

Shareholders' equity

As at 30 June 2010, the Group's shareholders' equity, including net income for the period, came to 52,534 million euro compared to the 52,681 million euro at the end of the previous year. The change in shareholders' equity was primarily due to the performance of reserves and the distribution of the 2009 dividend. No changes in share capital occurred in the first half of the year.

Valuation reserves

	Valuation reserves as at 31.12.2009	Change in the period	Valuation reserves as at 30.06.2010	(millions of euro)
				% breakdown
Financial assets available for sale	-135	-528	-663	59.2
Property and equipment	-	-	-	-
Cash flow hedges	-451	-320	-771	68.8
Legally-required revaluations	343	-	343	-30.6
Other	-187	158	-29	2.6
Valuation reserves	-430	-690	-1,120	100.0

Valuation reserves increased their negative balance, reaching -1,120 million euro as at 30 June 2010 compared to -430 million euro at the end of 2009. The deterioration may be attributed to financial assets available for sale (change for the period of -528 million euro), most markedly debt securities, and cash flow hedges (-320 million euro). Reserves recognised in accordance with special revaluation laws remained unchanged.

Regulatory capital

Regulatory capital and related capital ratios as at 30 June 2010 have been determined by applying the Bank of Italy's instructions in accordance with Basel II provisions.

The Intesa Sanpaolo Group has been using the Foundation Internal Rating Based (FIRB) approach to calculate its credit risk capital requirements with reference to the regulatory portfolio Exposures to corporates since 31 December 2008. In addition, in early 2010 the Intesa Sanpaolo Group received authorisation to use the internal AMA to determine capital requirements for operational risks effective from reporting as at 31 December 2009.

Moreover, the Bank of Italy has authorised the Group to use the internal approach to determine the credit risk requirement relating to the regulatory segment of residential mortgages for private individuals effective 30 June 2010.

	(millions of euro)	
Regulatory capital and capital ratios	30.06.2010	31.12.2009
Regulatory capital		
Tier 1 capital	31,710	30,205
<i>of which: preferred shares</i>	4,500	4,499
Tier 2 capital	14,844	15,472
Minus items to be deducted	-3,034	-2,923
REGULATORY CAPITAL	43,520	42,754
Tier 3 subordinated loans	-	-
TOTAL REGULATORY CAPITAL	43,520	42,754
Risk-weighted assets		
Credit and counterparty risks	310,494	316,258
Market risks	16,204	16,804
Operational risks	28,507	28,113
Other risks	450	473
RISK-WEIGHTED ASSETS	355,655	361,648
Capital ratios %		
Core Tier 1 ratio	7.7	7.1
Tier 1 ratio	8.9	8.4
Total capital ratio	12.2	11.8

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 as such continue to be deducted from total capital.

At the end of the first half of 2010, total regulatory capital came to 43,520 million euro, against to risk-weighted assets of 355,655 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk. Regulatory capital takes into account ordinary operations and an estimate of the dividends to be paid on 2010 net income, the amount of which has been determined on a conventional basis as one-half of the dividends distributed on the 2009 net income (516 million euro of the total 1,033 million euro).

All capital ratios improved compared to 31 December 2009. The total capital ratio stood at 12.2%, while the Group's Tier 1 ratio was 8.9%. The ratio of Tier 1 capital net of preferred shares to risk-weighted assets (Core Tier 1) was 7.7%.

The improvement in ratios compared to 31 December 2009 was the result not only of ordinary operations, but also of the sale of the securities services business (+37 basis points on the Core Tier 1 ratio) and the application of the internal approach to determine capital requirements for residential mortgages for private individuals following authorisation from the Bank of Italy (+13 basis points on the Core Tier 1 ratio). The acquisition of the Monte dei Paschi di Siena branches had a negative impact (-7 basis points on the Core Tier 1).

Lastly, the Bank of Italy, in a Regulation issued on 18 May 2010, has provided new supervisory instructions concerning the prudential treatment of reserves associated with debt securities issued by the central governments of EU countries 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 from 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 2010 takes into account this measure (the effect on the Core Tier 1 ratio is +8 basis points).