Shareholders' equity

As at 30 June 2011, the Group's shareholders' equity, including net income for the period, came to 58,935 million euro compared to the 53,533 million euro at the end of the previous year. The change in shareholders' equity is mainly due to the effects of the capital increase completed in June.

As summarised at the beginning of this report, the Extraordinary Shareholders' Meeting on 10 May 2011 resolved a capital increase for consideration, for a total maximum amount of 5 billion euro, including share premium and in divisible form, through the issuance of ordinary shares with a nominal value of 0.52 euro each, carrying regular rights (i.e. from 1 January 2011), to be offered with pre-emptive rights to ordinary and savings shareholders, pursuant to article 2441 of the Italian Civil Code.

In implementing the Shareholders' Meeting resolution, on 19 May the Management Board decided to issue 3,651,949,408 ordinary shares with a nominal value of 0.52 euro each, with the same characteristics as those already in issue and with regular rights, to be offered with pre-emptive rights to shareholders at the price of 1.369 euro per share, including 0.849 euro share premium, in the ratio of 2 new shares for every 7 ordinary shares and/or savings shares held, for a maximum nominal value of 1,899,013,692.16 euro and a total aggregate value including share premium of 4,999,518,739.55 euro. The issue price was determined by applying a discount of approximately 24% to the theoretical ex-right price (TERP) of ordinary shares, calculated on the basis of the current official Stock Exchange price.
The rights offering of new ordinary shares ended on 22 June with full subscription of the total 3,651,949,408 shares offered, for a total aggregate value of 4,999,518,739.55 euro.
In greater detail, during the subscription period - which ran from 23 May 2011 until 10 June 2011 - 12,756,471,903 rights were exercised and a total of 3,644,706,258 new shares subscribed, accounting for 99.80% of total new shares under the offering, corresponding to an aggregate amount of 4,989,602,867.20 euro.
The 25,351,025 rights that had not been exercised at the end of the subscription period were sold through Banca IMI on the Stock Exchange, pursuant to Article 2441, paragraph 3, of the Italian Civil Code. These were all sold on 15 June 2011 and subsequently exercised by 22 June to subscribe for a total of 7,243,150 shares, equal to 0.20% of the new shares on offer, for an aggregate amount of 9,915,872.35 euro.
In reference to the capital increase, accessory costs for approximately 100 million euro were recognised as a direct reduction in the share premium reserve.
More specifically, 90 million euro of these costs referred to commissions paid to financial intermediaries as organisation and coordination fees (20 million euro), pre-guarantee commitments (10 million euro) and guarantee commitments (60 million euro). 10 million euro of the aforementioned 90 million euro were due to Banca IMI and are therefore netted from the Group consolidated financial statements.
The resulting costs mainly concerned the fixed fees payable to Monte Titoli (3.6 million euro) and to the Independent Auditors (4 million euro) for review of the quarterly report and certification relating to disclosures.
In terms of impact on capital ratios, the aforementioned capital increase had a positive effect on Core Tier 1 of approximately 150 basis points.
The following table provides the details of changes in shareholders' equity during the half year.

(millions of euro)

Share Capital	31.12.2010 (*)	Increase	Changes First half 2011	30.06.2011
Ordinary	6,162	1,899	-	8,061
Savings	485	-	-	485
TOTAL	**6,647**	**1,899**	**-**	**8,546**
Share premium reserve	33,102	3,101	-60 (**)	36,143
Other reserves (***)	12,741	-	1,505	14,246
Shareholders' Equity	**52,490**	**5,000**	**1,445**	**58,935**

(*) Figures as at 31 December 2010 which take into account the distribution of dividends resolved by the Parent Company

(**) Accessory costs relating to the share capital increase, net of the related tax effects

(***) Including net income for the period

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2010	Change in the period	Valuation reserves as at 30.06.2011	
				% breakdown
Financial assets available for sale	-662	48	-614	65.5
Property and equipment	-	-	-	-
Cash flow hedges	-494	152	-342	36.5
Legally-required revaluations	343	-	343	-36.6
Other	-241	-83	-324	34.6
Valuation reserves	**-1,054**	**117**	**-937**	**100.0**

The Group's share of valuation reserves recorded a negative balance as at 30 June 2011 that was 937 million, lower than the negative balance of 1,054 million euro as at the end of 2010. The change during the period is due to the performance of the cash flow hedge reserve and, to a lesser extent, to the value of financial assets available for sale, in particular debt securities. The negative value increased for other reserves.

