

Shareholders' equity

As at 31 March 2015, the Group's shareholders' equity, including net income for the period, came to 46,187 million euro compared to the 44,683 million euro at the end of the previous year. The change in shareholders' equity was primarily due to the change in reserves, which include the 2014 net income which has yet to be distributed as well as the net income accruing in 2015. No changes in share capital occurred during the quarter.

Valuation reserves

	Valuation reserves as at 31.12.2014	Change in the period	Valuation reserves as at 31.03.2015	(millions of euro) % breakdown
Financial assets available for sale	840	428	1,268	-110.5
<i>of which: Insurance Companies</i>	617	284	901	-78.6
Property and equipment	-	-	-	-
Cash flow hedges	-1,362	-117	-1,479	128.9
Legally-required revaluations	350	-	350	-30.5
Other	-1,450	164	-1,286	112.1
Valuation reserves	-1,622	475	-1,147	100.0

As at 31 March 2015, the negative balance of the Group's valuation reserves came to -1,147 million euro, improving compared to the negative value at the end of December 2014 (-1,622 million euro). Positive contributions to the change in the period included the improvement in reserves for financial assets available for sale (+428 million euro), especially debt securities included in the insurance companies' portfolios, and other reserves (+164 million euro), particularly those aimed at mitigating exchange-rate fluctuations, while negative factors came from cash flow hedge reserves (-117 million euro).

Own funds and capital ratios

Own funds and capital ratios	31.03.2015	31.12.2014
Own funds		
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	36,585	36,547
Additional Tier 1 capital (AT1) net of regulatory adjustments	1,462	1,700
TIER 1 CAPITAL	38,047	38,247
Tier 2 capital net of regulatory adjustments	7,968	8,043
TOTAL OWN FUNDS	46,015	46,290
Risk-weighted assets		
Credit and counterparty risks	240,443	231,394
Market and settlement risk	18,108	16,476
Operational risks	21,092	21,157
Other specific risks (a)	842	763
RISK-WEIGHTED ASSETS	280,485	269,790
% Capital ratios		
Common Equity Tier 1 capital ratio	13.0%	13.5%
Tier 1 capital ratio	13.6%	14.2%
Total capital ratio	16.4%	17.2%

^(a) Including, inter alia, further specific capital requirements, in terms of risk-weighted assets, demanded by the Supervisory Authority to specific Group entities.

Own funds, risk weighted assets and the capital ratios at 31 March 2015 have been calculated according to the new harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in 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, and on the basis of Bank of Italy Circulars 285, 286 and 154.

Regulatory provisions governing own funds envisage the gradual introduction of the new regulatory framework, through a transitional period generally lasting until 2017, during which several elements that will be eligible for full inclusion in or deduction from common equity when the framework is fully effective, will only have a partial percentage effect on Common Equity Tier 1 capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 capital (AT1) or Tier 2 capital (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).

Accordingly, the prudential ratios as at 31 March 2015 take account of the adjustments envisaged by the transitional provisions for 2015.

As at 31 March 2015, total own funds came to 46,015 million euro, against risk-weighted assets (RWA) of 280,485 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk. The increase in RWA related to credit risk compared to 31 December 2014 may be attributed, in part, to the impact of the European Commission Decision, which, when published in the specific list, specified the nations for which a regime equivalent to the one prevailing in the European Union for the weighting of exposure to central banks and government bodies is applicable as of 1 January 2015, thereby eliminating the possibility to apply the previously preferential weighting indistinctly for each foreign nation.

The total capital ratio stood at 16.4%, while the ratio of the Group's tier 1 capital to its total risk-weighted assets (its tier 1 ratio) was 13.6%. The ratio of common equity tier 1 capital (CET1) to risk-weighted assets (the common equity ratio) was 13.0%.

It should be noted that common equity tier 1 capital does not take account of either net income for the quarter in that the regulatory requirements for its inclusion (i.e. independent auditing) have not been met (pursuant to article 26(2) of the CRR) or, consequently, of the related pro-rata dividend, which is conventionally calculated as one-fourth of the dividend that the 2014-2017 Business Plan envisages to be for distribution in 2016 (totalling 2 billion euro). Including this interim income and related pro-rata dividend, the capital ratios would be as follows: a CET1 ratio of 13.2%, a tier 1 ratio of 13.8%, and a total capital ratio of 16.6%.

Lastly, on the basis of article 467(2) of the CRR, adopted by the Bank of Italy in Circular 285, the Intesa Sanpaolo Group has opted to exclude unrealised gains or losses on exposures to central administrations classified among financial assets available for sale (AFS) from its own funds. The effect on common equity tier 1 capital as at 31 March 2015 was 8 basis points negative.

Reconciliation of shareholders' equity and common equity tier 1 capital

Captions	(millions of euro)	
	31.03.2015	31.12.2014
Group Shareholders' equity	46,187	44,683
Minority interests	383	379
Shareholders' equity as per the Balance Sheet	46,570	45,062
Distribution of dividends to shareholders of Intesa Sanpaolo resolved by the Shareholders' Meeting of 27.4.2015	-1,185	-
Shareholders' equity following distribution to shareholders	45,385	45,062
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Capital of savings shares eligible for inclusion in AT1	-485	-485
- Minority interests eligible for inclusion in AT1	-10	-6
- Minority interests eligible for inclusion in T2	-6	-5
- Ineligible minority interests on full phase-in	-323	-322
- Ineligible net income for the period ^(a)	-1,064	-1,251
- Treasury shares included under regulatory adjustments	65	63
- Other ineligible components on full phase-in	2	11
Common Equity Tier 1 capital (CET1) before regulatory adjustments	43,564	43,067
Regulatory adjustments (including transitional adjustments)	-6,979	-6,520
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	36,585	36,547

^(a) Net income for first quarter 2015 is not included in Common equity tier 1 capital, as conditions envisaged in Art. 26, paragraph 2 of (EU) Regulation 575 of 26 June 2013 (CRR) have not been met for inclusion.