

Shareholders' equity

As at 31 March 2011, the Group's shareholders' equity, including net income for the period, came to 54,462 million euro compared to the 53,533 million euro at the end of the previous year. The change in shareholders' equity was primarily due to the performance of reserves and the earned net income for 2011. No changes in share capital occurred in the period.

Valuation reserves

| | Valuation reserves as at 31.12.2010 | Change in the period | Valuation reserves as at 31.03.2011 | (millions of euro) % breakdown |
|-------------------------------------|-------------------------------------|----------------------|-------------------------------------|-----------------------------------|
| Financial assets available for sale | -662 | 126 | -536 | 70.0 |
| Property and equipment | - | - | - | - |
| Cash flow hedges | -494 | 222 | -272 | 35.5 |
| Legally-required revaluations | 343 | - | 343 | -44.8 |
| Other | -241 | -60 | -301 | 39.3 |
| Valuation reserves | -1,054 | 288 | -766 | 100.0 |

The Group's share of valuation reserves reported a negative balance dropping to 766 million euro at the end of March 2011 compared to the negative balance of over one billion at the end of 2010. The change during the period is largely due to the increase in the value of financial assets available for sale (whose negative reserve decreased by 126 million euro). The value of cash flow hedges and other reserves also increased, though continuing to record a negative balance.

Regulatory capital

Regulatory capital and related capital ratios as at 31 March 2011 have been determined by applying the Bank of Italy's instructions in accordance with Basel 2 provisions.

It is noted that, following obtainment of authorisation from the Supervisory Authority, the Intesa Sanpaolo Group calculates capital requirements for credit risk and counterparty risk, respectively, according to the IRB approach for the Retail Mortgage segment (Residential mortgages to private individuals) on a scope consisting of the Parent Company and the main network banks, effective 30 June 2010, and according to the advanced internal rating-based approach (AIRB) in regards to the regulatory trading portfolio "Exposures to corporates" for the Parent Company, network banks, Banca Infrastrutture Innovazione e Sviluppo and Mediocredito, effective 31 December 2010.

In addition, in early 2010 the Intesa Sanpaolo Group received authorisation to use the internal AMA to determine capital requirements for operational risks on an initial scope which comprises the main Group companies, effective from reporting as at 31 December 2009.

It is noted that, effective from 31 December 2010, the new methods for determining regulatory capital, as a result of ratification of the CRD II Directive, call for the exclusion of the nominal value of preference shares issued by the Group.

| | (millions of euro) | |
|--|--------------------|-------------------|
| Regulatory capital and capital ratios | 31.03.2011 | 31.12.2010 |
| Regulatory capital | | |
| Tier 1 capital | 32,142 | 31,175 |
| <i>of which: instruments not included in Core Tier 1 ratio (*)</i> | 5,011 | 5,016 |
| Tier 2 capital | 14,904 | 16,348 |
| Minus items to be deducted (**) | -3,842 | -3,721 |
| REGULATORY CAPITAL | 43,204 | 43,802 |
| Tier 3 subordinated loans | - | - |
| TOTAL REGULATORY CAPITAL | 43,204 | 43,802 |
| Risk-weighted assets | | |
| Credit and counterparty risks | 282,013 | 289,172 |
| Market risks | 14,783 | 15,385 |
| Operational risks | 27,195 | 27,175 |
| Other risks (***) | 8,412 | 426 |
| RISK-WEIGHTED ASSETS | 332,403 | 332,158 |
| Capital ratios % | | |
| Core Tier 1 ratio | 8.2 | 7.9 |
| Tier 1 ratio | 9.7 | 9.4 |
| Total capital ratio | 13.0 | 13.2 |

(*) This caption includes preferred shares and, as of 31 December 2010, savings shares and preference ordinary shares.

(**) 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 continue to be deducted from total capital.

(***) 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.

As at 31 March 2011, total regulatory capital came to 43,204 million euro, compared to risk-weighted assets of 332,403 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk. Risk-weighted assets include an amount of approximately 8 billion euro to supplement the floor required by the Supervisory Authority relating to the calculation of the requirements according to internal methods. As these methods reported lower riskiness of assets – reflected in the drop in credit and counterparty risk-weighted assets – the requirements were supplemented taking as reference 90% of the same figure calculated with a view to Basel 1 (floor). Regulatory capital takes into account ordinary operations and an estimate of the dividends to be paid on 2011 net income, the amount of which has been determined on a conventional basis as one-fourth of the dividends distributed on the 2010 net income (258 million euro of the total 1,033 million euro).

The Total capital ratio stood at 13.0%, while the Group's Tier 1 ratio was 9.7%. The ratio of Tier 1 capital net of ineligible instruments to risk-weighted assets (Core Tier 1) was 8.2%.

The increase in the Core Tier 1 and Tier 1 ratio compared to 31 December 2010 derives from ordinary operations as well as the sale of Cassa di Risparmio della Spezia to Crédit Agricole and of 11 branches of Banca CR Firenze (+9 basis points on the Core Tier 1 ratio) and the removal of negative filters on the effects deriving from the detaxation of goodwill (+14 basis points on the Core Tier 1 ratio), based on the specific notification of the Bank of Italy as a result of the provisions of the so-called "Milleproroghe Decree" on the matter of deferred tax assets.

The reduction in the Total Capital ratio can be attributed to the repayment of several subordinated liabilities which were previously calculated in Tier II Capital.

Lastly, the Bank of Italy, in a Regulation issued on 18 May 2010, 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 had elected to apply this approach. Accordingly, the regulatory capital and capital ratios as at 31 March 2011 account for this measure (the effect on the Core Tier 1 ratio is +7 basis points).