Regulatory capital

Regulatory capital and related capital ratios as at 30 June 2011 have been determined by applying the Bank of Italy's instructions in accordance with Basel 2 provisions.
It is noted that, following obtainment of authorisation from the Supervisory Authority, the Intesa Sanpaolo Group calculates capital requirements for credit risk and counterparty risk, respectively, according to the IRB approach for the Retail Mortgage

segment (Residential mortgages to private individuals) on a scope consisting of the Parent Company and the main network banks, effective 30 June 2010, and according to the advanced internal rating-based approach (AIRB) in regards to the regulatory trading portfolio "Exposures to corporates" for the Parent Company, network banks, Banca Infrastrutture Innovazione e Sviluppo and Mediocredito, effective 31 December 2010. In addition, in early 2010 the Intesa Sanpaolo Group received authorisation to use the internal AMA to determine capital requirements for operational risks on an initial scope which comprises the main Group companies, effective from reporting as at 31 December 2009.
It is noted that, effective from 31 December 2010, the new methods for determining regulatory capital, as a result of ratification of the CRD II Directive, call for the exclusion of the nominal value of preference shares issued by the Group.

(millions of euro)

Regulatory capital and capital ratios	**30.06.2011**	**31.12.2010**
Regulatory capital		
Tier 1 capital	37,879	31,175
of which: instruments not included in Core Tier 1 ratio (*)	*5,009*	*5,016*
Tier 2 capital	13,923	16,348
Minus items to be deducted (**)	-3,495	-3,721
REGULATORY CAPITAL	**48,307**	**43,802**
Tier 3 subordinated loans	-	-
TOTAL REGULATORY CAPITAL	**48,307**	**43,802**
Risk-weighted assets		
Credit and counterparty risks	277,552	289,172
Market risks	13,961	15,385
Operational risks	27,255	27,175
Other risks (***)	2,027	426
RISK-WEIGHTED ASSETS	**320,795**	**332,158**
Capital ratios %		
Core Tier 1 ratio	10.2	7.9
Tier 1 ratio	11.8	9.4
Total capital ratio	15.1	13.2

(*) This caption includes preferred shares and, as of 31 December 2010, 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 2011, total regulatory capital came to 48,307 million euro, compared to risk-weighted assets of 320,795 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
With regard to the calculation method for weighted assets, as at 31 March 2011 this included an integration of approximately 8 billion euro for the floor set by the Supervisory Authority in reference to calculation of the requirements according to internal methods. As these methods reported lower riskiness of assets – reflected in the drop in credit and counterparty risk-weighted assets – the requirements were supplemented, taking as reference 90% of the same figure calculated with a view to Basel 1 (floor), as provided for by the Supervisory Authority. As the Supervisory Authority later authorised a reduction in the aforementioned floor from 90% to 85%, the calculation as at 30 June was prepared according to the new parameters.
The decrease in risk-weighted assets in the half year is mainly due to ordinary business activities, to the ongoing optimisation processes and to disposal of the assets referred to below. Regulatory capital takes into account ordinary operations and an estimate of the dividends to be paid on 2011 net income, the amount of which has been determined on a conventional basis as half the 2010 dividend, equal to 4 eurocents on ordinary shares and 4.5 eurocents on savings shares, referring to all shares in issue as at 30 June 2011 and therefore including the new shares issued (662.5 million euro of the total 1,325 million euro).
The Total capital ratio stood at 15.1%, while the Group's Tier 1 ratio was 11.8%. The ratio of Tier 1 capital net of ineligible instruments to risk-weighted assets (Core Tier 1) was 10.2%.
In addition to ordinary operations, the increase in the Core Tier 1 and Tier 1 ratio compared to 31 December 2010 derives from the capital increase resolved and subscribed during the second quarter of 2011 (approximately +150 basis points on Core Tier 1), the sale of Cassa di Risparmio della Spezia to Crédit Agricole and of 97 branches (+20 basis points on Core Tier 1 ratio), the sale of second part of Findomestic (+ 10 basis point on Core Tier 1), the sale of part of the investment in Prada (+8 basis points on Core Tier 1) and the removal of negative filters on the effects deriving from the redemption of goodwill (+14 basis points on the Core Tier 1 ratio), based on the specific notification of the Bank of Italy as a result of the provisions of the so-called "Milleproroghe Decree" on the matter of deferred tax assets.
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 had elected to apply this approach. Accordingly, the regulatory capital and capital ratios as at 30 June 2011 account for this measure (the effect on the Core Tier 1 ratio is +10 basis points).