

## **Issuer Filing Information**

**Intesa Sanpaolo S.p.A.**

## ISSUER FILING INFORMATION

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Company Name:	Intesa Sanpaolo S.p.A.
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shall constitute the Issuer Filing Information stipulated in Article 27-32, Paragraph 1 of the FIEA.



# Annual Report 2020

Consolidated Financial Statements

Parent Company's Draft Financial Statements



*This is an English translation of the original Italian document "Bilanci 2020". In cases of conflict between the English language document and the Italian document, the interpretation of the Italian language document prevails. The Italian original is available on [group.intesasanpaolo.com](http://group.intesasanpaolo.com).*

*This document contains certain forward-looking statements, projections, objectives, estimates and forecasts reflecting the Intesa Sanpaolo management's current views with respect to certain future events. Forward-looking statements, projections, objectives, estimates and forecasts are generally identifiable by the use of the words "may," "will," "should," "plan," "expect," "anticipate," "estimate," "believe," "intend," "project," "goal" or "target" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts, including, without limitation, those regarding Intesa Sanpaolo's future financial position and results of operations, strategy, plans, objectives, goals and targets and future developments in the markets where Intesa Sanpaolo participates or is seeking to participate.*

*Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements as a prediction of actual results. The Intesa Sanpaolo Group's ability to achieve its projected objectives or results is dependent on many factors which are outside management's control. Actual results may differ materially from (and be more negative than) those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions.*

*All forward-looking statements included herein are based on information available to Intesa Sanpaolo as of the date hereof. Intesa Sanpaolo undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law. All subsequent written and oral forward-looking statements attributable to Intesa Sanpaolo or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.*

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# **The Intesa Sanpaolo Group**

# The Intesa Sanpaolo Group: presence in Italy (\*)

Banks

**INTESA**  **SANPAOLO**



## NORTH WEST

INTESA SANPAOLO Branches	Subsidiaries	
	Company	Branches
967	Banca 5	1
	Fideuram	98
	IWBANK	9
	UBI Banca	852

## NORTH EAST

INTESA SANPAOLO Branches	Subsidiaries	
	Company	Branches
811	Fideuram	56
	UBI Banca	101

## CENTRE

INTESA SANPAOLO Branches	Subsidiaries	
	Company	Branches
701	Fideuram	40
	IWBANK	6
	UBI Banca	486

## SOUTH

INTESA SANPAOLO Branches	Subsidiaries	
	Company	Branches
609	Fideuram	26
	IWBANK	7
	UBI Banca	302

## ISLANDS

INTESA SANPAOLO Branches	Subsidiaries	
	Company	Branches
216	Fideuram	10
	UBI Banca	1

Figures as at 31 December 2020

(\*) Including the branches of the going concern to be sold to BPER Banca

## Product Companies

**BAP**  **ASSICURAZIONI**



Bancassurance and Pension Funds



Asset Management

**PRESTITALIA** **UBI**  **Factor** **UBI**  **Leasing**

Factoring, Leasing and Consumer Credit (\*\*)



Fiduciary Services

(\*\*) Factoring, Leasing and Consumer Credit activities are also carried out directly by Intesa Sanpaolo S.p.A., the Parent Company

# The Intesa Sanpaolo Group: international presence

Banks, Branches and Representative Offices



## AMERICA

Direct Branches	Representative Offices
New York	Washington D.C.
	New York <sup>(2)</sup>

Country	Subsidiaries	Branches	Representative Offices
Brazil	Intesa Sanpaolo Brasil	1	São Paulo <sup>(2)</sup>

## OCEANIA

Representative Offices
Sydney

## ASIA

Direct Branches	Representative Offices
Abu Dhabi	Beijing
Doha	Beirut
Dubai	Dubai <sup>(2)</sup>
Hong Kong	Ho Chi Minh City
Shanghai	Hong Kong <sup>(2)</sup>
Singapore	Jakarta
Tokyo	Mumbai <sup>(2)</sup>
	Seoul
	Shanghai <sup>(2)</sup>
	Singapore <sup>(2)</sup>

## EUROPA

Direct Branches	Representative Offices
Frankfurt	Brussels <sup>(1)</sup>
Istanbul	Moscow <sup>(4)</sup>
London	
Madrid	
Nice <sup>(2)</sup>	
Paris	
Warsaw	



Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	35
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	47
Croatia	Privredna Banka Zagreb	161
Czech Republic	VUB Banka	1
Hungary	CIB Bank	63
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Fideuram Bank Luxembourg	1
	Intesa Sanpaolo Bank Luxembourg	1
Moldova	Eximbank	17
Romania	Intesa Sanpaolo Bank Romania	32
Russian Federation	Banca Intesa	28
Serbia	Banca Intesa Beograd	155
Slovakia	VUB Banka	186
Slovenia	Intesa Sanpaolo Bank	46
Switzerland	Intesa Sanpaolo Private Bank (Suisse) Morval	2
The Netherlands	Intesa Sanpaolo Bank Luxembourg	1
Ukraine	Pravex Bank	45
United Kingdom	Intesa Sanpaolo Private Bank (Suisse) Morval	1

## AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	176
Casablanca <sup>(2)</sup>			

Figures as at 31 December 2020

(1) European Regulatory & Public Affairs

(2) UBI Banca branch

(3) UBI Banca Representative Office

(4) The Group is also present through the UBI Banca Representative Office

## Product Companies



E-money and Payment Systems



Leasing



Wealth Management

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# Board of Directors, Manager responsible for preparing the Company's financial reports and Independent Auditors

## Board of Directors

Chairman	Gian Maria GROS-PIETRO
Deputy Chairperson	Paolo Andrea COLOMBO
Managing Director and Chief Executive Officer	Carlo MESSINA <sup>(a)</sup>
Directors	Franco CERUTI Roberto FRANCHINI <sup>(1) (*)</sup> Anna GATTI Rossella LOCATELLI Maria MAZZARELLA Fabrizio MOSCA <sup>(*)</sup> Milena Teresa MOTTA <sup>(*)</sup> Luciano NEBBIA Bruno PICCA Alberto Maria PISANI <sup>(**)</sup> Livia POMODORO Andrea SIRONI <sup>(2)</sup> Maria Alessandra STEFANELLI Guglielmo WEBER Daniele ZAMBONI Maria Cristina ZOPPO <sup>(*)</sup>

## Manager responsible for preparing the company's financial reports

Fabrizio DABBENE

## Independent Auditors

KPMG S.p.A.

(a) General Manager

(\*) Member of the Management Control Committee

(\*\*) Chairman of the Management Control Committee

(1) Was appointed as a Director at the Shareholders' Meeting of 27 April 2020 replacing Corrado Gatti who had ceased to hold office

(2) Was appointed as a Director at the Shareholders' Meeting of 27 April 2020, following co-option by the Board of Directors on 2 December 2019



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## Letter from the Chairman

Distinguished Shareholders,

the spread of the SARS - COVID-19 virus and the subsequent waves of infection have led to major changes in living habits, particularly in the more developed countries. This has affected all economic activities, due to the rapid expansion of consumption patterns and working practices that reduce the number of people travelling and working together. The forced closure of manufacturing and services, although temporary, had a very severe impact on business and jobs, followed by very sharp recovery when the lockdowns were lifted. Weaknesses emerged in the international production chain, which had been underestimated, and more attention is now being paid to over-dependency on external sources. This may lead to a change in localisation models for production and trade of goods and services, bringing in instruments to mitigate the risks of disruption of supply chains. Opportunities will emerge for countries that are highly open to international trade and are able to act as first movers.

The severity of the crisis has prompted the nations of the old continent to adopt a new approach towards the management of the European Union's economic system: from a vision of austerity and rigidity to more flexibility and inclusion. The suspension of the Maastricht criteria, the approval of the SURE instrument and the establishment of the Next Generation EU package, represent substantial progress in the European integration along socially, economically and environmentally sustainable lines. As a result of these measures, together with the actions taken by the European Central Bank, it was possible to overcome the problems of liquidity and start planning for the future.

The process of the United Kingdom's departure from the European Union took place on the basis of mutually agreed arrangements, which should provide the framework for a new type of competitive but non-confrontational relationship. The outcome of the US elections, with Joe Biden's victory, points to a more open and cooperative multilateral approach to US foreign policy.

In 2020, the performance of Italian GDP tracked the implementation of the measures adopted to contain the virus, with a recession of unprecedented severity and speed in the first and second quarters, an exceptional recovery in the summer, and a further slowdown at the end of the year as the second wave of infections began. Despite the responsiveness of business and industry and a solid banking sector having a complementary supporting role to the public sector and monetary policy interventions, Italy ended the year with an 8.9% fall in GDP – but nevertheless after having shown a high level of resilience and ability to adapt.

The speed of the recovery this year will depend on the evolution of the epidemic and the ability to effectively use the funds made available by the EU with the approval of the aid programme. The implementation of the programme of European regeneration will be supported by the banking system, which will play a key role in allocating resources efficiently and helping people to move their savings, accumulated in cash due to the uncertainty, into profitable investments capable of generating a lasting social impact and promoting sustainable and inclusive growth. For businesses, the task of banks in the new scenario will be not only to provide credit, but also to help them access alternative sources of funding, with a focus on venture capital.

The development of effective vaccines in record time has fuelled expectations of a return to normality. However, the continued spread of the virus and the emergence of new variants may still necessitate periods of suspension of certain activities. The ability to cope with the containment of the virus, and the speed in reducing its spread, will generate significant competitive advantages between countries.

Intesa Sanpaolo acted decisively to deal with the pandemic, both in terms of its own business operations and the activities of the surrounding community. At all times, your Bank guaranteed the continuity of its essential banking service, while protecting its personnel and customers. It also expanded the already extensive use of remote working, to over 80,000 people, with UBI. After the external constraints have disappeared, the strengthening of core digital capabilities and individual equipment, together with the development of effective methods of remote co-working, will allow us to use these tools for the flexible organisation of the various activities of our personnel, also at individual level. However, this will not lessen the importance of in situ interpersonal relationships, because of their immediate effectiveness and ability to facilitate group bonding, and because they are essential to developing high-level professional expertise. We are the largest private employer in Italy and we are committed to pursuing socially and economically sound paths of development.

Our commitment to environmental, social and governance objectives is constant, and well recognised. Intesa Sanpaolo is the only Italian bank listed in the Dow Jones Sustainability Indices, in the Corporate Knights "Global 100 Most Sustainable Corporations in the World Index" in 2021 and in the Refinitiv Diversity & Inclusion Index, which selects the world's top 100 listed companies in terms of diversity and inclusion. It is also the first among European banks to be ranked in three of the top ESG international assessments (by MSCI, Sustainalytics, and



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Bloomberg ESG Disclosure Score) and it has been included in the Bloomberg Gender-Equality Index (GEI), with a score for 2021 well above the average for the global financial sector and Italian companies.

The Bank has fulfilled its role as a driver for Italy's development. The first objective was to prevent a temporary halt in economic activity from causing permanent damage to business and industry, due to a lack of liquidity: we were the first to grant moratoria, for a total of 95 billion euro. We donated 100 million euro to strengthen the national health system, allocated 125 million euro from the Impact Fund (50% of its resources) to reducing the social and economic hardship caused by COVID-19. We also made 50 billion euro of new credit available to businesses and professionals to protect jobs and manage payments during the emergency, in addition to 10 billion euro of new credit facilities to support around 2,500 Italian business sectors.

