

# Group 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, 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 2020 Financial Statements, page 66 [1]).

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. 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 2020. These include:

Stakeholder	Benefits	2020 results	Plan Objectives for 2021 Cumulative value 2018-2021
Shareholders	Cash payout ratio	Overall cash payout ratio of 75% <sup>(1)</sup> <sup>(2)</sup> (distribution of dividends and reserves) for a normalised 2020 net income of 3.5 billion euro <sup>(3)</sup> :  <ul style="list-style-type: none"> <li>• 694 million euro<sup>(4)</sup> cash dividends to pay in May 2021</li> <li>• Further cash distribution from reserves to meet the overall payout ratio of 75%<sup>(2)</sup> possibly in the 4th quarter of 2021, subject to the approval of the ECB</li> </ul>	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	~87.4 billion euro (~205.6 from the beginning of 2018)	~250 billion euro
Employees	Personnel expenses	~5.5 billion euro (~17 from the beginning of 2018)	~24 billion euro
Suppliers	Procurement and investments	~2.7 billion euro (~8.4 from the beginning of 2018)	~11 billion euro
Public sector	Direct and indirect taxes	~2.1 billion euro (7.4 from the beginning of 2018)	~13 billion euro

(1) Subject to the future indications of the ECB regarding the dividend policy after 30.9.21, term indicated in the recommendation of 15.12.20.

(2) As per the 2018-2021 Business Plan.

(3) Excluding from the 2020 consolidated stated net income the items related to the combination with UBI Banca (effects of the PPA – including negative goodwill – and merger expenses) and the impairment of the goodwill of the Banca dei Territori Division.

(4) Maximum amount available for distribution pursuant to the ECB recommendation of 15.12.20 regarding the dividend policy in light of the COVID-19 epidemic.

## ECONOMIC AND FINANCIAL PERFORMANCE AND DISTRIBUTION OF THE VALUE GENERATED\*

### ECONOMIC AND FINANCIAL PERFORMANCE\*\*

The consolidated income statement for 2020 reported a net income of 3,277 million euro. The net income takes account of the effects of the acquisition of UBI Banca and, in particular, the final amount of the negative goodwill deriving from the business combination with UBI Banca and its subsidiaries as well as the merger expenses of the acquired entity. Furthermore, the income statement also includes the value adjustment made necessary by the goodwill allocated to the Banca dei Territori Division (912 million euro after tax), now entirely written down also in relation to the increase of the carrying value of the Cash Generating Unit following the integration of UBI Banca.

Without taking into account the income statement effects of the consolidation and integration of UBI Banca and its subsidiaries and the aforementioned value adjustment of the goodwill, the consolidated net income would have been 3,083 million euro as compared with the figure of 4,182 million euro for 2019. This fall compared with the previous financial period can be ascribed to the significant impact of the value adjustments to loans (4.2 billion vs. 2.1 billion euro in 2019) and the drop in net fees and commissions and profits (losses) on financial assets and liabilities as a consequence of the COVID-19 epidemic.

(\*) For more in-depth insights with regard to the main impacts of COVID-19 on financial performance, one should refer to the section called "Intesa Sanpaolo Group's approach to the preparation of the financial statements as at 31 December 2020" in the Consolidated Annual Report.

(\*\*) Commentary refers, unless otherwise specified, to the reclassified data published in the 2020 Consolidated Financial Statements of the Intesa Sanpaolo Group.

The figures of the Intesa Sanpaolo Group as at 31 December 2020 reflect the effects of the acquisition of UBI Banca and its subsidiaries, subject to consolidation from the date of acquisition (August). Changes in annual percentages are based on 2019 figures, restated, where necessary and if they are material, to take account of changes in the scope of consolidation, with the exception of the acquisition of UBI Banca and its subsidiaries. In fact, given the particular case in question, no adjustments have been made to the historic reclassified income statement and balance sheet data in order to retroactively reflect the effects of the acquisition. Consequently, unless otherwise indicated, the comments on performance trends refer to the income and capital components net of the UBI Group's data, in order to ensure a consistent comparison. Amounts are in millions of euro. For additional details or information, see the 2020 Consolidated Financial Statements of the Intesa Sanpaolo Group.

In detail, in 2020 the Intesa Sanpaolo Group had operating income of 19,023 million euro, including the UBI Group's contribution for the last five months of 2020 of approximately 1.6 billion euro. Net of this contribution, operating income declined by 4.2% on a like-for-like basis on 2019 due to the downtrend in profits (losses) on financial assets and liabilities designated at fair value (-25.3% at 1,441 million euro) and net fee and commission income (-4.8% at 7,582 million euro), only partially offset by the moderately positive performances of income from the insurance business (+5.9% at 1,343 million euro) and net interest income (+0.9% at 7,070 million euro). Overall, the resilience of revenues largely offset the adverse impacts of the persistent pandemic emergency on the income statement.

