SHAREHOLDERS' EQUITY

As at 30 June 2021, the Group's shareholders' equity, including the net income for the period, came to 66,232 million euro, compared to the 65,894 million euro at the beginning of the year. The increase is mainly attributable to reserves (+1.9 billion euro), in part offset by the reduction in equity instruments; the aggregate includes the 3 billion euro of net income accrued in the half-year and the payment of 694 billion euro of cash dividends in May.

Valuation reserves

(millions of euro)

	Reserve 31.12.2020	Change of the period	Reserve 30.06.2021
Financial assets designated at fair value through other comprehensive income (debt instruments)	200	-423	-223
Financial assets designated at fair value through other comprehensive income (equities)	-112	229	117
Property and equipment	1,569	-6	1,563
Cash flow hedges	-781	103	-678
Foreign exchange differences	-1,184	78	-1,106
Non-current assets held for sale and discontinued operations	-	-	-
Financial liabilities designated at fair value through profit or loss (change in its creditworthiness)	-103	9	-94
Actuarial profits (losses) on defined benefit pension plans	-422	30	-392
Portion of the valuation reserves connected with investments carried at equity	10	19	29
Legally-required revaluations	308	-	308
Valuation reserves (excluding valuation reserves pertaining to insurance companies)	**-515**	**39**	**-476**
Valuation reserves pertaining to insurance companies	**809**	**-148**	**661**

Banking valuation reserves were negative (-476 million euro), decreasing compared to 31 December 2020, mainly due to an increase in the value of equity instruments (+117 million euro) and lower cash flow hedge reserves (-678 million euro) and foreign exchange difference reserves; on the other hand, the reserves on debt securities had a negative impact (-223million euro), against the positive value at the beginning of the year. The valuation reserves of the insurance companies amounted to 661 million euro, compared with 809 million euro at the end of 2020.

OWN FUNDS AND CAPITAL RATIOS

(millions of euro)

Own funds and capital ratios	**30.06.2021**		**31.12.2020**
	IFRS 9 "Fully loaded"	IFRS 9 "Transitional"	IFRS 9 "Transitional"
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	47,474	48,992	51,070
Additional Tier 1 capital (AT1) net of regulatory adjustments	6,265	6,265	7,486
TIER 1 CAPITAL	**53,739**	**55,257**	**58,556**
Tier 2 capital net of regulatory adjustments	10,431	9,519	9,377
TOTAL OWN FUNDS	**64,170**	**64,776**	**67,933**
Risk-weighted assets			
Credit and counterparty risks	288,392	287,425	299,564
Market and settlement risk	15,788	15,788	19,521
Operational risks	26,378	26,378	27,559
Other specific risks (a)	157	157	428
RISK-WEIGHTED ASSETS	**330,715**	**329,748**	**347,072**
% Capital ratios			
Common Equity Tier 1 capital ratio	14.4%	14.9%	14.7%
Tier 1 capital ratio	16.2%	16.8%	16.9%
Total capital ratio	19.4%	19.6%	19.6%

(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 2021 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, as amended respectively by Directive 2019/878/EU (CRD V) and by Regulation (EU) 2019/876 (CRR II), 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. 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.

Own funds

As at 30 June 2021, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds amounted to 64,776 million euro; as at that same date, considering the full inclusion of the impact of IFRS 9, Own Funds stood at 64,170 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 50% 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 by 2028.
In addition, the Group has not yet adopted the new IFRS 9 transitional rules relating to adjustments to loans after 31 December 2019 or the reintroduction of the prudential filter for exposures to central governments classified to the FVOCI category, both introduced by the European Commission in Regulation (EU) 2020/873 of 24 June 2020.
Own funds also take into account the applicable amount, subject to deduction from CET1, related to the minimum coverage of losses on non-performing exposures, known as Minimum Loss Coverage, based on the provisions of Regulation (EU) 2019/630 of 17 April 2019.
For the purposes of calculating own funds as at 30 June 2021 the net income for the first half of 2021 was considered, less the related dividend, calculated according to the payout ratio envisaged in the 2018-2021 Business Plan (70% for 2021) and other foreseeable charges. With regard to the payout ratio on 2021 net income, on 15 December 2020, the European Central