The Intesa Sanpaolo Group is continuing its evolution towards activities that will enable us to maintain the loyalty of our existing customers and acquire new ones. Including UBI, we now have more than 12 million multi-channel customers. The Intesa Sanpaolo app is considered one of the best in Europe, and more than 7 million customers use our ISP and UBI apps. As a result of the agreement with Google and TIM for the creation of two Region Cloud Hubs, in Turin and Milan, the Bank will be able to rapidly expand its range of digital services, securely and at competitive prices, so as to anticipate, and stimulate, growth in demand.

The development of digital tools is being accompanied by the integration of the range of services offered to customers. Alongside the traditional deposit-taking and lending activities, Intesa Sanpaolo has long been a leading operator in the vast area of services for protection, investment and asset management, protection of individuals and their property, and protection of businesses. The protection does not stop at cover for damages and is expanding to the direct provision of services: with the acquisition of control of RBM, Intesa Sanpaolo has become an operator in the healthcare sector, which is set to grow considerably.

The strategic objective of the acquisition of the UBI Banca Group was to create value for all stakeholders and to strengthen the leadership position in the European banking system, in support of inclusive and long-term growth. The progressive integration of UBI Banca, which has not resulted in any social costs, is well under way and ahead of schedule. The integration of the UBI personnel is moving forward with complete success. As we expected, the level of professional expertise and the cooperation from the people the UBI merger is bringing into the Intesa Sanpaolo Group are excellent. This has enabled their deployment, also at the highest levels, as part of a revision that has enriched Intesa Sanpaolo's organisational structures, with a view to optimising them for its new geographical footprint and reach within the banking industry. The estimated synergies are now higher than those envisaged when the Public Purchase and Exchange Offer was launched. This transaction will allow the Group to strengthen its role as a driver of the real and social economy, with market shares of around 20% in all main business sectors.

The 2020 results reflect sustainable profitability, supported by a resilient and well-diversified business model and numerous competitive advantages: 61% of the 2020 gross income comes from the Wealth Management and Protection business. The solidity of the Bank's capital base is at the highest levels in the Eurozone, exceeding the prudential benchmark set by the ECB by more than 23 billion euro.

The economic value generated in 2020 – over 19 billion euro – was distributed as follows: 74% to stakeholders, of which 43% to the people that work for us, 5% to Shareholders, and the remainder to suppliers, the government, entities, institutions and communities. A part of the profit has also been allocated to support high social impact projects and help people experiencing significant social and economic vulnerability through the Allowance for charitable, social and cultural contributions.

In consideration of a Group consolidated net income of 3,277 million euro and a Parent Company net income of 679 million euro, a proposal is being made to the Ordinary Shareholders' Meeting to distribute cash dividends amounting to 694 million euro, the maximum quantity currently established by the regulator, equal to 3.57euro cents per ordinary share, before tax. Once the ECB restrictions have been lifted, we will seek authorisation to distribute in cash, from reserves, the remainder of the planned payout ratio amounting to a total of 75% of the 3.5 billion euro of 2020 adjusted net income.

Gian Maria Gros-Pietro

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# **Intesa Sanpaolo Group Report on operations and consolidated financial statements**

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## Introduction

As set forth by Legislative Decree 38 of 28 February 2005, the Intesa Sanpaolo Group's Consolidated financial statements have been prepared in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as provided for by EC Regulation 1606 of 19 July 2002.

The Consolidated financial statements as at 31 December 2020 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Art. 43 of Legislative Decree 136/2015, with Regulation of 22 December 2005, which issued Circular 262/05, as updated and supplemented. These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the financial statements.

In particular, for the 2020 Financial Statements, account was taken of the supplements included in Communication from the Bank of Italy dated 15 December 2020 with regard to the impacts of COVID-19, measures in support of the economy and certain amendments to IAS/IFRS.

The Consolidated financial statements are made up of the Balance sheet, the Income statement, the Statement of comprehensive income, the Changes in shareholders' equity, the Statement of cash flows and the Notes to the financial statements and the related comparative information; the Report on operations on the economic results achieved and on the Group's balance sheet and financial position has also been included.

In support of the comments on the results for the year, the Report on operations also presents and illustrates reclassified income statement and balance sheet schedules. The reconciliation with the financial statements, as required by Consob in its communication 6064293 of 28 July 2006, is included in the Attachments.

The Report on operations contains financial information taken from or attributable to the Consolidated financial statements, as well as other information – for example, figures on quarterly trends, and other alternative performance measures – not taken from or directly attributable to the Consolidated financial statements. In this regard, see the chapter Alternative Performance Measures in the Report on operations; please note that in the aftermath of the COVID-19 epidemic, no new measures have been added, nor have any changes been made to the measures normally used.

In relation to the COVID-19 pandemic, following the instructions provided by the Authorities in 2020, it is noted that in the Report on operations, both in the chapter "Overview of 2020" and in Part A and Part E of the Notes to the financial statements, detailed information has been provided on the business environment, the impacts on the business and the choices made in relation to the valuation of assets for the purposes of the 2020 Financial Statements.

Information on corporate governance and ownership structures required by Art. 123 bis of the Consolidated Law on Finance is set forth, as permitted, in a separate report, approved by the Board of Directors and published together with these financial statements, which can be viewed in the Governance section of the Intesa Sanpaolo website, at [www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com).

The Consolidated Non-financial Statement prepared pursuant to Legislative Decree 254 of 30 December 2016, which describes the environmental, social and personnel-related matters, has been published – as permitted – as a separate report together with these financial statements and is available for consultation in the Sustainability section of the same website.

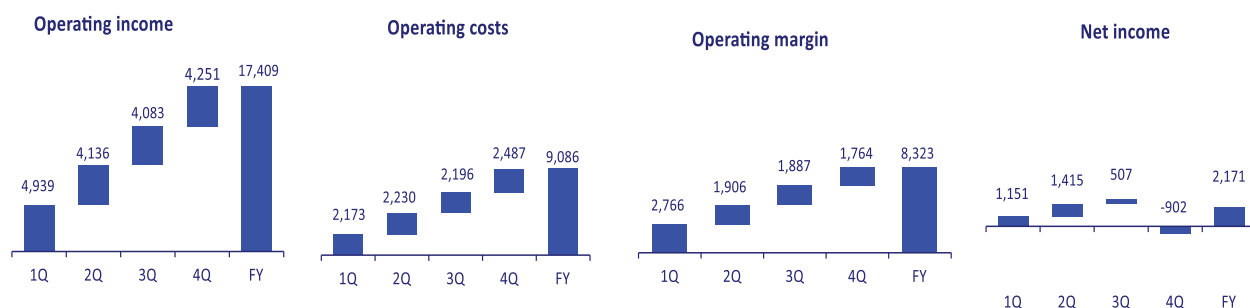
The information on remuneration required by Art. 123 of the Consolidated Law on Finance and the disclosure required by Basel Pillar 3 are also published and made available on the website in accordance with the related approval processes.

# Income statement figures and alternative performance measures (\*)

Consolidated income statement figures (millions of euro)	Changes (Net of UBI Group)			
	amount	%		
Net interest income	7,070	713	65	0.9
	7,005			
Net fee and commission income	7,582	721	-380	-4.8
	7,962			
Income from insurance business	1,343	10	75	5.9
	1,268			
Profits (Losses) on financial assets and liabilities designated at fair value	1,441	131	-487	-25.3
	1,928			
Operating income	17,409	1,614	-758	-4.2
	18,167			
Operating costs	-885	-9,086	-321	-3.4
	-9,407			
Operating margin	8,323	729	-437	-5.0
	8,760			
Net adjustments to loans	-54	-4,160	2,071	99.1
	-2,089			
Income (Loss) from discontinued operations	1,163	-	1,075	
	88			
Net income (loss)	2,171	1,106	-2,011	-48.1
	4,182			

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.

## Quarterly development of main consolidated income statement figures (millions of euro)

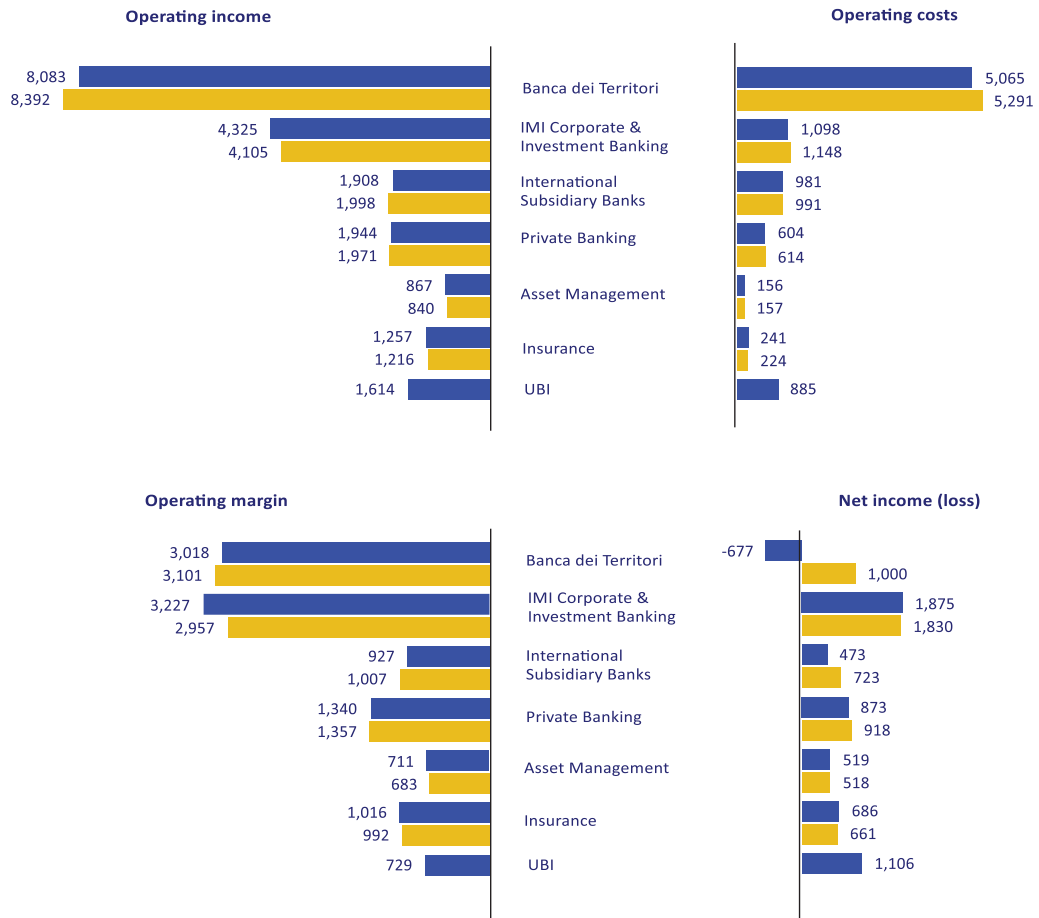


2020  
(Consolidated figure net of UBI Group)  
2020 (Figure of UBI Group)  
2019 (Consolidated figure)



(\*) For more detailed information on the Alternative Performance Measures, see the specific chapter of the Report on Operations.

