.

The application effective 1 January 2013 of the amendments to IAS 19 (an accounting standard that governs employee benefits) relating to the elimination of the "corridor method" did not yield any impact for regulatory purposes, inasmuch as the negative valuation reserve generated was essentially sterilised through the specific prudential filter envisaged by the Bank of Italy.

The Total capital ratio stood at 13.6%, while the Group's Tier 1 ratio was 11.6%. 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 31 March 2013 account for this measure (the effect on the Core Tier 1 ratio is +10 basis points).