Shareholders' equity

As at 30 June 2014, the Group's shareholders' equity, including net income for the period, came to 44,258 million euro compared to the 44,520 million euro at the end of the previous year. The change in shareholders' equity was primarily due to the charge in reserves, which include the 2013 net loss as well as the net income accruing in 2014. During the first half of the year, share capital increased from 8,546 million euro at the end of December 2013 to 8,549 million euro at the end of June 2014 as a consequence of the finalisation of the merger of Centro Leasing into the Parent Company.

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2013	Change in the period	Valuation reserves as at 30.06.2014	
				% breakdown
Financial assets available for sale	363	369	732	-59.0
of which: Insurance Companies	*319*	*214*	*533*	*-42.9*
Property and equipment	-	-	-	-
Cash flow hedges	-878	-259	-1,137	91.6
Legally-required revaluations	359	-	359	-28.9
Other	-918	-277	-1,195	96.3
Valuation reserves	**-1,074**	**-167**	**-1,241**	**100.0**

As at 30 June 2014, the negative balance of the Group's valuation reserves came to -1,241 million euro, an increase compared to the value at the end of December 2013 (-1,074 million euro). Positive contributions to the change in the period included the improvement in reserves for financial assets available for sale (+369 million euro), particularly debt securities included in the insurance companies' portfolios, while negative factors included cash flow hedge reserves (-259 million euro) and other reserves (-277 million euro), the latter mainly referring to defined benefit plans.

Own funds and capital ratios

(millions of euro)

Own funds and capital ratios	30.06.2014
Own funds	
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	36,554
Additional Tier 1 capital (AT1) net of regulatory adjustments	1,260
TIER 1 CAPITAL	**37,814**
Tier 2 capital net of regulatory adjustments	9,461
TOTAL OWN FUNDS	**47,275**
Risk-weighted assets	
Credit and counterparty risks	234,920
Market risks	18,621
Operational risks	22,123
Other specific risks (a)	574
RISK-WEIGHTED ASSETS	**276,238**
% Capital ratios	
Common Equity Tier 1 capital ratio	13.2%
Tier 1 capital ratio	13.7%
Total capital ratio	17.1%

(a) 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.

Own funds, risk weighted assets and the capital ratios at 30 June 2014 were calculated according to the new harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation no. 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) into European Union laws, and on the basis of Bank of Italy Circulars 285 and 286 (issued in 2013) and the update to Circular 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 30 June 2014 take account of the adjustments envisaged by the transitional provisions for 2014.

As conditions envisaged by Article 26, paragraph 2, of (EU) Regulation no. 575 of 26 June 2013 (CRR) had been met for inclusion, net income for the period was included in common equity tier 1 capital. Consequently, the estimate of dividends to be paid on the 2014 result was also included and determined on a conventional basis as half of the dividends indicated in the 2014-2017 Business Plan as distributable in 2015 (totalling 1 billion euro).
With regard to the stake in the Bank of Italy, the prudential approach adopted in compliance with consolidated practice involves the weighting among RWA as equity exposure, in addition to full recognition in CET1 capital of the capital gain resulting from cancellation of the old stake and subsequent recognition of the new stake.
As at 30 June 2014, total own funds came to 47,275 million euro, against risk-weighted assets of 276,238 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
The total capital ratio stood at 17.1%, while the ratio of the Group's tier 1 capital to its total risk-weighted assets (its tier 1 ratio) was 13.7%. The ratio of common equity tier 1 capital (CET1) to risk-weighted assets (the common equity ratio) was 13.2%.
In addition, 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 30 June 2014 was seven basis point negative.

Reconciliation of shareholders' equity and common equity tier 1 capital

(millions of euro)

Captions	**30.06.2014**
Shareholders' equity pertaining to the Group	44,258
Shareholders' equity pertaining to minority interests	515
Shareholders' equity as per the Balance Sheet	**44,773**
Pro-rata dividend to Intesa Sanpaolo shareholders in accordance with the Business Plan	-500
Shareholders' equity following distribution to shareholders	**44,273**
Adjustments for instruments eligible for inclusion in AT1 or T2	
- Capital of savings shares eligible for inclusion in AT1	-485
- Minority interests eligible for inclusion in AT1	-7
- Minority interests eligible for inclusion in T2	-9
- Ineligible minority interests on full phase-in	-405
- Treasury shares included under regulatory adjustments	49
- Other ineligible components on full phase-in	2
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**43,418**
Regulatory adjustments (including transitional adjustments)	**-6,864**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**36,554**