Shareholders' equity

As at 30 June 2013, the Group's shareholders' equity, including net income for the period, came to 49,088 million euro compared to the 49,320 million euro at the end of the previous year. The change in shareholders' equity was due to the performance of reserves, which increased due to the decrease in the negative balance of valuation reserves and to distribution of the dividend drawing on 2012 net income. No changes in share capital occurred during the first half of the year.

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2012	Change in the period	Valuation reserves as at 30.06.2013	
				% breakdown
Financial assets available for sale	-59	-33	-92	6.4
of which: Insurance Companies	*221*	*-47*	*174*	*-12.1*
Property and equipment	-	-	-	-
Cash flow hedges	-1,306	276	-1,030	71.4
Legally-required revaluations	351	8	359	-24.9
Other	-678	-2	-680	47.1
Valuation reserves	**-1,692**	**249**	**-1,443**	**100.0**

As at 30 June 2013, the negative balance of the Group's valuation reserves decreased to -1,443 million euro from -1,692 million euro at the end of 2012. The change for the period was attributable to the 276 million euro improvement in cash flow hedge reserves, only partly offset by the increase in financial assets available for sale, particularly of debt securities included in the insurance companies' portfolios. Legally required revaluation reserves and other reserves recorded marginal changes.

Regulatory capital

(millions of euro)

Regulatory capital and capital ratios	30.06.2013	31.12.2012
Regulatory capital		
Tier 1 capital	34,551	36,013
of which: instruments not included in Core Tier 1 ratio (*)	*2,544*	*2,544*
Tier 2 capital	5,952	8,141
Minus items to be deducted (**)	-	-3,410
REGULATORY CAPITAL	**40,503**	**40,744**
Tier 3 subordinated loans	-	-
TOTAL REGULATORY CAPITAL	**40,503**	**40,744**
Risk-weighted assets		
Credit and counterparty risks	244,123	253,309
Market risks	18,915	18,427
Operational risks	22,689	25,745
Other risks (***)	1,606	1,138
RISK-WEIGHTED ASSETS	**287,333**	**298,619**
Capital ratios %		
Core Tier 1 ratio	11.1	11.2
Tier 1 ratio	12.0	12.1
Total capital ratio	14.1	13.6

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

(**) Effective 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 30 June 2013 have been determined in accordance with Basel 2 provisions, by applying the Bank of Italy's instructions.
As at 30 June 2013, total regulatory capital came to 40,503 million euro, compared to risk-weighted assets of 287,333 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 period is primarily attributable to ordinary operations, optimisation processes and the decrease in operational risk, largely due to the stipulation of new insurance coverage (second layer policy) known as Operational Risk Insurance Programme, which offers coverage greater than that of traditional (first layer) policies and therefore significantly increases the limit of liability, in effect transferring the risk of significant operational losses to the insurance market. The internal model insurance mitigation component referring to these policies was approved by the Bank of Italy in June 2013 with immediate effect.
With respect to the method for determining regulatory capital, note that following the notice received from the Bank of Italy on 9 May 2013, a negative prudential filter has been applied to sterilise the positive effects on Core Tier 1 associated with multiple cases of tax realignment of goodwill. The effects of this sterilisation, spread over a 5-year period from report as at 31 March 2013, were calculated in reference to the associated DTAs as at 31 December 2012, net of the substitute tax paid and the total of such

DTAs reversed to the income statement during the period. The application of this filter led to a negative effect on Core Tier 1 of 2 hundredths of a point.
The application effective 1 January 2013 of the amendments to IAS 19 (an accounting standard that governs employee benefits) had a limited 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 14.1%, while the Group's Tier 1 ratio was 12.0%. 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 June 2013 account for this measure (the effect on the Core Tier 1 ratio is +6 basis points).