

Shareholders' equity

As at 30 June 2018, the Group's shareholders' equity, including the net income for the period, came to 50,863 million euro compared to the 53,268 million euro at the beginning of the year. The decline in equity was due to the distribution of the 2017 net income.

Valuation reserves

	Reserve 01.01.2018	Change of the period	Release to Retained earnings (in case of sale)	(millions of euro) Reserve 30.06.2018	
					incidence %
Financial assets designated at fair value through other comprehensive income (debt instruments)	120	-600	-	-480	35.2
Financial assets designated at fair value through other comprehensive income (equities)	72	71	-	143	-10.5
Property and equipment	-	-	-	-	-
Intangible assets	-	-	-	-	-
Foreign investment hedges	-	-	-	-	-
Cash flow hedges	-916	55	-	-861	63.2
Foreign exchange differences	-1,000	-22	-	-1,022	75.0
Non-current assets held for sale and discontinued operations	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss (change in its creditworthiness)	-	-	-	-	-
Actuarial profits (losses) on defined benefit pension plans	-675	-1	-	-676	49.6
Portion of the valuation reserves connected with investments carried at equity	-63	6	-	-57	4.2
Fair value measurement of property and equipment and legally-required revaluations	1,584	3	-	1,587	-116.4
Valuation reserves (excluding valuation reserves pertaining to insurance companies pursuant to IAS 39)	-878	-488	-	-1,366	100.2
Valuation reserves pertaining to insurance companies	417	-414	-	3	-0.2

Valuation reserves recorded a decline of 488 million euro in the banking component and of 414 million euro in the insurance component, primarily due to the reduction in the fair value of government bonds.

Own funds and capital ratios

Own funds and capital ratios	(millions of euro)		
	30.06.2018		31.12.2017
	IFRS9 "Fully loaded"	IFRS9 "Transitional"	
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	32,833	36,012	38,051
Additional Tier 1 capital (AT1) net of regulatory adjustments	5,342	5,342	5,414
TIER 1 CAPITAL	38,175	41,354	43,465
Tier 2 capital net of regulatory adjustments	7,802	6,983	7,908
TOTAL OWN FUNDS	45,977	48,337	51,373
Risk-weighted assets			
Credit and counterparty risks	244,656	246,575	249,784
Market and settlement risk	17,322	17,322	17,833
Operational risks	17,962	17,962	18,597
Other specific risks (a)	524	524	611
RISK-WEIGHTED ASSETS	280,464	282,383	286,825
% Capital ratios			
Common Equity Tier 1 capital ratio	11.7%	12.8%	13.3%
Tier 1 capital ratio	13.6%	14.6%	15.2%
Total capital ratio	16.4%	17.1%	17.9%

(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 30 June 2018 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.

The regulations governing own funds provided for the gradual introduction of the Basel 3 framework based on a transitional period, during which some elements to be fully included in or deducted from Common Equity when the framework is "fully loaded" only have a partial percent impact on Common Equity Tier 1 capital. With effect from 2018, these transitional provisions no longer apply, with the exception of the filter on valuation reserves for actuarial gains or losses (IAS 19), for which a specific transitional treatment is still in place, although it will expire after the current year. Specific transitional provisions (i.e. grandfathering) also remain in place for subordinated instruments that do not meet the Basel 3 requirements, aimed at the gradual exclusion of instruments no longer regarded as eligible from Own Funds (ending in 2022).

As already discussed in detail, application of IFRS 9 - Financial Instruments, endorsed by Regulation (EU) 2016/2067 of 22 November 2016, in replacement of the previous standard IAS 39, has become mandatory from 1 January 2018. Accordingly, first-time adoption (FTA) of the Standard took effect from the accounting date of 1 January 2018. This entailed the restatement of the financial instruments according to the new classification criteria and the recalculation of their values, where necessary, to take account of the new impairment and classification rules. The effects of this process, in respect of first-time adoption only, have been recognised through shareholders' equity.

