SHAREHOLDERS' EQUITY

As at 31 March 2020, the Group's shareholders' equity, including the net income for the period, came to 56,516 million euro compared to the 55,968 million euro at the beginning of the year. The increase is due to the contribution of the net income earned during the first quarter (1,151 million euro) and issued equity instruments (+1.5 billion euro), whereas the valuation reserves of the banking group and those pertaining to insurance companies had a negative impact (approximately -2 billion euro overall).
In compliance with the European Central Bank communication of 27 March 2020 concerning the dividend policy in the situation resulting from the COVID 19 epidemic, the Bank has decided to suspend the proposed cash distribution to shareholders of around 3.4 billion euro and assigned the net income for 2019 to reserves, after attributing 12.5 million euro to the Allowance for charitable, social and cultural contributions.

Valuation reserves

(millions of euro)

	Reserve 31.12.2019	Change of the period	Reserve 31.03.2020
Financial assets designated at fair value through other comprehensive income (debt instruments)	57	-1,464	-1,407
Financial assets designated at fair value through other comprehensive income (equities)	172	-142	30
Property and equipment	1,526	-1	1,525
Cash flow hedges	-882	-23	-905
Foreign exchange differences	-956	-162	-1,118
Non-current assets held for sale and discontinued operations	-	-	-
Financial liabilities designated at fair value through profit or loss (change in its creditworthiness)	-	50	50
Actuarial profits (losses) on defined benefit pension plans	-410	65	-345
Portion of the valuation reserves connected with investments carried at equity	28	1	29
Legally-required revaluations	308	-	308
Valuation reserves (excluding valuation reserves pertaining to insurance companies)	**-157**	**-1,676**	**-1,833**
Valuation reserves pertaining to insurance companies	**504**	**-322**	**182**

Valuation reserves decreased, by -1,676 million euro in the banking component and by -322 million euro in the insurance component, respectively, mostly due to the performance of the spread on Italian government bonds, which entailed a decrease in the value of the assets in portfolio.

OWN FUNDS AND CAPITAL RATIOS

(millions of euro)

Own funds and capital ratios	**31.03.2020**		**31.12.2019**
	IFRS9 "Fully loaded"	IFRS9 "Transitional"	IFRS9 "Transitional"
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	40,212	42,339	41,542
Additional Tier 1 capital (AT1) net of regulatory adjustments	5,596	5,596	4,096
TIER 1 CAPITAL	**45,808**	**47,935**	**45,638**
Tier 2 capital net of regulatory adjustments	7,903	7,036	7,057
TOTAL OWN FUNDS	**53,711**	**54,971**	**52,695**
Risk-weighted assets			
Credit and counterparty risks	258,489	256,876	258,187
Market and settlement risk	18,701	18,701	18,829
Operational risks	21,212	21,212	21,212
Other specific risks (a)	330	330	296
RISK-WEIGHTED ASSETS	**298,732**	**297,119**	**298,524**
% Capital ratios			
Common Equity Tier 1 capital ratio	13.5%	14.2%	13.9%
Tier 1 capital ratio	15.3%	16.1%	15.3%
Total capital ratio	18.0%	18.5%	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 31 March 2020 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.
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 31 March 2020, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds came to 54,971 million euro, against risk-weighted assets of 297,119 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 53,711 million euro, compared to risk-weighted assets of 298,732 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 30% 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.
Capital adequacy ratios as at 31 December 2019 had been calculated considering the income for 2019 net of the component that the Board of Directors, during its session of 25 February 2020, had proposed be allocated to dividends for a total of 3,362 million euro; following the ECB's Recommendation of 27 March 2020 regarding dividend policies in the situation resulting from the Covid-19 epidemic, on 31 March 2020 Intesa Sanpaolo's Board of Directors amended the proposal to the Shareholders' Meeting for the allocation of the net income reported in the Financial Statements as at 31 December 2019, adopting the European Central Bank's Recommendation not to distribute dividends in view of the economic environment created by the epidemic, and instead proposing that the share of the net income allocated to dividends in the previous resolution dated 25 February 2020 be assigned to reserves. On 27 April 2020, the Shareholders' Meeting approved the assignment of the net income for 2019 to reserves. Accordingly, Common Equity Tier 1 capital at 31 March 2020 includes, among reserves, the entire net income for 2019, less the foreseeable other charges (accrued coupon on Additional Tier 1 instruments and charitable giving).

By contrast, Common Equity Tier 1 Capital takes account of the net income for the first quarter of 2020, net of the related dividends (and other foreseeable charges), in view of Intesa Sanpaolo's intention to confirm the dividend policy set out in the 2018-2021 Business Plan, which envisages a payout ratio of 75% for 2020, subject to the recommendations that will be provided by the ECB regarding dividend distributions after 1 October this year, the end date in the recommendation issued on 27 March.
Common Equity Tier 1 Capital and risk-weighted assets as at 31 March 2020 take account of the impact of the application of the "Danish Compromise" (Art. 49.1 of Regulation (EU) No 575/2013), as per the specific authorisation received from the ECB in 2019, according to which insurance investments are treated as risk-weighted assets instead of being deducted from capital.
On the basis of the foregoing, solvency ratios as at 31 March 2020, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity ratio of 14.2%, a Tier 1 capital ratio of 16.1% and a total capital ratio of 18.5%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 31 March 2020 were as follows: a Common Equity ratio of 13.5%, a Tier 1 capital ratio of 15.3% and a total capital ratio of 18.0%.
Finally, it should be noted that on 26 November 2019 Intesa Sanpaolo disclosed that it had received the ECB's final decision concerning the capital requirement that the Bank has to meet, on a consolidated basis, as of 1 January 2020, 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 8.46% under the transitional arrangements for 2020 and 8.65% on a fully loaded basis.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

Captions	31.03.2020	31.12.2019
Group Shareholders' equity	56,516	55,968
Minority interests	233	247
Shareholders' equity as per the Balance Sheet	**56,749**	**56,215**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for inclusion in AT1	-5,590	-4,091
- Minority interests eligible for inclusion in AT1	-6	-5
- Minority interests eligible for inclusion in T2	-3	-3
- Ineligible minority interests on full phase-in	-188	-204
- Ineligible net income for the period (a)	-910	-3,451
- Treasury shares included under regulatory adjustments	228	230
- Other ineligible components on full phase-in	-137	-171
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**50,143**	**48,520**
Regulatory adjustments (including transitional adjustments) (b)	**-7,804**	**-6,978**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**42,339**	**41,542**

(a) Common Equity Tier 1 capital as at 31 March 2020 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 (75% for 2020) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(b) Adjustments for the transitional period as at 31 March 2020 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (70% in 2020) set to decrease progressively until 2022.