Operating costs continued to fall (-3.4% to 9,086 million euro, net of 885 million euro relating to UBI) both for personnel expenses (-3.8%), as a result of the downsizing of the workforce and the contraction of the variable component – the effects of which more than offset the remuneration increases linked to the renewal of the National Collective Bargaining Agreement – and for administrative expenses (-5.4%).

In contrast, amortisation and depreciation increased (+3.5%) as a result of the greater IT investments.

Net adjustments to loans (4,160 million euro, net of 54 million euro relating to UBI) doubled compared to 2019. This dynamic can be ascribed, in the context of the outbreak of the COVID-19 epidemic, to the revision of the scenario, applying the Group's methods and taking account of the prospective vision outlined by the ECB and the Bank of Italy.

Other net provisions and net impairment losses on other assets were up (338 million euro, net of 8 million euro relating to UBI, compared to 254 million euro for 2019), due to the higher net provisions for legal disputes.

Other income (expenses), which include realised profits (losses) on investments and income and expenses not strictly linked to operations, had a higher net positive balance (64 million euro, +16.4%) compared with 2019. Income from discontinued operations, amounting to 1,163 million euro (88 million euro in 2019), included the contribution of the business line consisting of the acquiring activities within the payment systems area transferred to Nexi and, in particular, the capital gain recognised at the end of the first half on completion of the sale (1,110 million euro) and the income from the business line sold (53 million euro).

As a result of the trends illustrated above, gross income amounted to 5,052 million euro (-23%), net of 667 million euro relating to UBI.

Taxes on income amounted to 1,190 million euro (net of 170 million euro relating to UBI).

There were also charges for integration and exit incentives (after tax) of 174 million euro, net of 1,387 million euro related to UBI, almost all of which (1,378 million) consisting of charges connected with the integration of the UBI Group in the Intesa Sanpaolo Group.

There was also the Effect of purchase price allocation of -102 million euro, which was joined by 2,062 million relating to the negative goodwill deriving from the company consolidation of UBI Banca and its subsidiaries (net of the additional charges of the Public Purchase and Exchange Offer not allocated to shareholders' equity and other charges strictly connected with the operation).

Also significant and up compared to 2019 are the charges aimed at maintaining the stability of the banking industry, which amounted to a total of 465 million euro after tax (360 million euro in 2019). These amounts do not include the charges relating to UBI, which amounted to 47 million euro after tax.

With regard to the balance sheet figures, at 31 December 2020 loans to customers totalled around 402 billion euro (net of 60 billion euro relating to the UBI Group), up compared to the end of 2019 (+6.6 billion euro, +1.7%), due to the varying trends in the components of the aggregate on a like-for-like basis. In this area, net non-performing loans declined sharply (-3.9 billion, -27.3%).

On the funding side, at the end of December 2020 direct deposits from banking business amounted to 457 billion euro (net of 68 billion euro relating to the UBI Group), up on the figure at the end of 2019 (+31.5 billion euro, +7.4%).

Direct deposits from insurance business – which includes technical reserves – was up compared to the end of 2019 (+6.7 billion euro, +4%), amounting to around 173 billion euro at the end of December (net of 2.7 billion related to the UBI Group).

At the end of 2020, the Group's indirect customer deposits amounted to 552 billion euro, net of the 89 billion euro attributable to the UBI Group. The increase of 3.3% since the beginning of the year is due to the balanced development of all components.

The effects of the COVID-19 pandemic have increased uncertainty regarding the prospects of individual businesses and the economy in general. From the very beginning of the dramatic public health and social emergency that swept Italy, Intesa Sanpaolo has been committed to tackling the situation effectively, whilst ensuring the continuity of its processes and services. With a detailed illustration of the impact of the pandemic and the strategies implemented by the Group provided in the 2020 Consolidated Financial Statements, here we will limit our analysis to underlining how the complexity of the context called for the even closer monitoring of the factors that enable the Group to pursue sustainable profitability: high liquidity, funding capacity, low

leverage, adequate capital base and prudent asset valuations.

At the end of December 2020 liquid assets amounted to 243 billion euro (289 billion including the contribution of UBI Banca), 164 billion of which (195 billion including the contribution of UBI Banca) readily available. The Basel III Liquidity Coverage Ratio and Net Stable Funding Ratio liquidity requirements were met in full. At 31 December 2020, the financing operations with the ECB to optimise the cost of funding and support the investments of corporate customers amounted to around 70.9 billion (around 82.9 billion including the contribution of UBI Banca), entirely made up of TLTRO III.

