Shareholders' equity

As at 31 March 2014, the Group's shareholders' equity, including net income for the period, came to 45,007 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 performance of reserves, which include the 2013 net loss as well as the net income accruing in 2014. During the quarter, share capital increased from 8,546 million euro at the end of December 2013 to 8,549 million euro at the end of March 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 31.03.2014	
				% breakdown
Financial assets available for sale	363	250	613	-57.0
of which: Insurance Companies	*319*	*82*	*401*	*-37.3*
Property and equipment	-	-	-	-
Cash flow hedges	-878	-131	-1,009	93.8
Legally-required revaluations	359	-	359	-33.4
Other	-918	-121	-1,039	96.6
Valuation reserves	**-1,074**	**-2**	**-1,076**	**100.0**

As at 31 March 2014, the negative balance of the Group's valuation reserves came to -1,076 million euro, essentially stable 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 (+250 million euro), particularly debt securities included in the insurance companies' portfolios, while negative factors included cash flow hedge reserves (-131 million euro) and other reserves (-121 million euro).

Own funds and capital ratios

(millions of euro)

Own funds and capital ratios	31.03.2014
Own funds	
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	33,557
Additional Tier 1 capital (AT1) net of regulatory adjustments	1,037
TIER 1 CAPITAL	**34,594**
Tier 2 capital net of regulatory adjustments	7,747
TOTAL OWN FUNDS	**42,341**
Risk-weighted assets	
Credit and counterparty risks	235,466
Market risks	18,792
Operational risks	22,737
Other specific risks (a)	587
RISK-WEIGHTED ASSETS	**277,582**
% Capital ratios	
Common Equity Tier 1 capital ratio	12.1%
Tier 1 capital ratio	12.5%
Total capital ratio	15.3%

(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 31 March 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 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 285 and 286 (issued in 2013) and Circular 154 (updated during 2013).

Regulatory provisions governing own funds envisage the introduction of the new regulatory framework in a gradual manner, through a transitional period, generally through 2017, during which several elements that, when the framework is in full effect, will be eligible for full inclusion in or deduction from common equity, 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 2014 take account of the adjustments envisaged by the transitional provisions for 2014.
Common equity tier 1 capital does not include the net income for the period, inasmuch as the regulatory conditions for its inclusion have not been met.
If interim net income had been considered, on the basis of the provisions of Regulation 575/2013, the capital ratios would have been a CET 1 ratio of 12.2%, a tier 1 ratio of 12.6%, and a total capital ratio of 15.3%.
With respect to the prudential filter on the value of the stakes in the Bank of Italy, in the absence of regulatory provisions, the same approach as in the 2013 financial statements has been adopted with regard to 31 March 2014. Accordingly, in the calculation of capital requirements, the carrying amounts of the shares cancelled following the approval of the Central Bank's new Articles of Association by its shareholders' meeting on 23 December 2013 continue to be 50% deducted from CET1 and 50% from T2. By contrast, the greater carrying amount of the new stakes, net of the tax effect, was deducted in full from CET1. It should be noted that the application of this prudential filter had an impact on CET1 of approximately 90 basis points.
As at 31 March 2014, total own funds came to 42,341 million euro, against risk-weighted assets of 277,582 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
The total capital ratio stood at 15.3%, while the ratio of the Group's tier 1 capital to its total risk-weighted assets (its tier 1 ratio) was 12.5%. The ratio of common equity tier 1 capital (CET1) to risk-weighted assets (the common equity ratio) was 12.1%.
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 31 March 2014 was six basis points negative.

Reconciliation of shareholders' equity and common equity tier 1 capital

(millions of euro)

Captions	31.03.2014
Shareholders' equity pertaining to the Group	45,007
Shareholders' equity pertaining to minority interests	596
Shareholders' equity as per the Balance Sheet	**45,603**
Distribution of reserves to shareholders of Intesa Sanpaolo resolved by the Shareholders' Meeting of 8.5.2014	-822
Shareholders' equity following distribution to shareholders	**44,781**
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
- Minority interests eligible for inclusion in AT1	-17
- Minority interests eligible for inclusion in T2	-33
- Ineligible minority interests on full phase-in	-463
- Ineligible net income for the period	-503
- Treasury shares included under regulatory adjustments	65
- Other ineligible components on full phase-in	1
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**43,346**
Regulatory adjustments (including transitional adjustments)	**-9,789**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**33,557**