SHAREHOLDERS' EQUITY

As at 31 March 2019, the Group's shareholders' equity, including the net income for the period, came to 55,202 million euro compared to the 54,024 million euro at the beginning of the year. The increase is due to the contribution of the net income earned during the quarter (1,050 million euro) and, to a lesser extent, the valuation reserves of the banking group and those pertaining to insurance companies.

Valuation reserves

(millions of euro)

	Reserve 01.01.2019	Change of the period	Reserve 31.03.2019
Financial assets designated at fair value through other comprehensive income (debt instruments)	-489	55	-434
Financial assets designated at fair value through other comprehensive income (equities)	189	46	235
Property and equipment	1,256	2	1,258
Cash flow hedges	-816	-76	-892
Foreign exchange differences	-1,011	28	-983
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	-30	-405
Portion of the valuation reserves connected with investments carried at equity	25	11	36
Legally-required revaluations	308	-	308
Valuation reserves (excluding valuation reserves pertaining to insurance companies)	**-913**	**36**	**-877**
Valuation reserves pertaining to insurance companies	**9**	**128**	**137**

Valuation reserves increased by 36 million euro in the banking component and by 128 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	**31.03.2019**		**31.12.2018**
	IFRS9 "Fully loaded"	IFRS9 "Transitional"	IFRS9 "Transitional"
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	33,534	37,231	37,241
Additional Tier 1 capital (AT1) net of regulatory adjustments	4,740	4,740	4,856
TIER 1 CAPITAL	**38,274**	**41,971**	**42,097**
Tier 2 capital net of regulatory adjustments	7,607	6,748	6,781
TOTAL OWN FUNDS	**45,881**	**48,719**	**48,878**
Risk-weighted assets			
Credit and counterparty risks	239,627	240,437	237,237
Market and settlement risk	25,244	25,244	21,147
Operational risks	17,671	17,671	17,671
Other specific risks (a)	289	289	391
RISK-WEIGHTED ASSETS	**282,831**	**283,641**	**276,446**
% Capital ratios			
Common Equity Tier 1 capital ratio	11.9%	13.1%	13.5%
Tier 1 capital ratio	13.5%	14.8%	15.2%
Total capital ratio	16.2%	17.2%	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 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 31 March 2019, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds came to 48,719 million euro, against risk-weighted assets of 283,641 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 45,881 million euro, compared to risk-weighted assets of 282,831 million euro.

Common Equity Tier 1 capital includes the net income for the first quarter 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 quarter includes, at the level of credit risk, 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, and, with regard to market risks, the increase in the risk associated with Italian government bonds.

On the basis of the foregoing, solvency ratios as at 31 March 2019, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), were as follows: a Common Equity ratio of 13.1%, a Tier 1 ratio of 14.8% and a Total capital ratio of 17.2%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 31 March 2019 were as follows: a Common Equity ratio of 11.9%, a Tier 1 ratio of 13.5% and a Total capital ratio of 16.2%.

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 9.34% on a fully loaded basis.

Reconciliation of Shareholders’ equity and Common Equity Tier 1 capital

(millions of euro)

Captions	31.03.2019	31.12.2018
Group Shareholders' equity	55,202	54,024
Minority interests	358	407
Shareholders' equity as per the Balance Sheet	**55,560**	**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	-314	-372
- Ineligible net income for the period (a)	-876	-3,534
- Treasury shares included under regulatory adjustments	206	204
- Other ineligible components on full phase-in (b)	-3,597	-134
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**46,850**	**46,466**
Regulatory adjustments (including transitional adjustments) (c)	**-9,619**	**-9,225**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**37,231**	**37,241**

(a) Common Equity Tier 1 capital as at 31 March 2019 includes the net income for the first 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) The amount as at 31 March 2019 primarily includes the dividend and the portion intended for charitable donations relating to 2018 net income, as approved by the Shareholders' Meeting on 30 April 2019.

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