Shareholders' equity

As at 31 March 2016, the Group's shareholders' equity, including net income for the period, came to 49,453 million euro compared to the 47,776 million euro at the end of the previous year. The change in equity was primarily due to the new AT1 issue of 1.2 billion euro and the net income for the period (0.8 billion euro), offset by the overall decline in valuation reserves (-0.4 billion euro). No changes in share capital occurred during the quarter.

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2015	Change in the period	Valuation reserves as at 31.03.2016	
				% breakdown
Financial assets available for sale	899	-58	841	-60.6
of which: Insurance Companies	*682*	*-14*	*668*	*-48.2*
Property and equipment	-	-	-	-
Cash flow hedges	-1,145	-168	-1,313	94.7
Legally-required revaluations	352	1	353	-25.5
Other	-1,124	-144	-1,268	91.4
Valuation reserves	**-1,018**	**-369**	**-1,387**	**100.0**

As at 31 March 2016, the negative balance of the Group's valuation reserves came to -1,387 million euro, worsening compared to the negative value at the end of December 2015 (-1,018 million euro). Almost all components provided negative contributions to the change in the period: cash flow hedge reserves (-168 million euro), other reserves (-144 million euro), and reserves for financial assets available for sale (-58 million euro), partly attributable to the insurance companies.

Own funds and capital ratios

(millions of euro)

Own funds and capital ratios	31.03.2016	31.12.2015
Own funds		
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	36,344	36,908
Additional Tier 1 capital (AT1) net of regulatory adjustments	3,436	2,302
TIER 1 CAPITAL	**39,780**	**39,210**
Tier 2 capital net of regulatory adjustments	9,281	8,089
TOTAL OWN FUNDS	**49,061**	**47,299**
Risk-weighted assets		
Credit and counterparty risks	243,176	245,793
Market and settlement risk	16,819	16,582
Operational risks	20,653	20,653
Other specific risks [a]	1,352	1,291
RISK-WEIGHTED ASSETS	**282,000**	**284,319**
% Capital ratios		
Common Equity Tier 1 capital ratio	12.9%	13.0%
Tier 1 capital ratio	14.1%	13.8%
Total capital ratio	17.4%	16.6%

[a] The caption includes all other elements not contemplated in the foregoing captions that are considered when calculating total capital requirements.

Own funds, risk weighted assets and the capital ratios as at 31 March 2016 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 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.
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 2016 take account of the adjustments envisaged by the transitional provisions for 2016.
As at 31 March 2016, total Own Funds came to 49,061 million euro, against risk-weighted assets of 282,000 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
In January 2016 Intesa Sanpaolo launched a second Additional Tier 1 (AT1) issue of 1.25 billion euro, targeted at the international markets (a first AT1 issue of 1 billion dollars had been launched in September 2015). This issue has characteristics in line with the provisions of CRD IV and the CRR, is perpetual (with a maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of

association) and can be redeemed in advance by the issuer after 5 years from the issue date and on every coupon payment date thereafter. The coupon, payable semi-annually in arrears on 19 January and 19 July of each year, with first payment on 19 July 2016, is equal to 7.00% per annum. If the early redemption option is not exercised on 19 January 2021, a new fixed-rate coupon will be determined for the following five years (until the next recalculation date). As envisaged in the regulations applicable to the Additional Tier 1 issues, coupon payment is discretionary and subject to certain limitations.
It should be emphasised that Common Equity Tier 1 capital does not include the net income for the period ended 31 March 2016, less the pro-rata dividend for the period, since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in own funds only when the amount of net income exceeds the total amount of the dividend planned for distribution for the year, equal to 3 billion euro for 2016 on the basis of the 2014-2017 Business Plan.
Based on the foregoing, the Total capital ratio stood at 17.4%, while the ratio of the Group’s Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 14.1%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity ratio) was 12.9%.

The ECB's final decision concerning the capital requirements to be observed with effect from 1 January 2016, in light of the results of the Supervisory Review and Evaluation Process (SREP), imposed a consolidated capital requirement on Intesa Sanpaolo of 9.5% in terms of the CET1 ratio.
Finally, 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 2016 was positive but lower than 1 basis point.

Reconciliation of Shareholders’ equity and Common Equity Tier 1 capital

(millions of euro)

Captions	31.03.2016	31.12.2015
Group Shareholders' equity	49,453	47,776
Minority interests	825	817
Shareholders' equity as per the Balance Sheet	**50,278**	**48,593**
Dividends and other expected charges (a)	-	-2,383
Shareholders' equity following presumed distribution to shareholders	**50,278**	**46,210**
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
- Other equity instruments eligible for inclusion in AT1	-2,121	-871
- Minority interests eligible for inclusion in AT1	-8	-8
- Minority interests eligible for inclusion in T2	-7	-6
- Ineligible minority interests on full phase-in	-769	-763
- Ineligible net income for the period (b)	-806	-
- Treasury shares included under regulatory adjustments	69	68
- Other ineligible components on full phase-in [c]	-2,379	-11
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**43,772**	**44,134**
Regulatory adjustments (including transitional adjustments)	**-7,428**	**-7,226**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**36,344**	**36,908**

[a] The figure at 31 December 2015 takes account of the dividends paid on 2015 profit, the portion of the remuneration on the AT1 instrument issued on 17 September 2015 and the portion of the 2015 profit allocated to charity, net of the tax effect.

[b] Common Equity Tier 1 capital does not take account of the profit accrued during the period ended on 31 March 2016, after deducting the pro-rated share of the dividend on that profit, since Intesa Sanpaolo has decided to request authorisation from the ECB pursuant to Art. 26 of the CRR to include profit for the period in own funds solely if the amount of such profit exceeds the total amount of the dividend that is expected to be distributed for the year, i.e., 3 billion euro for 2016, on the basis of the 2014-2017 Business Plan.

[c] The amount at 31 March 2016 essentially includes the dividend on 2015 profit approved by the Shareholders' Meeting on 27 April 2016.