

Company value and solidity

THE 2018-2021 BUSINESS PLAN

The 2018-2021 Business Plan seeks to maintain solid and sustainable value creation and distribution for all stakeholders. In addition, Intesa Sanpaolo, already a leader in the field of Corporate Social Responsibility, is seeking to become an exemplary group in terms of social and cultural responsibility.

The Business Plan integrates the commitments set by the Group, by defining measures to contribute to global development, in order to support its customers, promote the development and well-being of people and communities, and protect the environment, including through combating climate change. In particular, Intesa Sanpaolo wishes to become an exemplary group for society, through a series of initiatives aimed at, among other things, granting loans to groups who have difficulty accessing credit despite their potential, ensuring support to disadvantaged people, mitigating the consequences of natural disasters for households and businesses, supporting the Circular Economy's development, and making the most of the artistic, cultural and historical heritage of the Group to promote art and culture in Italy and abroad. In this sense, the Group, including in its strategy, takes into consideration the Sustainable Development Goals (SDGs) set by the United Nations, and therefore wishes to provide a concrete response not only in wording, but also in implementing the commitments undertaken, whose results have now become an integral part of the Bank's sustainable and responsible business model. Intesa Sanpaolo thus intends to seize every opportunity to strengthen the central role of sustainability and social and environmental responsibility within its overall strategy.

All this is made possible by the Bank's ability to consistently create value over time, reinforcing the Group's resilient and highly-diversified business model, in particular positioning itself as a leading player in wealth management & protection.

In a highly digitalised and competitive world, the Bank is continuing to achieve its goals by relying upon its values and the proven implementation capacity of a results-oriented delivery machine.

The Group's strategy hinges on a number of priorities that are now part and parcel of Intesa Sanpaolo, which aims to confirm its leadership as a Bank of the real economy, supporting households and businesses. With a strong balance sheet and a leading position, the Group fulfils requests for credit and responsibly manages customers' savings. Intesa Sanpaolo wishes to be a Bank with sustainable profitability, in which the operating results, productivity, risk profile, liquidity and soundness/leverage are carefully balanced.

The 2018-2021 Business Plan is based on three central pillars:

- significant de-risking at no cost to Shareholders;
- cost reduction through further simplification of the operating model;
- revenue growth seizing new business opportunities.

The enabling factors are people, who continue to be Intesa Sanpaolo's most important resource, and the completion of the digital transformation, which will make it possible to increase the levels of efficiency and offer advanced, high-quality products and services to customers.

People, in particular, will benefit from a series of initiatives aimed at strengthening their involvement, promoting inclusion and ongoing dialogue with the company, developing the best talents, improving skills, maintaining employment levels, promoting internal fairness and facilitating a work/life balance through flexibility initiatives (see 2019 Financial Statements, page 43 [i]).

Through the Business Plan, Intesa Sanpaolo has set itself goals which will generate value for its stakeholders and for the achievement of which the Group has continued to develop the main strategic projects (see 2019 Financial Statements, page 44). As a solid Bank that is increasingly profitable, Intesa Sanpaolo is able to make a positive contribution for the interests of its shareholders and all other stakeholders.

These objectives are detailed in the various sections of the document, together with the progress achieved during 2019. These include:

Stakeholder	Benefits	2019 results	Plan Objectives for 2021 Cumulative value 2018-2021
Shareholders	Cash payout ratio	80% 3,362 million euro*	85% in 2018, 80% in 2019, 75% in 2020 and 70% in 2021
Households and businesses	New medium/long-term credit granted to the real economy	~58 billion euro (~118 from the beginning of 2018)	~250 billion euro
Employees	Personnel expenses	~5.7 billion euro (~11.5 from the beginning of 2018)	~24 billion euro
Suppliers	Procurement and investments	~2.8 billion euro (~5.5 from the beginning of 2018)	~11 billion euro
Public sector	Direct and indirect taxes	~2.7 billion euro (5.3 from the beginning of 2018)	~13 billion euro

* The Board of Directors shall propose to the Shareholders' Meeting to allocate 0.192 euro per share, totalling approximately 3.4 billion euro.