On the subject of the introduction of IFRS 9, on 12 December 2017 the European Parliament enacted Regulation (EU) 2017/2395 updating the CRR by adding the new Article 473a "Introduction of IFRS 9", which allows banks to mitigate the impacts on own funds of the introduction of the new accounting standard.

In this regard, the Intesa Sanpaolo Group chose to adopt the "static approach" envisaged in the aforementioned Regulation. This approach permits the re-inclusion in Common Equity of a gradually decreasing amount, ending in 2022 (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022), of the impact of IFRS 9, calculated net of the tax effect, based on the comparison of the IAS 39 adjustments as at 31 December 2017 and the IFRS 9 adjustments as at 1 January 2018, excluding the reclassification of financial instruments, and after eliminating the shortfall as at 31 December 2017.

Regulation (EU) 2017/2395 also lays down the reporting obligations that entities are required to publish, while charging the EBA with issuing specific guidelines on this subject. In implementation of the Regulation, on 12 January 2018, the EBA issued specific guidelines according to which banks that adopt a transitional treatment of the impact of IFRS 9 (such as the static approach mentioned above) are required to publish, with quarterly frequency, the fully loaded consolidated figures (as if the transitional treatment had not been applied) and the transitional consolidated figures for Common Equity Tier 1 (CET1) capital, Tier 1 capital, total capital, total risk-weighted assets, capital ratios and the leverage ratio.

As at 30 June 2018, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds came to 48,337 million euro, against risk-weighted assets of 282,383 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk. As at that same date, considering the full inclusion of the impact of IFRS 9, Own Funds stood at 45,977 million euro, compared to risk-weighted assets of 280,464 million euro.

Common Equity Tier 1 capital includes the net income for the first half of 2018, less the related dividend, calculated on the basis of the payout envisaged in the 2018-2021 Business Plan (85% for 2018) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

With regard to the POP (Performance-based Option Plan) – a long-term incentive plan for top management, risk-takers and strategic managers – the effect of the exercise of the right of novation, whereby Intesa Sanpaolo attributed the obligation to deliver the shares to the POP Counterparty, essentially representing an alternative approach to direct purchase of own shares on the market by Intesa Sanpaolo, was accounted for as a decline in equity of 160 million euro, with the ensuing reduction in Common Equity Tier 1 capital of like amount.

On the basis of the foregoing, solvency ratios as at 30 June 2018, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity ratio of 12.8%, a Tier 1 ratio of 14.6% and a total capital ratio of 17.1%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 30 June 2018 were as follows: a Common Equity ratio of 11.7%, a Tier 1 ratio of 13.6% and a total capital ratio of 16.4%.

You are reminded that, on 22 December 2017, Intesa Sanpaolo received the ECB's final decision regarding the capital requirements to be observed with effect from 1 January 2018, 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 8.145% under the transition arrangements in force for 2018 and 9.33% on a fully loaded basis.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

Captions	(millions of euro)	
	30.06.2018	31.12.2017
Group Shareholders' equity	50,863	56,205
Minority interests	364	399
Shareholders' equity as per the Balance Sheet	51,227	56,604
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	-4,121	-4,121
- Minority interests eligible for inclusion in AT1	-5	-9
- Minority interests eligible for inclusion in T2	-3	-5
- Ineligible minority interests on full phase-in	-333	-335
- Ineligible net income for the period (a)	-1,932	-3,500
- Treasury shares included under regulatory adjustments	131	94
- Other ineligible components on full phase-in	-65	-24
Common Equity Tier 1 capital (CET1) before regulatory adjustments	44,414	48,219
Regulatory adjustments (including transitional adjustments) (b)	-8,402	-10,168
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	36,012	38,051

(a) Common Equity Tier 1 capital as at 30 June 2018 includes the net income for the first half of 2018, less the related dividend, calculated according to the payout envisaged in the 2018-2021 Business Plan (85% for 2018) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(b) Adjustments for the transitional period as at 30 June 2018 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (95% in 2018) set to decrease progressively until 2022.