Bank, following the previous guidance in this regard, had published a Recommendation on dividend policies during the COVID-19 epidemic, asking significant credit institutions to exercise utmost caution when making decisions on dividends or dividend distributions to remunerate shareholders and reserving the right to review the Recommendation before 30 September 2021, when, in the absence of significant adverse developments, it would repeal the Recommendation, resuming assessing banks' capital and distribution plans based on the outcomes of the normal supervisory cycle. In this regard, on 23 July 2021 the European Central Bank communicated its decision not to extend beyond 30 September 2021 its recommendation that all banks limit dividends. As a consequence, the supervisory authorities will resume the previous supervisory practice of evaluating each bank's capital trajectories and dividend distribution plans as part of the normal supervisory cycle; in any case, the European Central Bank recommended that the banks should remain prudent and not underestimate credit risk when deciding on dividends.

Risk-weighted assets

As at 30 June 2021, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, risk-weighted assets came to 329,748 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, risk-weighted assets stood at 330,715 million euro. The decline on 31 December 2020 was largely due to the sale of the branches to BPER finalised in February 2021 and, residually, in June 2021.
Common Equity Tier 1 Capital and risk-weighted assets as at 30 June 2021 take account of the impact of the application of the "Danish Compromise" (Article 49.1 of Regulation (EU) No 575/2013), as per the specific authorisation received from the ECB in 2019, according to which insurance investments, excluding those not directly owned by Intesa Sanpaolo Vita, for which an extension of the "Danish Compromise" has not been sought yet, are treated as risk-weighted assets instead of being deducted from capital.

Solvency ratios

On the basis of the foregoing, solvency ratios as at 30 June 2021, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity ratio of 14.9%, a Tier 1 ratio of 16.8% and a total capital ratio of 19.6%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 30 June 2021 were as follows: a Common Equity ratio of 14.4%, a Tier 1 ratio of 16.2% and a Total capital ratio of 19.4%.
On 25 November 2020 Intesa Sanpaolo disclosed that it had received a communication from the ECB following the results of the Supervisory Review and Evaluation Process (SREP) concerning the capital requirement to be met on a consolidated basis, which was set equal to that for the previous year. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio in 2021 is 8.63%.
Lastly, it should be noted that Intesa Sanpaolo was subject to the 2021 EU-Wide Stress Test, conducted by the European Banking Authority (EBA), in cooperation with the Bank of Italy, the European Central Bank and the European Systemic Risk Board (ESRB). Intesa Sanpaolo takes note of the announcements made by the EBA on 30 July 2021 on the EU-Wide Stress Test and fully acknowledges the outcomes of this exercise. The fully loaded CET1 ratio for Intesa Sanpaolo resulting from the stress test for 2023, the final year considered in the exercise, stands at 15.06% under the baseline scenario and 9.38% under the adverse scenario, compared to the starting-point figure of 14.04% recorded as at 31 December 2020. In this regard, please see the chapter on "Subsequent events".

Reconciliation of Shareholders’ equity and Common Equity Tier 1 capital

(millions of euro)

Captions	30.06.2021	31.12.2020
Group Shareholders' equity	66,232	65,894
Minority interests	318	1,172
Shareholders' equity as per the Balance Sheet	**66,550**	**67,066**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for inclusion in AT1	-6,263	-7,480
- Minority interests eligible for inclusion in AT1	-2	-6
- Minority interests eligible for inclusion in T2	-3	-5
- Ineligible minority interests on full phase-in	-306	-408
- Ineligible net income for the period (a)	-2,203	-821
- Treasury shares included under regulatory adjustments	261	263
- Other ineligible components on full phase-in	-202	-147
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**57,832**	**58,462**
Regulatory adjustments (including transitional adjustments) (b)	**-8,840**	**-7,392**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**48,992**	**51,070**

(a) Common Equity Tier 1 capital as at 30 June 2021 includes the net income as at that date, less the related dividend, calculated taking into account the payout envisaged in the 2018-2021 Business Plan (70% for 2021) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(b) Adjustments for the transitional period as at 30 June 2021 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (50% in 2021) set to decrease progressively until 2022.