Shareholders' equity

As at 30 September 2014, the Group's shareholders' equity, including net income for the period, came to 44,615 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 change in reserves, which include the 2013 net loss, as well as the net income accruing in 2014. During the first nine months of the year, share capital increased from 8,546 million euro at the end of December 2013 to 8,554 million euro at the end of September 2014, as a consequence of the finalisation of the mergers of Centro Leasing and Mediofactoring by incorporation into the Parent Company.

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2013	Change in the period	Valuation reserves as at 30.09.2014	
				% breakdown
Financial assets available for sale	363	413	776	-59.3
of which: Insurance Companies	*319*	*289*	*608*	*-46.5*
Property and equipment	-	-	-	-
Cash flow hedges	-878	-365	-1,243	95.0
Legally-required revaluations	359	-	359	-27.4
Other	-918	-282	-1,200	91.7
Valuation reserves	**-1,074**	**-234**	**-1,308**	**100.0**

As at 30 September 2014, the negative balance of the Group's valuation reserves came to -1,308 million euro, increasing compared to the value at the end of December 2013 (-1,074 million euro). Negative contributions to the change in the period included cash flow hedge reserves (-365 million euro) and other reserves (-282 million euro), while positive contributions included reserves for financial assets available for sale (+413 million euro), particularly debt securities in the insurance companies' portfolios.

Own funds and capital ratios

(millions of euro)

Own funds and capital ratios	**30.09.2014**
Own funds	
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	36,387
Additional Tier 1 capital (AT1) net of regulatory adjustments	1,169
TIER 1 CAPITAL	**37,556**
Tier 2 capital net of regulatory adjustments	10,083
TOTAL OWN FUNDS	**47,639**
Risk-weighted assets	
Credit and counterparty risks	235,770
Market and settlement risk	16,525
Operational risks	22,123
Other specific risks (a)	675
RISK-WEIGHTED ASSETS	**275,093**
% Capital ratios	
Common Equity Tier 1 capital ratio	13.2%
Tier 1 capital ratio	13.7%
Total capital ratio	17.3%

(a) In relation to risk-weighted assets, this caption includes all other elements not considered in previous captions used to calculate total capital requirements, including any specific capital requirements as provided for by the Supervisory Authority to the individual Group entities.

Own funds, risk weighted assets and the capital ratios at 30 September 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 no. 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 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 30 September 2014 take account of the adjustments envisaged by the transitional provisions for 2014.
As the regulatory conditions (assessment by the independent auditors) for its inclusion (Art. 26, paragraph 2 of the CRR) have not been met, common equity tier 1 capital does not include net income for the third quarter or, for consistency, the related pro-rata dividend under distribution in 2015; therefore, own funds as at 30 September 2014 take into account income as at 30 June 2014 and, consequently, the estimate of dividends to be paid on the 2014 result, determined on a conventional basis as half of the dividends indicated in the 2014-2017 Business Plan as distributable in 2015 (totalling 1 billion euro).
If interim net income had been considered, on the basis of the provisions of Regulation 575/2013, the capital ratios would have been as follows: a CET 1 ratio of 13.3%, a tier 1 ratio of 13.8%, and a total capital ratio of 17.5%.
With regard to the stake in the Bank of Italy, the prudential approach adopted involves the weighting among RWA as equity exposure, in addition to full recognition in CET1 capital of the capital gain resulting from cancellation of the old stake and subsequent recognition of the new stake, following the amendments to the articles of association by the Bank of Italy at the end of 2013.
As at 30 September 2014, total own funds came to 47,639 million euro, against risk-weighted assets of 275,093 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
The total capital ratio stood at 17.3%, while the ratio of the Group's tier 1 capital to its total risk-weighted assets (its tier 1 ratio) was 13.7%. The ratio of common equity tier 1 capital (CET1) to risk-weighted assets (the common equity ratio) was 13.2 %.
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 30 September 2014 was five basis point negative.

Reconciliation of shareholders' equity and common equity tier 1 capital

(millions of euro)

Captions	30.09.2014
Group Shareholders' equity	44,615
Minority interests	512
Shareholders' equity as per the Balance Sheet	**45,127**
Pro-rata dividend to Intesa Sanpaolo shareholders in accordance with the Business Plan	-500
Shareholders' equity following distribution to shareholders	**44,627**
Adjustments for instruments eligible for inclusion in AT1 or T2	
- Capital of savings shares eligible for inclusion in AT1	-485
- Minority interests eligible for inclusion in AT1	-7
- Minority interests eligible for inclusion in T2	-8
- Ineligible minority interests on full phase-in	-407
- Ineligible net income for the period	-483
- Treasury shares included under regulatory adjustments	51
- Other ineligible components on full phase-in	1
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**43,289**
Regulatory adjustments (including transitional adjustments)	**-6,902**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**36,387**

[a] This represents the amount of the pro-quota dividend for the first half of 2014 to be deducted as only the net income as at 30 June 2014 is eligible for inclusion.

[b] This represents the net income for the third quarter of 2014 only, which is ineligible for inclusion as the interim report as at 30 September 2014 is not subject to audit.