**Main income statement figures by business area (\*) (millions of euro)**






(\*) Excluding Corporate Centre

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents. The figures concerning UBI Group - relating to 2020 only - have not been restated.



# Balance sheet figures and alternative performance measures<sup>(\*)</sup>

Consolidated balance sheet figures (millions of euro)			Changes (Net of UBI Group)	
	amount	%	amount	%
Financial assets	146,416	15,336	-154	-0.1
	146,570			
Financial assets pertaining to insurance companies measured pursuant to IAS 39	175,616	2,765	6,734	4.0
	168,882			
Loans to customers	401,824	59,748	6,595	1.7
	395,229			
Total assets	870,172	132,442	53,602	6.6
	816,570			
Direct deposits from banking business	456,969	68,030	31,457	7.4
	425,512			
Direct deposits from insurance business and technical reserves	172,606	2,673	6,661	4.0
	165,945			
Indirect deposits:	551,841	89,231	17,385	3.3
	534,456			
of which: Assets under management	369,512	72,817	11,407	3.2
	358,105			
Shareholders' equity	64,349	1,522	8,381	15.0
	55,968			

31.12.2020 (Consolidated figure net of UBI Group)	
31.12.2020 (Figure of UBI Group)	
31.12.2019 (Consolidated figure)	

Main balance sheet figures by business area (*) (millions of euro)	
<b>Loans to customers</b>	<b>Direct deposits from banking business</b>
207,533 194,358 135,004 131,884 36,079 34,038 9,853 9,329 452 435 - - 59,748	Banca dei Territori IMI Corporate & Investment Banking International Subsidiary Banks Private Banking Asset Management Insurance UBI 229,677 199,256 88,183 86,850 46,308 43,420 41,145 39,537 14 10 - - 68,030

(\*) Excluding Corporate Centre

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning UBI Group - relating to 31.12.2020 only - have not been restated.

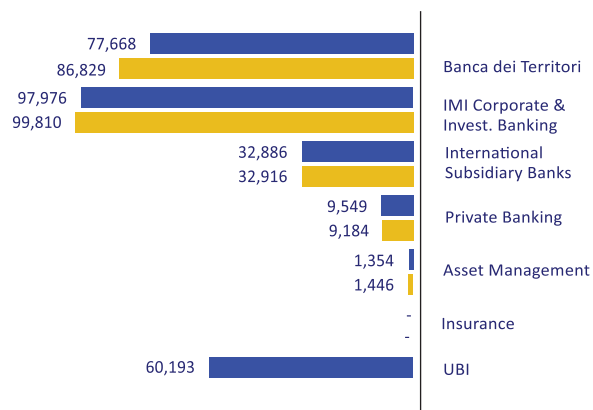
31.12.2020	
31.12.2019	

(\*) For more detailed information on the Alternative Performance Measures, see the specific chapter of the Report on Operations.

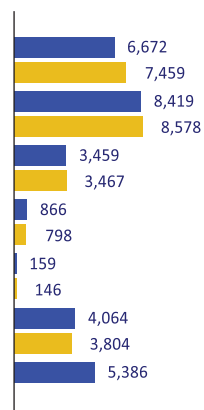
## Other alternative performance measures<sup>(\*)</sup>

Consolidated capital ratios (%)	
Common Equity Tier 1 capital (CET1) net of regulatory adjustments/Risk-weighted assets (Common Equity Tier 1 capital ratio)	
TIER 1 Capital / Risk-weighted assets	
Total own funds / Risk-weighted assets	
Risk-weighted assets (millions of euro)	
Absorbed capital (millions of euro)	

### Risk-weighted assets by business area (\*) (millions of euro)



### Absorbed capital by business area (\*) (millions of euro)



(\*) Excluding Corporate Centre

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning UBI Group - relating to 31.12.2020 only - have not been restated.

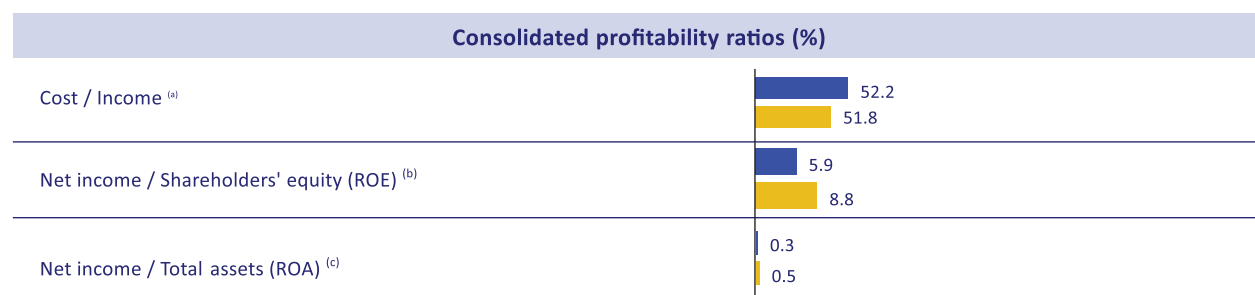


(\*) For more detailed information on the Alternative Performance Measures, see the specific chapter of the Report on Operations.

Information on the stock	2020	2019
Number of ordinary shares (thousands)	19,430,463	17,509,728
Share price at period-end - ordinary share (euro)	1.910	2.349
Average share price for the period - ordinary share (euro)	1.800	2.108
Average market capitalisation (million)	34,961	36,911
Shareholders' equity (million) <sup>(*)</sup>	65,871	55,968
Book value per share (euro) <sup>(*)</sup>	3.425	3.219

Long-term rating	2020	2019
Moody's	Baa1	Baa1
Standard & Poor's Global Ratings	BBB	BBB
Fitch Ratings	BBB-	BBB
DBRS Morningstar	BBB (high)	BBB (high)

(\*) Book value per share does not consider treasury shares.



Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

(a) Consolidated figures net of UBI Group.

(b) Ratio of net income to shareholders' equity at the end of the period. Shareholders' equity does not take account of AT 1 capital instruments or the income for the period.

(c) Ratio between net income and total assets.

2020 (Income statement figures)	
31.12.2020 (Balance sheet figures)	
2019 (Income statement figures)	
31.12.2019 (Balance sheet figures)	



### Earnings per share (euro)

Basic earnings per share (basic EPS) <sup>(d)</sup>	0.18	0.24
Diluted earnings per share (diluted EPS) <sup>(e)</sup>	0.18	0.24

### Consolidated risk ratios (%) <sup>(f)</sup>

Net bad loans / Loans to customers	1.0	1.7
Cumulated adjustments to bad loans / Gross bad loans to customers	58.8	65.3

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

(d) Net income (loss) attributable to holders of ordinary shares compared to the weighted average number of outstanding ordinary shares. The figure for comparison is not restated.

(e) The dilutive effect is calculated with reference to the programmed issues of new ordinary shares.

(f) Consolidated figures net of UBI Group.

2020 (Income statement figures)	
31.12.2020 (Balance sheet figures)	
2019 (Income statement figures)	
31.12.2019 (Balance sheet figures)	

Operating structure	31.12.2020	31.12.2019	Changes amount
<b>Number of employees (g)</b>	<b>105,615</b>	<b>89,102</b>	<b>16,513</b>
Italy	82,778	65,705	17,073
Abroad	22,837	23,397	-560
<b>Number of financial advisors</b>	<b>5,616</b>	<b>4,972</b>	<b>644</b>
<b>Number of branches (h)</b>	<b>6,314</b>	<b>4,799</b>	<b>1,515</b>
Italy	5,299	3,752	1,547
Abroad	1,015	1,047	-32

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The table sets out for 2020 the consolidated figures, including the UBI Group. The figures relating to the UBI Group were not restated.

(g) The workforce indicated refers to the exact number of employees at the end of the period, counting part-time workers as equal to 1 unit. The figures as at 31.12.2020 include 19,474 employees of UBI (19,468 in Italy, 6 abroad, 7 atypical contracts) and 698 financial advisors of IWBANK. This figure includes the employees of the branches that are to be sold as part of the acquisition of the UBI Group.

(h) The figure includes Retail Branches, Non-Profit Sector Branches, SME Branches and Corporate Branches. The figures as at 31.12.2020 include 1,764 branches of UBI in Italy and 1 branch abroad. This figure includes the branches that are to be sold as part of the acquisition of the UBI Group.

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# Overview of 2020

## The aftermath of the COVID-19 epidemic

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### Economic trends

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The COVID-19 pandemic has massively disrupted the global economy. The containment measures adopted triggered a recession of unprecedented severity and speed in the first half of 2020, followed by a major rebound and another slowdown in the fourth quarter. China recovered to pre-crisis levels of activity already during the year, but many advanced countries are still a long way from full recovery. In the US, the fall in GDP was 3.5%. The shock from the pandemic also affected the emerging economies. In the regions with Intesa Sanpaolo subsidiaries, GDP is estimated to have fallen by more than 4% in Central and South-Eastern Europe, and around 4.5% in Eastern Europe, with performance of the individual countries ranging from -0.9% in Serbia to -8.4% in Croatia, in the first region, and from -4.4% in Russia to -6.5% in Moldova, in the second region. In contrast, growth in Egypt remained positive in the first three quarters (+0.9%).

In the Eurozone, GDP fell by 6.6 percentage points. The negative economic repercussions of the pandemic have been mitigated by fiscal measures that include aid to households, strengthening of social security mechanisms, tax payment deferrals, guarantees for bank credit, and, in some countries, aid to businesses that suffered revenue losses in 2020. The European Union has also launched several financial support measures: an ESM (European Stability Mechanism) credit line, which can reach up to 2% of each member state's GDP; a fund (SURE) for the refinancing of employment support programmes; and a guarantee fund for loans granted by the European Investment Bank. In addition, a new recovery plan has been launched, Next Generation EU, which will finance reforms and projects through grants or soft loans from 2021.

The European Central Bank has supported the fiscal effort mainly by implementing an extraordinary expansion of the securities purchasing programmes and relaxing conditions on long-term refinancing programmes. Supervisory rules were temporarily eased to prevent pro-cyclical rationing of bank credit. The increase in excess liquidity kept the €STR (euro short-term rate) below the official rate on deposits with the Eurosystem (-0.50%), while swap rates fell significantly compared to December 2019.

Italian GDP also contracted sharply in 2020, by around 8.9 percentage points. The impacts on the different sectors varied: at the end of the third quarter, construction had more than recovered its pre-crisis levels, while manufacturing and services had respectively made up 85% and 65% of the loss in added value. The need to counteract the negative economic and social effects of the pandemic drove the government borrowing requirements up to 159 billion euro in 2020, an increase of 117 billion euro on 2019. The corresponding increase in public debt was not reflected in pressure on risk premiums, because it was indirectly, but almost fully covered, by the increase in the Eurosystem's portfolio of Italian government bonds. The BTP-Bund 10-year spread fell from 155 basis points in December 2019 to 122 basis points in December 2020.