ECONOMIC AND FINANCIAL PERFORMANCE AND DISTRIBUTION OF THE VALUE GENERATED

ECONOMIC AND FINANCIAL PERFORMANCE¹

The Intesa Sanpaolo Group closed its income statement for 2019 with net income of 4,182 million euro, up by around 3.3% on 4,050 million euro for the previous year, which also included the positive effect of significant non-recurring income. The change was driven by a rise in operating income, a fall in operating costs, and lower adjustments for credit risk. The amount of levies and charges for the banking system was still significant, although slightly lower than in 2018.

In detail, operating income amounted to 18,083 million euro, up on 2018 (+1.5%) due to the significant performances of profits on financial assets and liabilities designated at fair value (+31% at 1,928 million), the increase in income from insurance business (+9% at 1,184 million) and the stability of net fee and commission income (+0.1% at 7,952 million). By contrast, net interest income (-3.7% at 7,005 million) declined, primarily due to lower interest on non-performing assets as a result of de-risking activities, as did other net operating income (4 million against 34 million in 2018).

Operating costs were down (-2.1% at 9,290 million), both for personnel expenses (-1.2%), due to the downsizing of the workforce, and for administrative expenses (-5%), which fell across all the main expense items. Amortisation – which under the new IFRS 16 also includes the amount related to property and equipment and intangible assets under operating leases – was, overall, essentially in line with the same figure in 2018 (+0.1%).

Net adjustments to loans fell overall (approximately -13% to 2,089 million), due to lower adjustments for stage 3 loans and for bad loans in particular. This performance was also influenced by the recoveries on performing loans, which benefited from a better risk profile.

Other net provisions and net impairment losses on other assets increased overall to 254 million euro (187 million euro for 2018).

Other income, which includes realised profits (losses) on investments and income and expenses not strictly linked to operations, amounted to 55 million euro, compared to 506 million euro for 2018, which included the gain resulting from the signing of the agreement with Intrum for the strategic partnership regarding non-performing loans (443 million euro).

Income from discontinued operations, amounting to 88 million euro (71 million euro in 2018 on a like-for-like basis), reflected the income effects, before tax, of the acquiring business line that will be transferred to Nexi in 2020 under the agreement signed with regard to the payment systems.

¹ Commentary refers, unless otherwise specified, to the reclassified data published in the 2019 Consolidated Financial Statements of the Intesa Sanpaolo Group. Changes in annual percentages are based on 2018 figures, restated, where necessary and if they are material, to take into account changes in the scope of consolidation. Amounts are in millions of euro. For additional details or information, see the 2019 Consolidated Financial Statements of the Intesa Sanpaolo Group.

As a result of the changes illustrated above, gross income increased (+4.3% to 6,593 million euro).

Taxes on income for the period, which were impacted by the realignment of the tax values in the year, came to 1,838 million euro.

Charges for integration and exit incentives were recorded for 106 million euro as well as effects of purchase price allocation for 117 million euro.

The charges aimed at maintaining the stability of the banking industry, which are still significant, amounted to a total of 360 million euro after tax (378 million euro in 2018).

With regard to the balance sheet figures, as at 31 December 2019 loans to customers exceeded 395 billion euro, up slightly overall (+1.7 billion euro, or +0.4%) on the beginning of the year. In this area, net non-performing loans declined sharply (-2.4 billion, approximately -14%).

On the funding side, direct deposits from banking business totalled 426 billion euro at the end of 2019, up from the beginning of the year (+10.4 billion euro, or +2.5%). Direct deposits from insurance business – which includes technical reserves – was also up compared to the start of the year (+16.5 billion euro, or +11%), amounting to 166 billion at the end of 2019.

The Group's indirect customer deposits at the end of the 2019 amounted to around 534 billion euro, up since the start of the year (+38 billion euro, or +7.8%), due to the positive performance of all the components, also in relation to the more favourable market conditions.

The persisting complexity of the macroeconomic environment and the marked volatility of financial markets call for constant control of the factors enabling the Group to pursue sustainable profitability: high liquidity, funding capacity, low leverage, adequate capital base and prudent asset valuations.

Group liquidity remains high: as at 31 December 2019, both the regulatory indicators, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), also adopted as internal liquidity risk measurement metrics, had reached a level well above fully phased-in minimum requirements provided for by the regulations.

