Shareholders' equity

As at 31 March 2012, the Group's shareholders' equity, including net income for the year, came to 49,345 million euro compared to the 47,040 million euro at the end of the previous year. The change in shareholders' equity, amounting to 2.3 billion euro, was mainly due to the net income for the period and the reduction in the negative balance of valuation reserves (+1.5 billion euro).

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2011	Change in the period	Valuation reserves as at 31.03.2012	
				% breakdown
Financial assets available for sale	-2,352	1,558	-794	44.0
of which: Insurance Companies	*-975*	*766*	*-209*	*11.6*
Property and equipment	-	-	-	-
Cash flow hedges	-933	-55	-988	54.7
Legally-required revaluations	344	-	344	-19.1
Other	-357	-10	-367	20.4
Valuation reserves	**-3,298**	**1,493**	**-1,805**	**100.0**

As at 31 March 2012 the negative balance of the Group's share of valuation reserves fell to -1,805 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 (+1,558 million euro), particularly debt securities. Cash flow hedges and other reserves recorded relatively small changes (-55 million euro and -10 million euro, respectively), while legally-required revaluations remained stable.

Regulatory capital

(millions of euro)

Regulatory capital and capital ratios	31.03.2012	31.12.2011
Regulatory capital		
Tier 1 capital	36,922	37,295
of which: instruments not included in Core Tier 1 ratio (*)	*3,272*	*4,498*
Tier 2 capital	11,782	12,201
Minus: items to be deducted (**)	-3,240	-3,144
REGULATORY CAPITAL	**45,464**	**46,352**
Tier 3 subordinated loans	-	-
TOTAL REGULATORY CAPITAL	**45,464**	**46,352**
Risk-weighted assets		
Credit and counterparty risks	270,975	277,498
Market risks	19,564	17,488
Operational risks	24,825	24,825
Other risks (***)	4,578	5,395
RISK-WEIGHTED ASSETS	**319,942**	**325,206**
Capital ratios %		
Core Tier 1 ratio	10.5	10.1
Tier 1 ratio	11.5	11.5
Total capital ratio	14.2	14.3

(*) 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 31 March 2012, total regulatory capital came to 45,464 million euro, compared to risk-weighted assets of 319,942 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
The decrease in risk-weighted assets in the quarter was mainly due to ordinary business activities and optimisation processes. Regulatory capital, in addition to ordinary operations, also takes account of the buy back of subordinated Tier 1 notes (+6 basis points in terms of Core tier ratio) 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 one-quarter of the dividend proposed for the year 2011 (through the distribution of reserves) corresponding to 0.05 euro per ordinary and savings shares.
The Total capital ratio stood at 14.2%, while the Group's Tier 1 ratio was 11.5%. The ratio of Tier 1 capital net of ineligible instruments to risk-weighted assets (Core Tier 1) was 10.5%.
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 2012 account for this measure (the effect on the Core Tier 1 ratio is +16 basis points).