In the Italian bank lending market, unlike in other crises, there was no supply shock, thanks to the policy measures supporting liquidity and lending. The demand shock had contrasting effects, negative for loans to households, which slowed down from March, and positive for loans to businesses, which have started to rise again. The performance of loans to businesses has been driven by liquidity needs and government-guaranteed loans, which reached almost 100 billion euro at the year-end for SMEs and 20 billion euro for large-sized companies. The moratoria attracted 2.7 million applications from businesses and households for a loan volume totalling around 300 billion euro. As a result, loans to non-financial companies had grown by up to 8.5% year-on-year in December. In contrast, the growth in loans to households slowed down, particularly for consumer credit, while the stock of loans for home purchases held up well. With regard to credit quality, banks continued their derisking, which accelerated towards the end of the year with significant sales and securitisations. Customer deposits saw a strengthening of the trends underway prior to the onset of the crisis. Current accounts gained even more momentum, having grown by up to 14% at the year end. The robust increase in deposits was driven by the climate of uncertainty and risk aversion, which resulted in a strong preference for liquidity, lower consumption levels and higher propensity to save. In addition, there was strong growth in deposits from non-financial companies, fuelled in part by the increase in bank debt.

Assets under management showed good resilience. For mutual funds, significant outflows in the first quarter, linked to the collapse of the stock market indices due to the adverse economic consequences of the pandemic, were followed by robust inflows in the subsequent quarters, leading to positive net inflows at the end of the year. Life insurance, on the other hand, saw a fall in new business compared to 2019, which was particularly sharp for traditional policies and much smaller for unit-linked policies.

## Business continuity and the actions taken in relation to the Group's stakeholders

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. In view of the worsening risk scenario and to strengthen its preventive countermeasures, the Parent Company immediately set up its own Emergency Unit to identify specific mitigation strategies and related lines of action, as well as ensuring ongoing monitoring of the situation, at individual Group Legal Entity level, both in Italy and abroad.

From September, the Emergency Unit enhanced its coverage of the UBI Group, extending the strategies, mitigation actions and monitoring of the epidemic to all the UBI structures.

With regard to the level of maturity of the operational model for the handling of the pandemic, in September Intesa Sanpaolo obtained the DNV "MY Care" certification, which underlined the validity and effectiveness of the model implemented, distinguished by the excellent risk mitigation approach adopted, aligned to the best national and international best practices, not only within the finance industry.

The activities coordinated by the Emergency Unit include the close collaboration initiated with the Sacco Hospital in Milan for scientific research on the virus, which has enabled the creation of a joint project for the genome sequencing and geographical mapping in Italy of SARS-CoV-2, the agent of COVID-19, and the reconstruction of the origin and the methods of the spread of the virus within the Italian population.

With regard to the management of the mitigation activities identified by the Emergency Unit, to speed up escalation procedures and improve the effectiveness of the decision-making process, the Bank has set up two operational task forces, with representatives from all head office structures and business divisions, focused on two specific areas: *security and communications* and *business continuity*.

### *Security and communications*

This task force has been set up to take all necessary actions to ensure the protection of personnel, customers and suppliers, as well as communications to internal and external stakeholders.

It has regularly collected information on the development of the situation, both through external sources, which are used to produce forecast scenarios of the evolution of the epidemic, and from internal sources (attendance levels, travel trends, etc.).

The safety of personnel has been pursued not only by providing personal protective equipment where necessary, but also through preventative actions such as limiting travel, encouraging smart working, and distancing measures. Inside premises, offices and branches open to the public, the minimum distance of one metre must always be observed and all possibilities for gatherings are avoided. All premises are also cleaned frequently, in accordance with the instructions issued by the Ministry of Health.

Employees who test positive for the virus are continuously monitored during the course of the illness, providing guidance on the procedures to be adopted, also with the assistance of the Internal Occupational Health Function. Personnel who have been in "close contact" with positive cases must stop working at the company offices; access is then prohibited to the premises concerned and they are disinfected before they can be used again. A medical screening questionnaire has also been developed, to be completed by employees before returning to their offices after an absence of 15 days.

A contagion risk model has been developed in collaboration with the Parent Company's Enterprise Risk Management Department, to implement the personnel protection strategies, that supports the decision-making for the measures to be adopted at the Group's premises (branch operations by appointment, branch closures, reduction of occupancy in company premises, etc.) in line with the evolution of the epidemiological risk in the regions and provinces. With a view to prevention, an operational plan has also been drawn up to respond to possible evolution scenarios, prioritised based on impact and probability of occurrence, with the related containment measures. As a result, guidelines were established during the various phases of the pandemic for the gradual return of employees to the head offices in compliance with the safety regulations. To this end, a new re-entry planning tool has been developed that provides centralised monitoring of the occupancy of the premises where the Group operates.

As a further health protection measure for staff, a voluntary vaccination campaign was launched in November to provide flu and pneumococcal vaccines to employees.

In terms of internal communications, a special section has been set up in the company intranet, in addition to sending text messages and e-mails to all staff providing updates and operational instructions, particularly at critical times.

Regular communications were also sent to suppliers, customers (on the showcase website, at branches, etc.) and the media, and the authorities, institutions and trade associations have been continuously updated.

In the face of growing threats of online fraud exploiting the current emergency situation, we have produced customer-specific communications with practical advice on how to avoid falling victim to this type of attack.

### *Business continuity*

The main solutions adopted to deal with the emergency, mitigate the risk, and ensure continuity of service, related to remote working, measures adopted at the branches, process digitisation, and actions taken on the systemic processes.

Remote working is considered the most effective solution to ensure the health of staff. This method of working was already well-established within the Group and in response to the emergency it was extended to almost all the staff in the head office functions. The online branch staff and part of the "physical" branch staff have also been set up so they can do their work from home. Measures have also been implemented to make remote working more secure by using instruments to increase the level of protection and improve the security of access to the corporate network.

For the Local Branch network, a uniform approach has been identified at national level for opening hours, selective closures of the smaller branches and methods of delivery of services. Access to the branches has been organised in accordance with precise rules on social distancing and the number of employees and customers in the premises, to ensure the protection of their health. This approach is adapted over time based on the different government measures and the course of the contagion.

Again with a view to protecting public health, of both personnel and customers, measures have been implemented to facilitate digital interaction with customers, by improving the remote offering and expanding the contract dematerialisation and remote signature processes, with consequent investments to enhance the channels for remote contact with customers (call centres

and digital apps) and strengthen cybersecurity in relation to fraud prevention. Changes have been made in the process digitisation that enable the remote provision of internal operations and services to customers, including the renegotiation of mortgages to private individuals, suspension of mortgage and loan payments, and divestments for customers the MyKey remote service.

Lastly, for the systemic processes, the Group's Business Continuity Plans (BCPs) were used as the starting point to analyse all the critical activities and emergency solutions relating to the unavailability of premises and personnel, giving priority to the structures overseeing the processes (Treasury, Operations, Information Systems and Cybersecurity, and Business Continuity Management) and the entities/structures operating in the markets (IMI Corporate & Investment Banking Division, Eurizon, Fideuram, and Insurance).

The main secondary emergency sites have been set up, which can host the operation of the systemic structures and the structures that have access to the markets, where necessary.

The staff of the units that carry out critical activities, of the structures responsible for systemic processes, and of the structures that operate on the markets, have been enabled and set up to work from home. Where physical presence is required, the staff have been divided into groups that go the offices in turns, without ever meeting each other.

Lastly, an assessment of the ability of critical suppliers to cope with the emergency was carried out and monitored over time, which confirmed they met the Group's requirements.

#### *Actions in support of households and businesses*

Intesa Sanpaolo is fully aware of its responsibility as a major bank in a situation of long, profound emergency, which is in many ways unknown. Accordingly, from the outset, the Bank has taken numerous actions to support the efforts of institutions and society to combat the COVID-19 pandemic.

On 18 March, Intesa Sanpaolo made 100 million euro available to the Department of Civil Protection and the Extraordinary Commissioner with the signing of a Protocol agreement, taken from existing funds earmarked for charitable actions, to support activities aimed at containing and overcoming the spread of the COVID-19 virus. A few days after having signed the Protocol, the Intesa Sanpaolo Group agreed a series of measures to combat the health emergency with the Extraordinary Commissioner, Domenico Arcuri, and with Angelo Borrelli on behalf of the Department of Civil Protection. Under this agreement, donations of 88.5 million euro were managed through the Department of Civil Protection, and 11.5 million euro of donations were allocated directly by Intesa Sanpaolo to specific beneficiaries (ASST Papa Giovanni XXIII of Bergamo and the Veneto Region). As a result, an addendum to the Protocol agreement was signed to reduce the contribution to the Department of Civil Protection and the Extraordinary Commissioner, from the original 100 million euro to the final amount of 88.5 million euro, which has been fully disbursed in accordance with the procedures and purposes set out in the Protocol agreement.

At the beginning of June, a little more than two months after the signing of the Protocol Agreement with the Extraordinary Commissioner and the Department of Civil Protection, the 100 million euro donated by Intesa Sanpaolo was allocated in full to the Italian health care system to deal with the Coronavirus emergency, providing significant and structural support to strengthen the National Health System.

Numerous actions have been carried out at national level. Specifically, 53.5 million euro have been allocated to the purchase of medical equipment requested by the Extraordinary Commissioner, in agreement with the Department of Civil Protection, to be assigned to health facilities and public entities throughout Italy based on the demands of the health emergency. In addition, 46.5 million euro have been allocated to specific health facilities for projects related to the COVID-19 emergency and for the reimbursement of purchases of equipment, diagnostic tools and other medical material already made by the health facilities. In terms of geographic allocation, these specific actions were distributed as follows: 68% to Northern Italy, 15% to the Centre and 17% to the South. A total of 16 hospitals and 3 newly created Covid Emergency Centres in eight Italian regions benefited from the donation, which was one of the largest in Europe. In particular, a total of 36 new facilities were created consisting of new healthcare wards, wards repurposed for COVID-19 emergency management and specialist diagnostic laboratories, in addition to around 500 new beds, mainly for intensive and sub-intensive care. The work carried out so far has resulted in the provision of over 3,000 medical and diagnostic devices needed for patient management, including pulmonary ventilators, CPAP helmets, respirators, infusion pumps, cold nebulising systems, high flow monitors and humidifiers, CT scans, ultrasound scanners, and reagents needed to produce diagnostic kits. Intesa Sanpaolo has also contributed to ensuring the safety of doctors and healthcare workers by donating over 63 million items of personal protective equipment, such as masks, gloves, overalls and gowns.

In the wake of an epidemic that has had a severe impact on the Italian population and in expression of solidarity for all the families that have lost their loved ones, Intesa Sanpaolo strived to ensure effectiveness and timeliness in identifying the health facilities that would benefit from the medical resources and supplies so urgently needed in the emergency.