Funding sources were stable and well diversified with the retail component making up 83% of direct deposits from banking business (excluding the contribution of UBI Banca), including securities issued.

Wholesale medium/long-term funding (excluding the contribution of UBI Banca) came to 7.1 billion in 2020 and included senior bond benchmark transactions of 350 million sterling and 1.25 billion euro and Additional Tier 1 transactions of 3 billion euro (around 85% of which placed with foreign investors).

The Intesa Sanpaolo Group's leverage ratio was 7.2% as at 31 December 2020.

The capital base also remains high and well above regulatory requirements. At the end of the year, the Total capital ratio stood at 19.6%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 16.9%. All in all, over the 12-month period the Group preserved its sound capital base: while risk-weighted assets increased by around 49 billion euro as a result of the consolidation of the UBI Group, Common Equity Tier 1 capital increased by over 9 billion euro, bringing the transitional Core Tier 1 Ratio to 14.7% from 13.9% at the end of 2019.

With regard to the valuation of financial assets, as mentioned it was necessary to make a value adjustment of the goodwill allocated to Banca dei Territori of 912 million euro (after tax) which has now been written off.

In general, it is worth pointing out that the Intesa Sanpaolo Group is carefully monitoring the development of the situation, including through specific scenario and stress analyses used to assess the related impacts in terms of profitability and capital adequacy.

Key indicators [millions of euro]	Intesa Sanpaolo Group (excluding UBI Banca Group)		ISP + UBI
	2019	2020	2020
<b>Economic indicators</b>			
Loans to customers	395,229	401,824	461,572
Direct deposits from banking business	425,512	456,969	524,999
Direct deposits from insurance business and technical reserves	165,945	172,606	175,279
Consolidated shareholder's equity	55,968	64,349	65,871
Consolidated net income	4,182	2,171	3,277
Dividends	-		694
Stock Exchange average capitalisation	36,911		34,961
Total assets	816,570	870,172	1,002,614
Economic value generated	17,371		19,490
Economic value distributed	-12,325		-14,339

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures relating to the UBI Group were not restated.

## 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 2020 was over 19 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 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 42% of the economic value generated, for a total of 8.3 billion euro. In addition to staff pay, the total also includes payments to the network of financial advisors. It also includes the employee benefits relative to the agreement on staff exit incentives signed with the trade unions as a result of the integration with UBI Banca;
- suppliers received almost 15% of the economic value generated, for a total of 2.9 billion euro in payment for goods and services, including those connected with the acquisition of UBI Banca;
- the Government, Organisations and Institutions recorded a total flow of funds of over 2 billion euro, around 11% of the economic value generated, over 1 billion euro of which referring to indirect taxes and duties, over 400 million euro to taxes on income from continuing operations, and over 700 million euro 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, also following the outbreak of the COVID-19 epidemic;
- approximately 5% 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 1 billion euro, subject to the ECB Recommendation of 15 December 2020 following the outbreak of the COVID-19 epidemic. In particular, the dividend proposed was 694 million euro, the maximum permitted according to this Recommendation. For more details see the Proposals to the Shareholders' Meeting in the Intesa Sanpaolo S.p.A. separate financial statements.

The remaining amount of the economic value generated, around 5 billion euro, was withheld by the corporate system and mainly comprises retained earnings, deferred tax assets and liabilities, amortisation and depreciation, and provisions for risks and charges. The aforementioned ECB Recommendation of 15 December 2020 on dividends had an impact on the significant amount of economic value withheld. In addition, as already alluded to, subject to the developments in the guidance from the Supervisory Authority after 30 September 2021, and in line with the 2018-2021 Business Plan, a distribution of reserves is envisaged, from the results for 2020, which when added to the above-mentioned dividend should lead to the payment of a total amount of 3,505 million euro of adjusted consolidated net income corresponding to a payout ratio of 75%.

## BREAKDOWN OF 2020 ECONOMIC VALUE

ECONOMIC VALUE	Millions of euro	
ECONOMIC VALUE GENERATED	19,490	100.0%
ECONOMIC VALUE DISTRIBUTED	-14,339	73.6%
Employees	-8,315	42.7%
Suppliers	-2,855	14.7%
Government, organisations and institutions, communities	-2,189	11.2%
Shareholders, holders of equity instruments and third parties	-980	5.0%
<b>ECONOMIC VALUE RETAINED</b>	<b>5,151</b>	<b>26.4%</b>