At the end of the year, the Central Banks' eligible liquidity reserves came to 190 billion euro (175 billion euro in December 2018), of which 118 billion euro, net of haircut, was unencumbered (89 billion euro at the end of December 2018). The Loan to Deposit Ratio at the end of 2019, calculated as the ratio of loans to customers to direct deposits from banking business, stood at 93%.

In terms of funding, the widespread branch network remains a stable, reliable source: 80% of direct deposits from banking business come from retail operations (338 billion euro). In addition, the following were placed during the year: 1 billion euro of covered bonds, 13.2 billion Yen of unsecured senior Tokyo Pro-Bonds, 3.50 billion euro and 2 billion USD of unsecured senior bonds, unsecured senior bonds in Swiss francs of 250 million CHF, unsecured senior green bonds of 750 million euro, focused on the Circular Economy, within the scope of the Intesa Sanpaolo Sustainability Bond.

With regard to the targeted refinancing operation TLTRO, at the end of December 2019, the Group's participation amounted to 49 billion euro: 17 billion of TLTRO III loan (54 billion euro being the financing cap), against a partial repayment of 29 billion euro of the amount received in the previous TLTRO II (equal to 60.5 billion).

The Intesa Sanpaolo Group's leverage ratio was 6.7% as at 31 December 2019.

The capital base also remains high and well above regulatory requirements. At the end of the year, the Total capital ratio stood at 17.7%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 15.3%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 13.9%.

Key indicators [millions of euro]		
Economic indicators	2019	2018*
Loans to customers	395,229	393,550
Direct deposits from banking business	425,512	415,082
Direct deposits from insurance business and technical reserves	165,838	149,358
Consolidated shareholder's equity	55,968	54,024
Consolidated net income	4,182	4,050
Dividends	3,362	3,449
Stock Exchange average capitalisation	36,911	44,947
Total assets	816,102	789,385
Economic value generated	17,371	16,960
Economic value distributed	-15,687	-14,827

* Figures were restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations.

CALCULATION AND DISTRIBUTION OF ECONOMIC VALUE

The economic value generated by the Group in the year is calculated in accordance with ABI ("Italian Banking Association") instructions and consistent with international reference standards. The calculation is made by reclassifying consolidated income statement items recorded in the financial statements, as required under Bank of Italy Circular 262.

The economic value generated, which in 2019 was over 17 billion euro, came from net income from banking and insurance activities – which therefore takes into account the impairment losses on loans and other financial assets – plus the realised gains and losses on investments in associates and companies subject to joint control, investments and other operating income. The amount of the economic value generated expresses the value of the wealth produced, most of which distributed among the stakeholders with which the Group interacts in various ways on a day-to-day basis. In particular:

- employees and other staff benefited from over 37% of the economic value generated, for a total of 6.5 billion euro. In addition to staff pay, the total also includes payments to the network of financial advisors;
- suppliers received 14% of the economic value generated, for a total of 2.4 billion euro in payment for goods and services;
- the Government, Organisations and Institutions recorded a total flow of funds of 3.2 billion euro, around 18% of the economic value generated, almost 900 million euro of which referring to indirect taxes and duties, over 1.7 billion euro to taxes on income from continuing operations, and over 500 million to levies and other charges concerning the banking industry, consisting of contributions to resolution and guarantee funds. There were also numerous social and cultural initiatives and other actions taken to support the charity funds and issue disbursements by way of social and cultural contributions;
- approximately 21% of the economic value generated was allocated to Shareholders, holders of equity instruments and minority interests, largely in terms of the proposed dividend, for a total of approximately 3.6 billion euro.

The remaining amount, around 1.7 billion euro, was withheld by the corporate system and mainly comprises deferred tax assets and liabilities, amortisation and depreciation, provisions for risks and charges, and retained earnings. Self-financing is to be considered an investment that other stakeholder categories make each year to maintain efficiency and allow the sustainable development of the Bank as a whole.

BREAKDOWN OF 2019 ECONOMIC VALUE

Economic Value	millions of euro	
ECONOMIC VALUE GENERATED	17,371	100.0%
ECONOMIC VALUE DISTRIBUTED	-15,687	90.3%
Employees	-6,513	37.5%
Suppliers	-2,437	14.0%
Government, organisations and institutions, communities	-3,167	18.2%
Shareholders, holders of equity instruments and third parties	-3,570	20.6%
ECONOMIC VALUE RETAINED	1,684	9.7%