The following healthcare facilities have benefited from the measures adopted by Intesa Sanpaolo:

- Lombardy: Ospedale San Raffaele, Humanitas premises in Rozzano (Mi), Bergamo and Castellanza, Grande Ospedale Metropolitano Niguarda, Ospedale Papa Giovanni XXIII of Bergamo, ASST degli Spedali Civili in Brescia, Ospedale San Gerardo in Monza, and Policlinico San Matteo in Pavia;
- Veneto: ULSS 9 Scaligera (Verona) and Veneto Region (Azienda Ospedaliera of Padua, Azienda Ospedaliera of Verona, ULSS 1 - Dolomites (Belluno), ULSS 2 - Marca Trevigiana (Treviso), ULSS 3 - Serenissima (Venice), ULSS 4 - Veneto Orientale (Venice), ULSS 5 - Polesana (Rovigo), ULSS 6 - Euganea (Padua), ULSS 7 - Pedemontana (Vicenza), ULSS 8 - Berica (Vicenza), and ULSS 9 - Scaligera (Verona);
- Piedmont: Istituto di Candiolo IRCCS (Turin), ASL3 and ASL4 in Turin;
- Emilia-Romagna: Policlinico S. Orsola-Malpighi in Bologna;
- Lazio: Bio-Medical Campus, University of Rome;
- Abruzzo: Presidio Ospedaliero - ASL Teramo;
- Campania: Azienda Ospedaliera Dei Colli (Naples) - Ospedale Cotugno and Ospedale Monaldi;
- Sicily: Ospedale San Giovanni di Dio in Agrigento, Ospedale Giovanni Paolo II in Sciacca and Ospedale Fratelli Parlapiano di Ribera.

These actions were accompanied by a contribution of 350,000 euro for the construction of the ANA (National Association of

Alpine Regiments) field hospital at the Bergamo Exhibition Centre and 50,000 euro for the “Abitare la Cura” fundraising campaign launched by Eco di Bergamo, Caritas Diocesana, and Confindustria Bergamo. Intesa Sanpaolo provided its services as the lead bank in support of the commercial operations, offering its advice and knowledge of the international network to the Extraordinary Commissioner to help him perform his crucial role in the procurement of the medical materials needed to manage the current emergency.

Intesa Sanpaolo, in collaboration with Caritas and the Calzedonia Group, also delivered eleven thousand undergarments to several hospitals in Lombardy and Veneto to be distributed urgently and free of charge to hospitalised COVID-19 patients who were unable to receive these items from their families because they were in quarantine. Some of the garments were purchased by Intesa Sanpaolo and some were donated by the Calzedonia Group. The hospitals involved were: Papa Giovanni XXIII in Bergamo, Spedali Civili in Brescia, Hospitals of Cremona, Oglio Po and Nuovo Robbiani in Soresina in the province of Cremona, and Azienda Ospedale - Università di Padova in Padua.

In March this year, Intesa Sanpaolo Innovation Center and the Infectious Diseases Laboratory of the Luigi Sacco Biomedical and Clinical Sciences Department of the State University of Milan (Sacco Hospital) initiated a close collaboration for the genome sequencing and geographical mapping in Italy of SARS-CoV-2, the virus that causes COVID-19, and the reconstruction of the origin and the methods of the spread of the virus within the population in Italy. Intesa Sanpaolo has provided expertise and human capital in the areas of IT, statistics and data science together with greater computing power. This research environment (servers, databases, user access, licences and IT tools) has led to the development of programming codes to automate a significant part of the research.

In view of the difficult situation, the Managing Director and CEO, Carlo Messina, gave up 1 million euro of the bonus that he would have been entitled to under the 2019 incentive system, to allow Intesa Sanpaolo to make donations in support of specific health initiatives. The 21 top managers who report directly to him also gave up part of their remuneration to contribute to similar donations, totalling around 5 million euro of the bonuses they would have been entitled to under the 2019 incentive system. The Board of Directors, which appreciated and welcomed the decision made by the management, in turn gave up a part of their remuneration to contribute to further donations. In addition, when the variable portion of remuneration is awarded, all Group employees were able to contribute with donations in support of specific health initiatives through a special platform.

A fundraising campaign was also launched for citizens and businesses on Intesa Sanpaolo’s digital platform [www.forfunding.it](http://www.forfunding.it), which raised 3.5 million euro through all the initiatives conducted in partnership with other Associations, including 2.3 million euro from Intesa Sanpaolo’s crowdfunding campaign aimed directly at the Department of Civil Protection and linked to the donation. A donation of over 1 million euro was made out of this amount – through the partnership established with the Gucci group, and again in agreement with the Department of Civil Protection – to the research project being conducted by the Ospedale San Matteo in Pavia, the leader of an Experimental Medical Protocol for the use of hyperimmune plasma for the treatment of COVID-19 patients.

The Group has also implemented a series of actions and initiatives to support the economic and social recovery of the communities where it operates. These include the project launched with the Town of Bergamo, known as the “Renaissance Programme”, which provides 30 million euro, through grants and impact loans, to support micro and small enterprises and small commercial and craft businesses in Bergamo that are experiencing difficulties during this recovery phase and do not benefit from measures or subsidies provided by central or regional institutions. The Programme provides concrete support to Bergamo’s local economy, to help companies meet the costs incurred during the lockdown and make the investments needed for the recovery, and is also aimed at encouraging sustainable mobility measures for travel between home and work.

In a similar vein to Bergamo, the following actions were initiated:

- The “Rinascimento Firenze” Programme aimed at supporting the revival of the city’s economy through impact lending, developed and promoted in collaboration with Fondazione CR Firenze, which provides 50 million euro – through grants and impact loans – to support small and medium enterprises operating in the sectors of arts and crafts, tourism and culture, fashion and lifestyle, start-ups and agro-industry in the metropolitan area of the city of Florence. It is aimed at businesses that were healthy before the pandemic, which have suffered in recent months and intend to relaunch their operations by investing in projects that have a measurable social impact, such as stabilising or increasing their staff numbers, making investments under the new health regulations, and promoting forms of networking between competing businesses to increase the network’s resilience;
- locally-based programmes have been launched (Vigevano Solidale and Torino Fondo Sorriso) aimed at households and micro-businesses, to contain the current social and economic emergency linked to unemployment and loss of work and revenue, caused by the pandemic. The programmes involve the provision of impact loans by the Group backed by a pre-established solidarity guarantee fund.

For these initiatives, the Bank has also provided the possibility for private individuals to participate in dedicated fundraising through the Forfunding platform;

- support to the Autonomous Region of Sardinia: Intesa Sanpaolo has been awarded the international tender, launched by the European Investment Bank, for the management of a share of an EFSI (European Fund for Strategic Investments) fund with a total budget of 100 million euro. The share managed by Intesa Sanpaolo amounts to 33 million euro and the Bank intends to use these funds to promote economic recovery, by enhancing financial solidity and counteracting the effects on the Region produced by the containment measures connected to the COVID-19 epidemiological emergency. The tourism services sector will be allocated 40% of the funds available.

The solidarity initiatives aimed at supporting the difficult and delicate recovery following the health emergency also included the aid offered by Intesa Sanpaolo through other major interventions:

- the “Ricominciamo insieme – sostegno alle generazioni nella famiglia” project, with a grant of 5 million euro to the Diocese of Bergamo, adding to the funds already made available by the Diocese to Caritas Diocesana, the Italian Episcopal Conference and other bodies and private individuals for assistance to households and the relaunch of Bergamo’s economy;
- a donation of 5 million euro to the Solidarity Fund “Do.Mani alla speranza” and the Fund “In aiuto alla Chiesa Bresciana” for the programme of measures to support households and parishes in difficulty.



In terms of its own operations, Intesa Sanpaolo has implemented a series of extraordinary measures to support the Italian economy and its businesses and households. First of all:

- 5 billion euro of new loans for businesses throughout the country to support working capital, provided through additional credit lines over and above the existing facilities;
- 10 billion of liquidity for Intesa Sanpaolo customers, through credit lines already approved to them and now made available for more extensive and flexible purposes, such as managing urgent payments;
- the suspension for 3 months of payments on outstanding medium/long-term loans, solely for the principal amount or for the entire payment due, which can be extended by 3 to 6 months depending on the duration of the emergency. The suspension for the loans has also been extended to households throughout the country.

As a result of the measures approved by the government, the amount of resources in terms of credit made available to the country was subsequently increased to 50 billion euro.

To help ensure continuity of production, in the face of the slowdown in domestic and foreign demand caused by the current crisis, Intesa Sanpaolo has also set aside:

- a plafond of 5 billion euro to support companies and professionals associated with Confcommercio (Italian federation of commerce and tourism) to enable the management of urgent payments and immediate liquidity needs. An agreement has also been made with special conditions for Confcommercio members, which includes the refund of fees on micro-payments (less than 10 euro) accepted through physical Intesa Sanpaolo POS terminals;
- a plafond of 2 billion euro for companies operating in the tourism sector to support liquidity and investment. In addition, the possibility of suspending outstanding loan instalments has been increased up to two years, an initiative that was also extended to the UBI Banca network already from the third quarter;
- an initiative with the craft industry association Confartigianato Imprese, aimed at enhancing the potential of craft enterprises through actions adopted at national level to promote their growth, including a process to facilitate innovation, sustainability and enhancement of human capital.

Furthermore, the Intesa Sanpaolo Group – through Intesa Sanpaolo RBM Salute's experience in the health sector – has made its new insurance solution available to members of the boards of directors, owners and employees of companies, to provide protection and greater peace of mind if they contract the virus. Intesa Sanpaolo Assicura has also launched initiatives in favour of its policyholders by extending its services and insurance cover to all of them free of charge. Policyholders – who are positive for COVID-19 and who will contract the virus – will have daily hospitalisation allowances not only in the event of hospitalisation, but also during isolation at home (quarantine), without excesses and deductibles.

Intesa Sanpaolo was the first Italian bank to sign the collaboration protocol with SACE to provide financial support to businesses damaged by the COVID-19 emergency. Thanks to this agreement, the Bank, after having increased the amount of credit resources available to the country to 50 billion euro, is offering all the possible solutions envisaged by the Liquidity Decree, in order to also provide the necessary support to large companies that were not originally covered by any support measures. This is a necessary step to help the production sectors and the supply chain made up of SMEs. Thanks to the work coordinated by the Italian Banking Association, the Group has identified the most suitable solutions to efficiently manage operations through its relationship managers.

In these exceptional times, Intesa Sanpaolo has also strengthened its “Sviluppo Filiere” Programme by targeting 2,500 Italian supply chains, from all the production sectors spread throughout Italy, which will be allocated a new credit line of 10 billion euro.

In a market made up of many small firms and a difficult environment like the current one, the strategic relationship between the leaders of the sector and their suppliers can become an extraordinary multiplier and facilitator for access to credit for smaller firms, by leveraging the strength and solidity of the best of Italian manufacturing.

The main initiatives supported during this difficult period included:

- Automotive sector: a transaction with FCA (80% SACE guarantee), which represents the largest ever measure in support of the Italian industrial sector and one of the largest measures in support of an industry sector ever implemented in the world;
- Gucci supply chain: for local growth projects, international expansion programmes and the renovation of production facilities. Firms that belong to the supply chain can rapidly access a wide range of loans, at the best conditions and with faster credit disbursement;
- Venchi supply chain (a company with an extensive national and international presence, but with firm roots in the Cuneo area): around 6,000 retailers located throughout Italy can benefit from this initiative.

Lastly, following the assignment by the Bank's Shareholders' Meeting on 27 April 2020, one million euro, equal to 16% of the total of 14 million euro available from the Intesa Sanpaolo Allowance for charitable, social and cultural contributions, under the chairmanship of the Board of Directors, will be allocated to COVID-19 medical research projects to combat the coronavirus emergency. Recognised Italian universities and research bodies are applying for projects according to the standard procedures for accessing the Allowance's resources. Projects are identified through a selection process conducted by a panel of experts, with precise and transparent criteria applied at each stage.

