Shareholders' equity

As at 31 March 2017, the Group's shareholders' equity, including net income for the period, came to 50,735 million euro compared to the 48,911 million euro at the end of the previous year. The positive change in equity was primarily due to the new issue of Additional Tier 1 equity instruments for 1,241 million euro and the profit for the period (901 million euro), which offset the negative impact of the revaluation reserves for 305 million euro. No changes in share capital occurred during the quarter.

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2016	Change in the period	Valuation reserves as at 31.03.2017	
				% breakdown
Financial assets available for sale	471	-361	110	-5.1
of which: Insurance Companies	*503*	*-104*	*399*	*-18.5*
Property and equipment	-	-	-	-
Cash flow hedges	-1,146	80	-1,066	49.4
Legally-required revaluations	348	-3	345	-16.0
Other	-1,527	-21	-1,548	71.7
Valuation reserves	**-1,854**	**-305**	**-2,159**	**100.0**

As at 31 March 2017, the negative balance of the Group's valuation reserves came to -2,159 million euro, worsening compared to the negative value at the end of December 2016 (-1,854 million euro). The changes for the period were mainly driven by the reserves for financial assets available for sale (-361 million euro) related to debt securities.

Own funds and capital ratios

(millions of euro)

Own funds and capital ratios	31.03.2017	31.12.2016
Own funds		
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	35,132	35,926
Additional Tier 1 capital (AT1) net of regulatory adjustments	4,696	3,533
TIER 1 CAPITAL	**39,828**	**39,459**
Tier 2 capital net of regulatory adjustments	9,002	8,815
TOTAL OWN FUNDS	**48,830**	**48,274**
Risk-weighted assets		
Credit and counterparty risks	240,322	243,351
Market and settlement risk	20,058	19,199
Operational risks	19,545	19,545
Other specific risks [a]	1,605	1,823
RISK-WEIGHTED ASSETS	**281,530**	**283,918**
% Capital ratios		
Common Equity Tier 1 capital ratio	12.5%	12.7%
Tier 1 capital ratio	14.1%	13.9%
Total capital ratio	17.3%	17.0%

[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 2017 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 the related 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 (i.e. grandfathering) 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).

As a consequence, as at 31 March 2017, the prudential ratios consider the adjustments required by the transitional provisions for 2017; the application of these transitional provisions, compared to those in force as at 31 December 2016, led to a negative effect on the CET 1 ratio of about 17 bps.

As at 31 March 2017, total Own Funds came to 48,830 million euro, against risk-weighted assets of 281,530 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.

In January 2017 Intesa Sanpaolo launched a third 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 and a second one in January 2016 for 1.25 billion euro). 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 10 years from the issue date and on every coupon payment date thereafter. The coupon, payable semi-annually in arrears on 11 January and 11 July of each year, with first payment on 11 July 2017, is equal to 7.75% per annum. If the early redemption option is not exercised on 11 January 2027, 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 AT 1 issues, coupon payment is discretionary and subject to certain limitations.

Common Equity Tier 1 capital does not include the net income for the period ended 31 March 2017, 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 the net income exceeds the total amount of the planned dividend distribution for the year, equal to 3.4 billion euro for 2017 based on the overall objective of 10 billion euro in cumulative cash dividends as indicated in the 2014-2017 Business Plan.

Based on the foregoing, the Total capital ratio stood at 17.3%, 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 12.5%.

You are reminded that, on 12 December 2016, Intesa Sanpaolo received the ECB’s final decision regarding the capital requirements to be observed with effect from 1 January 2017, in light of the results of the Supervisory Review and Evaluation Process (SREP). The capital requirement at consolidated level in terms of Common Equity Tier 1 ratio is 7.25% under the transition arrangements in force for 2017 and 9.25% on a fully loaded basis.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

Captions	31.03.2017	31.12.2016
Group Shareholders' equity	50,735	48,911
Minority interests	356	408
Shareholders' equity as per the Balance Sheet	**51,091**	**49,319**
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	-3,371	-2,121
- Minority interests eligible for inclusion in AT1	-6	-6
- Minority interests eligible for inclusion in T2	-2	-2
- Ineligible minority interests on full phase-in	-295	-356
- Ineligible net income for the period [a]	-901	-3,111
- Treasury shares included under regulatory adjustments	97	98
- Other ineligible components on full phase-in [b]	-3,038	-38
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**43,090**	**43,298**
Regulatory adjustments (including transitional adjustments)	**-7,958**	**-7,372**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**35,132**	**35,926**

[a] Common Equity Tier 1 capital does not take account of the profit accrued during the period ended on 31 March 2017, 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 on the basis of the 2014-2017 Business Plan.

[b] The amount at 31 March 2017 essentially includes the dividend on 2016 profit approved by the Shareholders' Meeting on 27 April 2017.