SHAREHOLDERS' EQUITY

As at 30 June 2019, the Group's shareholders' equity, including the net income for the period, came to 53,535 million euro compared to the 54,024 million euro at the beginning of the year. The decrease in equity was due to the distribution of the 2018 net income.

Valuation reserves

(millions of euro)

	Reserve 01.01.2019	Change of the period	Reserve 30.06.2019
Financial assets designated at fair value through other comprehensive income (debt instruments)	-489	354	-135
Financial assets designated at fair value through other comprehensive income (equities)	189	16	205
Property and equipment	1,256	232	1,488
Cash flow hedges	-816	-146	-962
Foreign exchange differences	-1,011	43	-968
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	-375	-62	-437
Portion of the valuation reserves connected with investments carried at equity	25	2	27
Legally-required revaluations	308	-	308
Valuation reserves (excluding valuation reserves pertaining to insurance companies)	**-913**	**439**	**-474**
Valuation reserves pertaining to insurance companies	**9**	**313**	**322**

Valuation reserves increased by 439 million euro in the banking component and by 313 million euro in the insurance component, essentially due to the performance of the spread on Italian government bonds.

OWN FUNDS AND CAPITAL RATIOS

(millions of euro)

Own funds and capital ratios	**30.06.2019**		**31.12.2018**
	IFRS9 "Fully loaded"	IFRS9 "Transitional"	IFRS9 "Transitional"
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	34,351	38,015	37,241
Additional Tier 1 capital (AT1) net of regulatory adjustments	4,740	4,740	4,856
TIER 1 CAPITAL	**39,091**	**42,755**	**42,097**
Tier 2 capital net of regulatory adjustments	7,339	6,486	6,781
TOTAL OWN FUNDS	**46,430**	**49,241**	**48,878**
Risk-weighted assets			
Credit and counterparty risks	240,633	241,483	237,237
Market and settlement risk	20,116	20,116	21,147
Operational risks	18,344	18,344	17,671
Other specific risks (a)	317	317	391
RISK-WEIGHTED ASSETS	**279,410**	**280,260**	**276,446**
% Capital ratios			
Common Equity Tier 1 capital ratio	12.3%	13.6%	13.5%
Tier 1 capital ratio	14.0%	15.3%	15.2%
Total capital ratio	16.6%	17.6%	17.7%

(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 2019 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, which provided for the gradual introduction of the Basel 3 framework, are now in full effect, following the conclusion in 2018 of the specific transitional period during which some elements to be fully included in or deducted from Common Equity when the framework is “fully loaded” only had a partial percent impact on Common Equity Tier 1 capital. Specific transitional provisions (i.e. grandfathering) 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).
The Intesa Sanpaolo Group chose to take the "static approach" to adopting IFRS 9 envisaged in Regulation (EU) 2017/2395. 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, 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 2019, considering the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds came to 49,241 million euro, against risk-weighted assets of 280,260 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 46,430 million euro, compared to risk-weighted assets of 279,410 million euro. Own funds calculated considering the full impact of IFRS 9 (i.e., on a “fully-loaded” basis) take account of the provisions of the 2019 Budget Act calling for the adjustments upon first-time adoption of the Standard to be applied in instalments for tax purposes, with the recognition of the resulting DTAs. These DTAs have been considered at 15% of their book value for the purposes of calculating transitional own funds, in accordance with Article 473bis of the CRR with regard to the application of the static approach, whereas they have been fully included among deductible elements in fully-loaded own funds. The impact of such DTAs on fully-loaded own funds is nonetheless temporary since they will be phased out over a period of 10 years, starting in 2018.
Common Equity Tier 1 capital includes the net income for the first half of 2019, less the related dividend, calculated on the basis of the payout envisaged in the 2018-2021 Business Plan (80% for 2019) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).
The increase in risk-weighted assets during the half-year relating to credit risk includes the impact of the first-time adoption of IFRS 16, the standard on leases, which entailed an increase in on-balance sheet assets due to the recognition of the right of use to leased assets, together with the results of the TRIM (Targeted Review of Internal Models) conducted by the ECB.

On the basis of the foregoing, solvency ratios as at 30 June 2019, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity ratio of 13.6%, a Tier 1 ratio of 15.3% and a total capital ratio of 17.6%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 30 June 2019 were as follows: a Common Equity ratio of 12.3%, a Tier 1 ratio of 14.0% and a Total capital ratio of 16.6%.
Finally, on 8 February 2019, Intesa Sanpaolo received notification of the ECB's final decision concerning the capital requirement that the Bank has to meet, on a consolidated basis, as of 1 March 2019, following the results of the Supervisory Review and Evaluation Process (SREP). The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.96% under the transitional arrangements for 2019 and 9.36% on a fully loaded basis.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

Captions	30.06.2019	31.12.2018
Group Shareholders' equity	53,535	54,024
Minority interests	337	407
Shareholders' equity as per the Balance Sheet	**53,872**	**54,431**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for inclusion in AT1	-4,121	-4,121
- Minority interests eligible for inclusion in AT1	-4	-4
- Minority interests eligible for inclusion in T2	-4	-4
- Ineligible minority interests on full phase-in	-298	-372
- Ineligible net income for the period (a)	-1,887	-3,534
- Treasury shares included under regulatory adjustments	206	204
- Other ineligible components on full phase-in	-148	-134
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**47,616**	**46,466**
Regulatory adjustments (including transitional adjustments) (b)	**-9,601**	**-9,225**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**38,015**	**37,241**

(a) Common Equity Tier 1 capital as at 30 June 2019 includes the net income for the second quarter of 2019, less the related dividend, calculated according to the payout envisaged in the 2018-2021 Business Plan (80% for 2019) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(b) Adjustments for the transitional period as at 30 June 2019 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (85% in 2019) set to decrease progressively until 2022.