The management of the Allowance – as envisaged by Intesa Sanpaolo's Articles of Association – is the responsibility of the Bank's Chairman and prioritises initiatives that encourage social inclusion, projects to combat social hardship and poverty, projects to prevent and treat diseases, support disability and international cooperation projects.

### *Further strengthening of the solid capital position*

On 31 March 2020, the Board of Directors of Intesa Sanpaolo, in compliance with the European Central Bank communication of 27 March 2020 concerning the dividend policy in the aftermath of the COVID-19 epidemic<sup>1</sup>, decided to suspend the proposal regarding the cash distribution to shareholders of around 3.4 billion euro, corresponding to 19.2 euro cents per share, already on the agenda of the Ordinary Shareholders' Meeting called for 27 April 2020. The Board also resolved to submit a proposal to that Ordinary Shareholders' Meeting for the allocation to reserves of the net income for the 2019 financial year, after the allocation of 12.5 million euro to the Allowance for charitable, social and cultural contributions.

The proposal, which was approved by the Shareholders' Meeting on 27 April 2020, translated into a further strengthening of the already solid capital position of the Intesa Sanpaolo Group: as at 31 December 2020 – taking into account the additional requirements of the ECB which, as detailed below, renewed its recommendation to banks in December to exercise caution with regard to dividends<sup>2</sup> – the Common Equity Tier 1 ratio, calculated taking into account the transitional treatment adopted to mitigate the impact of IFRS 9, amounted to 14.7%.

The Intesa Sanpaolo Group, also thanks to its solid capital position, has prioritised, and will continue to prioritise the generation of benefits for all its stakeholders, from the support provided to the real and social economy, to value creation and distribution to shareholders, confirming its role as a reference model in terms of sustainability and social responsibility.

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### **The main accounting issues within the context of the epidemic**

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At the beginning of 2020, the world economy was growing, albeit with a moderate slowdown, and financial intermediaries had been progressively strengthening their solidity. This moderately positive context was completely shattered by the arrival of COVID-19. For Europe, the first half of 2020 was dominated first by the rapid spread of the COVID-19 pandemic, then by the most severe phase of the outbreak, followed by the progressive but constant containment of the virus over the summer, accompanied by a gradual and significant recovery in economic and social activities. After the return to sustained economic growth in the third quarter, helped by the support policies implemented by governments, the European Union and the Eurosystem, the sharp rise in infections in recent months has unfortunately brought back a situation of high uncertainty, which is affecting future growth prospects. The sudden progression of the second wave of the pandemic, prompted the whole of Europe to reimpose restrictive measures, with differing levels of constraints, and mainly aimed at avoiding general lockdowns by limiting the strictest measures to the areas most affected by the outbreaks, in order to allow economic and social activities to continue as far as possible. Although the expectations regarding new vaccines give reason for cautious optimism, the outlook for the initial months of 2021 is still uncertain.

In this scenario, the various European Regulators (in line with the US, UK and Canadian authorities) have issued a series of measures (summarised below with regard to the accounting aspects) aimed at providing intermediaries flexibility in managing this period of stress. In the first instance, this consists of providing their support to the measures adopted by national governments to deal with the systemic economic impact of the COVID-19 pandemic, in the form of legislative payment moratoria, in addition to similar initiatives introduced independently by banks. Banks have also been encouraged to apply their judgement in IFRS 9 forward-looking credit assessments to better capture the specifics of this very exceptional situation. In light of the current uncertainty, the documents published by the authorities and standard setters suggest that existing approaches should not be applied mechanically when determining the Expected Credit Loss (ECL) according to IFRS 9 and remind banks of the need to use appropriate judgement.

### *Communications from authorities, standard setters, and governments*

The documents issued by the various regulators and standard setters, in terms of the accounting aspects, focused on the following specific issues:

- guidance on the classification of loans and in particular guidelines for the treatment of moratoria;
- determination of the Expected Credit Loss (ECL) according to IFRS 9 from a forward-looking perspective;
- transparency and market disclosure;
- distribution of dividends.

A summary of the main documents covering these aspects is provided below.

On 27 March, the **IFRS Foundation** published “COVID-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID-19 pandemic”<sup>3</sup>. This document does not amend IFRS 9, but suggests how it should be interpreted in light of the situation resulting from the pandemic. Specifically, it clarifies that “Entities should not continue to apply their existing ECL methodology mechanically” and recognises the difficulty of incorporating the effects of the pandemic and the related government support into the models. Therefore, banks facing this difficulty will need to consider post-model management adjustments. With regard to classification, it is confirmed that the extension of moratoria to customers should not automatically mean that all their contracts have undergone a Significant Increase in Credit Risk (SICR).

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<sup>1</sup> Subsequently amended by the “Recommendation of The European Central Bank of 27 July 2020 on dividend distributions during the COVID-19 pandemic and repealing Recommendation ECB/2020/19 (ECB/2020/35)”, which extended the period for the dividend policy from 1 October 2020 to 1 January 2021. As described in more detail below, given the lack of clear improvements in the macroeconomic environment, the ECB renewed last summer's advice to banks to exercise caution on dividends and share buybacks in the “Recommendation of The European Central Bank of 15 December 2020 on dividend distributions during the COVID-19 pandemic and repealing Recommendation ECB/2020/35 (ECB/2020/62)”.

<sup>2</sup> See footnote 1 above.

<sup>3</sup> The IASB has also expressed its opinion on the deferral of lease payments, dealt with in specific documents relating to IFRS 16. This issue is significant for lessees, whereas for lessors (like Intesa Sanpaolo) this issue is mainly addressed in IFRS 9.

The various actions taken by the ECB include the guidance provided in its press release of 20 March “*ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus*”, regarding the classification and measurement of loans. In its announcement, the ECB reassured banks that adoption of a moratorium should not be considered as an automatic trigger of unlikelihood to pay, because the payments have been legally postponed and, consequently, the counting of the days past due has been deactivated until the end of the moratorium. In addition, although it does not strictly come under its area of responsibility, the ECB, within its prudential remit, expresses its views on IFRS 9 forward-looking assessments, recommending that banks avoid excessively procyclical assumptions in their models to determine provisions. In determining ECLs, the ECB calls on institutions to “give a greater weight to long-term stable outlook evidenced by past experience when estimating provisions for expected credit losses”.

The ECB also sent a letter<sup>4</sup> to supervised banks to provide additional guidance and references on the inclusion of forward-looking information in determining ECLs under IFRS 9 in the context of the COVID-19 pandemic. The letter refers to the recommendations made by the ECB to intermediaries, namely to avoid the use of excessively procyclical assumptions, given the extreme uncertainty of the context and in light of the unavailability of reasonable and supportable forward-looking information: “*In order to mitigate volatility in institutions’ regulatory capital and financial statements stemming from IFRS 9 accounting practices in the current context of extraordinary uncertainty we recommend that institutions i) opt to apply the transitional IFRS 9 provisions foreseen in the CRR, and ii) avoid excessively procyclical assumptions in their IFRS 9 models to determine their provisions*”. The ECB also stresses the fundamental importance of governance in relation to the adjustments, overlays and model updates, considered necessary in the current situation. This letter is accompanied by an Annex, which provides guidance on the following three aspects:

- *Collective assessment of the SICR*  
The ECB expects significant institutions “*to consider whether a top-down approach to stage transfers can be taken,*” using the collective assessment, “*and in the context of that approach, recognise lifetime expected credit losses on a portion of the financial assets for which credit risk is deemed to have increased significantly without the need to identify which individual financial instruments have suffered a SICR*”.
- *Use of long-term macroeconomic forecasts*  
The ECB recognises the current uncertainty in making macroeconomic forecasts and therefore calls on intermediaries to focus on long-term macroeconomic forecasts when determining IFRS 9 ECLs, using all the historical information covering at least one or more full economic cycles. In the ECB’s opinion, the IFRS 9 provisions lead to the conclusion that, where there is no reliable evidence for specific forecasts, long-term macroeconomic outlooks provide the most relevant basis for estimation.
- *2020, 2021 and 2022 macroeconomic forecasts*  
The ECB provided recommendations on how the forecasts for the March and June estimates should be prepared (similar guidance was also repeated for the 2020 financial statements), indicating that the macroeconomic projections produced by its staff should be used as anchor points.

In relation to the above guidance, the ECB’s supervisory activities identified heterogeneous practices in its implementation among supervised institutions and therefore decided to issue a new letter<sup>5</sup> (on 4 December 2020) reiterating the importance of ensuring that credit risk is adequately assessed, classified and measured on banks’ balance sheets. It also recommended the use of creditworthiness assessment procedures to allow banks to differentiate viable from non-viable debtors, in a timely and effective manner, also taking into account the prospective expiry of the public support measures. The main objective of this process is to contain the build-up of troubled assets and mitigate cliff effects, while seeking to avoid excessive procyclicality.

More specifically, in its letter of 4 December, the ECB identified several main areas of credit risk management that significant institutions should focus on when applying sound policies and procedures, as summarised below:

1. classification of contract modifications: institutions must ensure that they correctly classify contract modifications (moratoria) that qualify as concessions to distressed borrowers, by classifying them as forbore in their systems. For changes not covered by the EBA Guidelines on this topic, institutions must assess and classify on a case-by-case basis whether the changes meet the definition of forbearance measures;
2. assessment of unlikelihood to pay: the ECB expects institutions to perform a regular assessment of the existence of UTP triggers for the borrowers, including exposures with payment moratoria;
3. assessment of significant increases in credit risk and staging: the ECB recommends that institutions seek to identify increases in credit risk at the earliest possible stage, whether using individual or collective assessments, by assessing loans subject to moratoria more comprehensively and not using days past due as the sole criterion for identifying a SICR, and it reminds banks of the need to use qualitative information as required by IFRS 9;
4. estimation of provisions: to ensure that levels of provisions are correctly estimated, the ECB renews its recommendation that institutions should continue anchoring their IFRS 9 baseline scenarios to the macroeconomic forecasts published by the central banks, while also ensuring that any adjustments and overlays are consistent with those scenarios;
5. governance and the involvement of management bodies: the ECB expects management bodies to exercise adequate oversight over the critical elements of the management of credit risk.

On 10 December, at the side-lines of the Governing Council’s monthly meeting, the ECB published the periodic update of the macroeconomic projections for the Eurozone prepared by its staff, with the contribution of the individual national central banks, which contained minor deviations from the previous September forecasts. More specifically, as shown in the table below, the Baseline scenario envisages a lower decline in GDP for the Eurozone in 2020, expected to fall by 7.3% (compared to -8.0% forecast in September), followed by a revision of the rebound for 2021, now expected to be +3.9% (compared to +5.0% forecast in September), offset by an improvement in expectations for 2022, which see GDP rising by +4.2% (instead of +3.2% forecast in September). The Mild and Severe alternative scenarios also contain minor revisions with respect to the September forecast, essentially consisting of a change in the distribution of the recovery over the three-year forecast period.

<sup>4</sup> See ECB “Letter to banks: IFRS 9 in the context of the coronavirus (COVID-19) pandemic” of 1 April 2020.

