SHAREHOLDERS' EQUITY

As at 30 September 2021, the Group's shareholders' equity, including the net income for the period, came to 66,985 million euro, compared to 65,894 million euro at the beginning of the year. The increase is mainly attributable to reserves (+1.7 billion euro), in part offset by the reduction in equity instruments; the aggregate includes the 4 billion euro of net income accrued in the first nine months of this year and the payment of 694 million euro of cash dividends in May.

Valuation reserves

(millions of euro)

	Reserve 31.12.2020	Change of the period	Reserve 30.09.2021
Financial assets designated at fair value through other comprehensive income (debt instruments)	200	-396	-196
Financial assets designated at fair value through other comprehensive income (equities)	-112	62	-50
Property and equipment	1,569	21	1,590
Cash flow hedges	-781	138	-643
Foreign exchange differences	-1,184	80	-1,104
Non-current assets held for sale and discontinued operations	-	-	-
Financial liabilities designated at fair value through profit or loss (change in its creditworthiness)	-103	10	-93
Actuarial profits (losses) on defined benefit pension plans	-422	2	-420
Portion of the valuation reserves connected with investments carried at equity	10	29	39
Legally-required revaluations	308	-	308
Valuation reserves (excluding valuation reserves pertaining to insurance companies)	**-515**	**-54**	**-569**
Valuation reserves pertaining to insurance companies	**809**	**-132**	**677**

Banking valuation reserves were negative (-569 million euro), increasing compared to 31 December 2020, mainly due to the effect of the reserves on debt securities (-196 million euro), which had a positive value of 200 million euro at the beginning of the year; on the other hand, cash flow hedging reserves declined from -781 million euro in December 2020 to -643 million euro in September 2021, as did those on equities and foreign exchange differences, albeit to a lesser degree. The valuation reserves of the insurance companies were positive for 677 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	30.09.2021		31.12.2020
	IFRS9 "Fully loaded"	IFRS9 "Transitional"	IFRS9 "Transitional"
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	45,476	46,992	51,070
Additional Tier 1 capital (AT1) net of regulatory adjustments	6,264	6,264	7,486
TIER 1 CAPITAL	**51,740**	**53,256**	**58,556**
Tier 2 capital net of regulatory adjustments	10,082	9,175	9,377
TOTAL OWN FUNDS	**61,822**	**62,431**	**67,933**
Risk-weighted assets			
Credit and counterparty risks	286,402	285,480	299,564
Market and settlement risk	16,172	16,172	19,521
Operational risks	26,378	26,378	27,559
Other specific risks (a)	146	146	428
RISK-WEIGHTED ASSETS	**329,098**	**328,176**	**347,072**
% Capital ratios			
Common Equity Tier 1 capital ratio	13.8%	14.3%	14.7%
Tier 1 capital ratio	15.7%	16.2%	16.9%
Total capital ratio	18.8%	19.0%	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 September 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 September 2021, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds amounted to 62,431 million euro; as at that same date, considering the full inclusion of the impact of IFRS 9, Own Funds stood at 61,822 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 September 2021, the net income for the first nine months of 2021 was considered, less the related dividend, calculated on the basis of the payout ratio envisaged in the 2018-2021 Business Plan (70% for 2021) and other foreseeable charges. In addition, the cash distribution of part of the Extraordinary reserve that took place on 20 October 2021, approved by Intesa Sanpaolo's Shareholders' Meeting on 14 October 2021 in the total amount of 1,935 million euro, was deducted from own funds at 30 September 2021; in particular, the amount deducted from own funds was considered net of the portion not distributed in respect of any own shares held in portfolio on the record date, amounting to 3 million euro. This distribution – which follows the communication from the European Central Bank of 23 July 2021 that it was not extending its recommendation to all banks to limit dividends beyond 30 September 2021, and is in addition to the cash dividends of 694 million euro approved in April and paid in May 2021 – leads to a total payout for 2020 corresponding to a payout ratio of 75% of the 3,505 million euro adjusted consolidated net income[12], in line with the 2018-2021 Business Plan.

Risk-weighted assets
As at 30 September 2021, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, risk-weighted assets came to 328,176 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 329,098 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 September 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 September 2021, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity ratio of 14.3%, a Tier 1 ratio of 16.2% and a Total capital ratio of 19.0%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 30 September 2021 were as follows: a Common Equity ratio of 13.8%, a Tier 1 ratio of 15.7% and a Total capital ratio of 18.8%.
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 8.64% on a fully loaded basis, considering the countercyclical capital buffer requirements established at the present date by the competent national authorities for the various countries in which the Group is present.
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. The fully loaded CET1 ratio under the adverse scenario would be 9.97% restoring the actual neutral effect on capital ratios of the 2018-2021 Long-term Incentive Plan LECOIP 2.0 based on financial instruments, not captured by stress test assumption of a static balance sheet, and considering the sale transactions of the going concerns - related to the acquisition of UBI Banca in 2020 - finalised in the first half of 2021, other things being equal.

[12] Excluding from the stated net income the items related to the acquisition of UBI Banca consisting of the effect of the purchase price allocation, including negative goodwill, and integration charges, as well as the write-off of goodwill of the Banca dei Territori Division.

Reconciliation of Shareholders’ equity and Common Equity Tier 1 capital

(millions of euro)

Captions	30.09.2021	31.12.2020
Group Shareholders' equity	66,985	65,894
Minority interests	299	1,172
Shareholders' equity as per the Balance Sheet	**67,284**	**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	-1	-6
- Minority interests eligible for inclusion in T2	-1	-5
- Ineligible minority interests on full phase-in	-293	-1,130
- Ineligible net income for the period (a)	-2,849	-821
- Treasury shares included under regulatory adjustments	291	263
- Cash distribution from extraordinary reserve (b)	-1,932	-
- Other ineligible components on full phase-in	-193	-170
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**56,043**	**57,717**
Regulatory adjustments (including transitional adjustments) (c)	**-9,051**	**-6,647**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**46,992**	**51,070**

(a) Common Equity Tier 1 capital as at 30 September 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 cash distribution that took place on 20 October 2021 from the Extraordinary Reserve, approved by Intesa Sanpaolo’s Shareholders' Meeting on 14 October 2021, in the total amount of 1,935 million euro was deducted from own funds at 30 September 2021; in particular, the amount deducted from own funds was considered net of the portion not distributed in respect of any own shares held in portfolio on the record date.

(c) Adjustments for the transitional period as at 30 September 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.