SHAREHOLDERS' EQUITY

As at 31 March 2021, the Group's shareholders' equity, including the net income for the period, came to 65,347 million euro compared to the 65,871 million euro at the beginning of the year. The reduction is mainly due to equity instruments issued (-1.3 billion euro).

The Group allocated the 2020 net income to reserves pending the distribution in May 2021 of a cash dividend to shareholders of 694 million euro, the maximum amount permitted by the ECB recommendation of 15.12.20 on dividend distributions during the COVID-19 pandemic; drawing on the 2020 results - contingent on the indications to be given by the ECB on dividend policies after 30 September 2021, the end of the period to which the above recommendation applies - a cash distribution is planned from reserves that adds to the aforementioned dividends and leads to the payment of a total amount corresponding to a payout ratio of 75% of the 3,505 million euro adjusted net income.

Valuation reserves

(millions of euro)

	Reserve 31.12.2020	Change of the period	Reserve 31.03.2021
Financial assets designated at fair value through other comprehensive income (debt instruments)	200	-324	-124
Financial assets designated at fair value through other comprehensive income (equities)	-112	-37	-149
Property and equipment	1,569	5	1,574
Cash flow hedges	-781	67	-714
Foreign exchange differences	-1,184	25	-1,159
Non-current assets held for sale and discontinued operations	-	-	-
Financial liabilities designated at fair value through profit or loss (change in its creditworthiness)	-103	22	-81
Actuarial profits (losses) on defined benefit pension plans	-422	-3	-425
Portion of the valuation reserves connected with investments carried at equity	10	22	32
Legally-required revaluations	308	-	308
Valuation reserves (excluding valuation reserves pertaining to insurance companies)	**-515**	**-223**	**-738**
Valuation reserves pertaining to insurance companies	**809**	**-32**	**777**

Banking valuation reserves were negative (-738 million euro), widening compared to 31 December 2020, mainly due to the effect of reserves on equities (-324 million euro) and, to a lesser extent, reserves on equity instruments (-37 million euro); on the other hand, there were small improvements at 31 March 2021 on cash flow hedging, liabilities designated at fair value relating to certificates issued with capital protection and foreign exchange differences, reducing the negative balance. The valuation reserves of the insurance companies amounted to 777 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	31.03.2021		31.12.2020
	IFRS9 "Fully loaded"	IFRS9 "Transitional"	IFRS9 "Transitional"
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	48,568	50,080	51,070
Additional Tier 1 capital (AT1) net of regulatory adjustments	6,220	6,220	7,486
TIER 1 CAPITAL	**54,788**	**56,300**	**58,556**
Tier 2 capital net of regulatory adjustments	10,228	9,323	9,377
TOTAL OWN FUNDS	**65,016**	**65,623**	**67,933**
Risk-weighted assets			
Credit and counterparty risks	287,614	286,605	299,564
Market and settlement risk	21,632	21,632	19,521
Operational risks	27,559	27,559	27,559
Other specific risks (a)	266	266	428
RISK-WEIGHTED ASSETS	**337,071**	**336,062**	**347,072**
% Capital ratios			
Common Equity Tier 1 capital ratio	14.4%	14.9%	14.7%
Tier 1 capital ratio	16.3%	16.8%	16.9%
Total capital ratio	19.3%	19.5%	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 31 March 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 (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 discharge, 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 31 March 2021, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds amounted to 65,623 million euro; as at that same date, considering the full inclusion of the impact of IFRS 9, Own Funds stood at 65,016 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 No 2020/873 of 24 June 2020.
For the purposes of calculating own funds as at 31 March 2021 the net income for the first quarter 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 intends to repeal the Recommendation and

resume assessing banks' capital and distribution plans based on the outcomes of the normal supervisory cycle. Accordingly, the payout ratio is subject to future indications from the European Central Bank regarding the dividend policy that significant credit institutions may adopt after 30 September 2021.

Risk-weighted assets
As at 31 March 2021, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, risk-weighted assets came to 336,062 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 337,071 million euro. The decline on 31 December 2020 was largely due to the sale of the branches to BPER in February 2021.
Common Equity Tier 1 Capital and risk-weighted assets as at 31 March 2021 take account of the impact of the application of the "Danish Compromise" (Art. 49.1 of Regulation (EU) 575/2013), as per the specific authorisation received from the ECB in 2019, according to which insurance investments, excluding those attributable to the UBI Group, for which an extension of the "Danish Compromise" has not been requested, are treated as risk-weighted assets instead of being deducted from capital.

Solvency ratios
On the basis of the foregoing, solvency ratios as at 31 March 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 19.5%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 31 March 2021 were as follows: a Common Equity ratio of 14.4%, a Tier 1 ratio of 16.3% and a total capital ratio of 19.3%.
Finally, it should be noted that 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 is 8.63% on a fully loaded basis.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

Captions	31.03.2021	31.12.2020
Group Shareholders' equity	65,347	65,871
Minority interests	362	450
Shareholders' equity as per the Balance Sheet	**65,709**	**66,321**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for inclusion in AT1	-6,214	-7,480
- Minority interests eligible for inclusion in AT1	-6	-6
- Minority interests eligible for inclusion in T2	-5	-5
- Ineligible minority interests on full phase-in	-319	-408
- Ineligible net income for the period (a)	-1,105	-821
- Treasury shares included under regulatory adjustments	260	263
- Other ineligible components on full phase-in (b)	-848	-147
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**57,472**	**57,717**
Regulatory adjustments (including transitional adjustments) (c)	**-7,392**	**-6,647**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**50,080**	**51,070**

(a) Common Equity Tier 1 capital as at 31 March 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) The amount as at 31 March 2021 primarily includes the dividend and the portion intended for charitable donations relating to 2020 net income, as approved by the Shareholders' Meeting on 28 April 2021.

(c) Adjustments for the transitional period as at 31 March 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.