<sup>5</sup> See ECB “Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic”, 4 December 2020.



“Eurosysteem staff macroeconomic projections for the euro area” - December 2020

	December 2020 projections											
	Mild scenario				Baseline				Severe scenario			
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
<b>Real GDP</b>	-7.2	6.0	4.3	2.1	-7.3	3.9	4.2	2.1	-7.6	0.4	3.0	2.9
<b>HICP inflation</b>	0.2	1.1	1.3	1.5	0.2	1.0	1.1	1.4	0.2	0.7	0.6	0.8
<b>Unemployment rate</b>	7.9	8.8	7.5	6.9	8.0	9.3	8.2	7.5	8.1	10.3	9.9	9.4

At the same time as the publication of the macroeconomic forecasts for the Eurozone published by the ECB, the Bank of Italy, as part of the Eurosysteem’s coordinated forecasting exercise, also published its own statement on the macroeconomic projections for the Italian economy.

The Bank of Italy paper provides a baseline projection, which assumes a continuation of the levels of the epidemic seen in the final months of 2020, a subsequent gradual return to control during mid-2021 and a complete end of the emergency by 2022.

After a fall in GDP in Italy of -9.0% in 2020, the baseline scenario envisages a recovery over the next three years (+3.5% in 2021, +3.8% in 2022 and +2.3% in 2023). In the short term, GDP is expected to contract in the final quarter of 2020 and remain weak in early 2021, before starting to grow again rapidly in the middle of the year, thanks to the expected improvement in the health situation and the effect of economic policy measures.

Compared to the baseline scenario published in the July Economic Bulletin, the upward revision in 2020 reflects the strong performance in the third quarter, while the recovery for the following two years has been pushed back by several months. The lower average annual figure for 2021 reflects the carry-over effect of the fall in GDP in the final months of 2020 – the growth will be faster from the second quarter onwards and significantly stronger in 2022.

#### Macroeconomic projections for the Italian economy – baseline scenario

	December 2020			
	2020	2021	2022	2023
GDP	-9.0	3.5	3.8	2.3
Household consumption	-9.0	3.6	3.0	1.7
Collective consumption	0.7	-0.5	1.0	0.4
Gross fixed investment	-12.0	9.0	11.5	5.1
<i>of which: Investment in capital goods</i>	-10.2	8.8	13.5	6.8
Investment in construction	-14.3	9.2	8.9	2.9
Total exports	-15.9	9.3	4.9	3.4
Total imports	-12.4	9.7	6.2	3.2
Consumer prices (HICP)	-0.2	0.5	0.9	1.2
HICP net of food and energy	0.4	0.0	0.6	0.8
Employment (hours worked)	-12.8	3.7	3.8	2.4
Employment (persons employed)	-1.8	-1.0	1.6	1.2
Unemployment rate	9.2	10.4	10.0	9.5

The baseline scenario is highly dependent on assumptions about how the pandemic will unfold. Lower effects from the virus on economic activity in the latter part of 2020 and early 2021 could lead to a higher average pace of growth next year.

On the other hand, a continuation of the unfavourable effects of the pandemic at the global level, if not effectively countered by economic policies, could pose a risk to growth prospects if it affects consumption and investment patterns, international trade or financial conditions.

In considering this possibility, the Bank of Italy paper provides an example of the effects on GDP growth under the following assumptions:

- 1) foreign demand stagnates in 2021 followed by gradual growth in the following two years;
- 2) the effects of the pandemic on behaviour and social distancing measures continue for a longer period, reaching a similar intensity at the beginning of 2021 as last April and then gradually receding;
- 3) credit supply tightens, to a degree close to that observed during the global financial crisis.

The effects of the different assumptions on GDP growth in less favourable scenarios are detailed in the table below, which shows the percentage differences with respect to the baseline scenario:

## Macroeconomic projections for the Italian economy - Less favourable scenarios

	2020	2021	2022	2023
<b>1 - International situation</b>	-0.1	-0.9	-0.7	-0.3
<b>2 - Prolongation of the pandemic</b>	-0.1	-1.6	-1	-1.6
<b>3 - Financial factors</b>	0.0	0.9	-0.7	0.1

The EBA also provided its observations on the measures that banks were taking following the sudden onset of the COVID-19 emergency, with a series of documents published on 25 March, including in particular the “Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures”. The aim of the EBA document is to provide clarity to the EU banking sector on how to handle in a consistent manner, aspects related to (i) classification of loans in default, (ii) identification of forbore exposures and (iii) accounting treatment (for Stage 2 allocation and IFRS 9 forward-looking assessments).

The EBA then went into more detail on the aspect of classification with the publication of specific guidelines on 2 April, aimed at identifying a simplified prudential treatment for the classification of loans that have been granted a moratorium by (and no later than) 30 September 2020. In this regard, the EBA specified that:

- adoption of a moratorium – both legislative and granted by the bank – is not a trigger of default and stops the counting of the days past-due for the identification of default;
- with regard to considering moratoria as forbearance measures, the EBA is of the view that the concerned positions cannot be considered as forbore, because they are aimed at addressing systemic risks and alleviating potential future risks that may occur in the wider EU economy;
- on the possible transfer to Stage 2 of positions subject to a moratorium, the EBA clarifies that the application of a public or private moratorium alone should not be considered as a trigger for the identification of a significant increase in credit risk, and therefore they should not be automatically classified as Stage 2.

After closely monitoring the developments of the COVID-19 pandemic and, in particular, the impact of the second COVID-19 wave and the related government restrictions taken in many EU countries, on 2 December the EBA announced its decision to reactivate the “Guidelines on legislative and non-legislative loan repayments moratoria”, publishing a revised version of its 2 April document by the same name.

The new edition of the EBA Guidelines envisages that banks may continue to provide support to the real economy through new moratoria, while maintaining a high level of attention to the timely identification of situations where counterparties who are granted the moratoria may face financial difficulties, in order to ensure that any problematic loans are promptly classified and reflected in their balance sheets. Accordingly, in the renewed version of its Guidelines, the EBA has introduced new constraints to ensure that the support provided by moratoria is limited to bridging liquidity shortages triggered by new lockdowns and that there are no operational constraints on the continued availability of credit:

- reopening the possibility of granting moratoria in accordance with the existing guidelines until 31 March 2021;
- introducing a 9-month cap for new moratoria or the extension of an existing moratorium. This cap also applies to the granting of a further moratorium in relation to an expired moratorium, in which case the durations of the two moratoria are added together.

The 9-month cap does not apply retroactively to moratoria granted up to 30 September, which may consequently have longer durations (e.g. 12 months).

In view of the extension of the moratorium period, the EBA has also specified that banks will be required to notify their competent authorities of their plan setting out the process, sources of information and responsibilities for assessing the unlikelihood to pay of borrowers that have been granted payment moratoria (both legislative and non-legislative), while introducing specific disclosure requirements for monitoring exposures subject to moratoria<sup>6</sup>.

<sup>6</sup> See EBA “Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis” of 2 June.

With regard to financial reporting, mainly addressed by the **ESMA**, this authority first issued a recommendation on 11 March<sup>7</sup>, providing guidelines on the impact of COVID-19 with respect to the following:

- Market disclosure: the ESMA recommends that issuers should disclose as soon as possible relevant and significant information concerning the impact of COVID-19 on their fundamentals, prospects or financial situation, in accordance with the transparency obligations under the Market Abuse Regulation;
- Financial reporting: the ESMA recommends that companies should provide full transparency about the actual and potential impacts of COVID-19, to the extent possible based on both a qualitative and quantitative assessment, on their business activities, financial situation and economic performance.

In October, ESMA also published its annual report<sup>8</sup>, indicating the areas of particular importance for the 2020 annual reports to be published by listed companies, with the aim of promoting consistent application of the IFRS and other financial and non-financial disclosure requirements.

The priority areas of attention for the ESMA in relation to the IFRS, focus on the need to provide adequate and transparent disclosure on the consequences of the COVID-19 pandemic, particularly regarding going concern assumptions and the impairment of assets. In the current situation of uncertainty, measurements must be supported, where possible, by sensitivity analyses, subject to specific disclosure, to provide users of the financial statements a more complete and transparent understanding of these phenomena.

On the subject of market disclosure, the **IOSCO** and **CONSOB** also referred to the ESMA guidelines, stressing the importance of clear, reliable and transparent disclosure that provides investors with information that helps them assess the impact of the COVID-19 pandemic on the income statement and balance sheet aggregates.

In addition, in its communication of 15 December 2020, the **Bank of Italy** supplemented the provisions governing bank financial statements (Circular 262 “Bank financial statements: layouts and preparation”), with the aim of providing information to the market on the effects that the COVID-19 outbreak and the consequent measures to support the economy have had on the strategies, objectives and risk management policies of intermediaries, and on their operating performance and financial position. The proposed actions also take into account the contents of the above-mentioned documents published by the European regulatory and supervisory bodies and standard setters aimed at clarifying the application of the IAS/IFRS, with particular regard to IFRS 9.

The document also contains a number of amendments to reflect changes to the IAS/IFRS that have occurred since the last updates to the financial reporting requirements. In particular, it refers to the disclosure requirements of IFRS 7 to take into account the effects of the “Interest Rate Benchmark Reform” in relation to hedge accounting (IBOR Reform).

Lastly, as already mentioned, in line with the measures already taken in March 2020 (ECB/2020/19) and the recommendation issued in July (ECB/2020/35) – in which the **European Central Bank** announced that it would review its position in the fourth quarter of 2020 to assess whether to issue a further recommendation to suspend dividends, in light of the economic situation, the stability of the financial system and the reliability of capital planning – on 15 December the ECB renewed its guidance to banks to exercise extreme caution with regard to dividends and share buybacks, recommending in particular that:

- they consider not distributing any cash dividends or to limit such distributions until 30 September 2021;
- if they still intend to distribute dividends or carry out share buybacks, they apply the lower of 15% of the cumulated profit for 2019-2020 and 20 bps in terms of CET 1 as a criterion;
- they be profitable and have robust capital trajectories if they intend to distribute dividends, and they are expected to contact their JST in advance to discuss whether the level of intended distribution is prudent;
- they refrain from distributing interim dividends out of their 2021 profits.

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## The Intesa Sanpaolo Group’s approach to the preparation of the Financial Statements as at 31 December 2020

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### Introduction

The concepts set forth by the various authorities which have been summarised above, mainly concerning loans and aimed at avoiding penalising positions in temporary difficulty in the presence of robust economic support programmes, have been used consistently by the Group, also for the measurement and presentation of other items in the Financial Statements as at 31 December 2020.

However, it is important to note that the aspects discussed below and the choices made by the Intesa Sanpaolo Group need to be viewed in conjunction with the major role that the Bank has played and will play in providing the necessary support to individuals and businesses, as well as the significant uncertainty and volatility in the figures for this period, as clearly highlighted by all the Authorities mentioned above. The new and exceptional characteristics of the current crisis, which are unprecedented in the post-war period, the continued uncertainty regarding the duration of the health emergency, which may generate economic and financial consequences for individuals and businesses, as well as the measures already devised and being devised by governments and the European Union, which, given their size and nature, are capable of mitigating the effects of the crisis, but which are still not yet clearly defined, especially in terms of their timing of implementation, make it very difficult to apply accounting standards anchored to market values and forward-looking valuations.

Details are therefore provided below of the aspects of the financial statements impacted by COVID-19, based on the framework outlined above.

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<sup>7</sup> See ESMA “ESMA recommends action by financial market participants for COVID-19 impact” of 11 March.

<sup>8</sup> In this statement on annual financial reports, the ESMA also builds on the suggestions already provided in its statements of 25 March “Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9” and 20 May 2020 “Implications of the COVID-19 outbreak on the half-yearly financial reports”.

*Classification and measurement of loans in accordance with IFRS 9 in light of the measures issued by the various supervisory authorities following the emergence of the COVID-19 pandemic*

In terms of classification of credit exposures, the COVID-19 outbreak primarily resulted in the need, also recognised by the banking system and institutions (governments and regulators), to offer general payment suspension measures (moratoria) to still performing customers, using simplified procedures and without any penalties for the parties involved – both banks and customers. These measures, partly governed by national regulations and partly decided autonomously by the banks, were the subject of a specific regulation, summarised in the specific EBA Guidelines (“*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*”). According to the EBA, for the moratoria to be considered in line with its guidance, they have to meet some specific requirements, which may be summarised as:

- being offered without distinction by the bank to a large group of (performing) borrowers or following legislative provisions;
- not providing a waiver of interest or principal but solely a deferral/extension of payments.

Following the activation of EBA compliant moratoria, the count of the past due for the purposes of identifying the default (with classification as non-performing past due) is stopped. In addition, the fact that the Bank has not waived the repayment of the interest or the principal means that the calculation of the diminished obligation for the purposes of distressed restructuring and the resulting classification as Unlikely-to-Pay is no longer relevant. The moratorium is also not automatically considered as a forbearance measure and therefore does not also constitute a trigger for a significant increase in credit risk with consequent transition to Stage 2 (for Stage 1 positions) pursuant to IFRS 9. In addition, for positions towards companies with a higher risk (identified through their rating) for which the Bank had decided to grant a moratorium, up to 30 September our Group carried out specific assessments, to determine whether or not to consider the renegotiation as a forbearance measure.

This situation continued to apply until 30 September when, in light of the scenario of cautious optimism at the end of the summer, the EBA decided not to extend this exceptional measure. The Authority had thus decided to return to the practice whereby any renegotiation of loans has to follow a case-by-case approach according to the usual prudential rules, i.e. with an analysis of whether the single measure is to be considered a forbearance and/or a default trigger. As a result, from 1 October that test was applied to all new measures towards companies and individuals (regardless of rating and type of moratorium).

Following the second wave of COVID-19 which hit Europe in mid-October, the EBA reconsidered the issue, and in its communication of 2 December, it:

- re-opened the option to grant moratoria according to the pre-existing guidelines, up to 31 March 2021;
- introduced a nine-month cap for new moratoria or the extension of an existing moratorium. The cap shall also apply to the granting of non-consecutive periods of suspension (in this case, the durations of the various periods are added together). The 9-month cap does not apply retroactively to moratoria granted up to 30 September.

In December, the Group aligned itself to the provisions of the amendment issued by the EBA on 2 December, restoring the framework in force as at 30 September, described above, while introducing a case-by-case assessment of the classification as forborne for moratoria with a duration of more than nine months, as required by the EBA.

With regard to the measurement of credit exposures, the various measures adopted by the regulators in 2020, described above, progressively strengthened and adapted the regulatory framework, which had already been clearly set out in the early months of 2020 and was progressively refined during the year, in response to the evolution of the economic and the health situation. For the Financial Statements at 31 December 2020, the Group has therefore decided to maintain the approaches adopted during 2020, with the appropriate refinements and adjustments resulting from the evolution of the health crisis and the economic scenario.

The Intesa Sanpaolo Group has therefore aligned itself to the guidance from the regulators by:

- updating the macroeconomic scenario for the calculation of the ECL (measurement of loans), in line with the guidance provided by the ECB and the Bank of Italy at the beginning of December;
- adopting specific management overlays to include ad hoc corrective measures, not captured by the models, to better reflect the particularities of the COVID-19 impacts in the measurement of loans.

With regard to the macroeconomic scenario, which is also used for the credit assessment, the Parent Company’s Research Department has produced IFRS9 scenarios consistent with the scenarios (baseline, mild and severe) published in December by the ECB and the Bank of Italy, in line with the guidance provided by the ECB in its letter of 4 December 2020 “*Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic*”. The scenarios were produced using data taken from the ECB/Bank of Italy projections and internal modelling (Oxford Economics multi-country model) was used to reconstruct the paths of the variables not provided by the Eurosystem. In fact, the Central Banks only specifically projected the trend of some macroeconomic variables (included in the scenario) and provided an accompanying commentary that was used as the basis for completing the projection of all the variables used in the satellite models in a consistent manner.

In particular, only the ECB and some National Central Banks (e.g. the Bundesbank) also provided alternative scenarios (best and worst case), but only for a few fundamental variables (real GDP growth, inflation, unemployment), while the Bank of Italy only provided a sensitivity analysis of GDP to several worst case scenarios. Accordingly, the reconstruction of the alternative scenarios for the Italian economy has been carried out in a manner that makes them as consistent as possible with the description of the alternative scenarios from the Eurosystem and the real growth projection for the Eurozone provided by the ECB for each of those scenarios.

The table below summarises the macroeconomic scenarios produced and used to calculate the expected credit losses, for which the main variables have been taken from the projections of the central banks, while the other variables have been reconstructed by means of simulations through internal modelling, in accordance with the information available from the publications by the central banks.

## Intesa Sanpaolo macroeconomic scenarios for calculating the ECL in the 2020 Financial Statements

		Baseline				Best case				Worst case			
		2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
<b>Italy</b>	Real GDP Italy	-9.0%	3.5%	3.8%	2.3%	-8.5%	6.2%	2.5%	1.9%	-9.1%	-0.5%	2.6%	1.7%
	CPI Italy	-0.2%	0.5%	0.9%	1.2%	-0.1%	0.6%	1.2%	1.4%	-0.2%	-0.3%	0.4%	1.0%
	Residential Property Italy	2.4%	-2.0%	0.5%	1.0%	2.7%	0.3%	2.0%	3.1%	2.4%	-5.0%	-2.7%	-1.7%
	10Y BTP yield	1.2%	0.8%	1.0%	1.2%	1.1%	1.0%	1.4%	2.2%	1.2%	1.0%	1.3%	1.7%
	BTP-Bund Spread 10Y	1.6%	1.3%	1.5%	1.6%	1.6%	1.3%	1.5%	1.6%	1.7%	1.6%	1.8%	2.1%
	Italian Unemployment	9.2%	10.4%	10.0%	9.5%	9.3%	10.2%	9.9%	9.5%	9.4%	11.6%	11.8%	11.5%
<b>Euro Area</b>	Real GDP EUR	-7.3%	3.9%	4.2%	2.1%	-7.2%	6.0%	4.3%	2.1%	-7.6%	0.4%	3.0%	2.9%
	CPI EUR	0.2%	1.0%	1.1%	1.4%	0.2%	1.1%	1.3%	1.5%	0.2%	0.7%	0.6%	0.8%
	Equity ESTOXX 50	-5.2%	4.6%	4.0%	2.9%	-1.6%	12.0%	3.6%	3.3%	-5.5%	-5.2%	-7.0%	-4.7%
	Euro/\$	1.14	1.18	1.18	1.18	1.14	1.16	1.14	1.17	1.13	1.17	1.17	1.19
	Euribor 3M	-0.4%	-0.5%	-0.5%	-0.5%	-0.4%	-0.5%	-0.5%	-0.2%	-0.5%	-1.0%	-1.0%	-0.9%
	EurIRS 10Y	-0.1%	-0.2%	-0.1%	0.1%	-0.1%	0.0%	0.2%	0.8%	-0.2%	-0.4%	-0.2%	-0.2%
	10Y Bund yield	-0.5%	-0.5%	-0.5%	-0.4%	-0.5%	-0.2%	0.0%	0.6%	-0.5%	-0.6%	-0.5%	-0.4%
	Unemployment EUR	8.0%	9.3%	8.2%	7.5%	7.9%	8.8%	7.5%	6.9%	8.1%	10.3%	9.9%	9.4%
<b>US Area</b>	Real GDP US	-3.5%	4.2%	2.7%	2.1%	-3.5%	5.2%	3.9%	2.5%	-4.1%	0.3%	0.2%	0.2%
	Equity US	10.0%	7.3%	-0.4%	-0.6%	15.0%	29.0%	6.2%	2.8%	9.8%	-4.2%	-4.6%	-4.4%
	Unemployment US	8.2%	6.5%	5.6%	4.8%	8.2%	6.3%	5.1%	4.3%	8.4%	8.7%	7.8%	6.7%

In line with the various assumptions on the evolution of the health situation and the launch of the major measures to support the economy, the Group's forecasts – as mentioned above based on the ECB/Bank of Italy scenario of December 2020 – are as follows:

1. the most likely (or baseline) scenario envisages a significant recovery in Italian GDP in 2021 and 2022, with growth slowing down in 2023 but still remaining strong;
2. the worst-case scenario, envisages a significant contraction of Italian GDP in 2020, followed by substantial stagnation in 2021 and weak recovery in the following years;
3. the best-case scenario assumes a complete reversal of the 2020 contraction already in the following two years, driven in particular by a strong recovery in 2021.

With regard to the health situation, the best-case scenario assumes effective and rapid containment of the virus, also thanks to the start of the massive vaccination campaigns by the European countries, while the worst-case scenario assumes another resurgence of infections and an extension/tightening of the containment measures until mid-2021.

More specifically, the most likely (baseline) scenario assumes only partial success in containing the virus, with persistence of infections in the coming quarters and consequent containment measures. However, these measures are expected to result in lower economic costs than those incurred during the initial strict lockdowns and the economy should recover gradually. This recovery is expected to be mainly concentrated in the manufacturing sector and services not affected by the pandemic (medical and food), while other services, such as the arts, entertainment, housing and recreation will continue to be partially limited. The transition period will last until the vaccination campaigns have reached significant critical mass, which is expected by mid-2021.

Consequently, the most likely scenario envisages a gradual recovery over the next two years (3.5% in 2021 and 3.8% in 2022), after the fall of 9.0% in Italian GDP in 2020.

The worst-case scenario assumes that the new restrictions put in place to combat the second wave that arose near the end of 2020 will have a more damaging impact on economic activity and will not effectively contain the disease, with the possibility of having to deal with a new wave in the first half of 2021. This new wave would require that containment measures stricter than those of the end of 2020 be maintained. Sustained efforts to prevent the spread of the virus would continue, in any event, to dampen activity in sectors of the economy until significant coverage by vaccines is achieved, whose effects will not be felt before end of the year.

Accordingly, more pessimistic assumptions have been considered from an economic perspective. These include further impacts on the confidence and spending and investment decisions of individuals and businesses, sharper falls in world trade and bottlenecks in global value chains with a further deterioration in financial conditions, as a result of the continuation of the epidemic or the need to combat possible new outbreaks.

The worst-case scenario essentially accompanies the sharp fall in 2020 GDP with stagnation in 2021 and a weaker recovery in the following years.

The best-case scenario assumes a smaller decline in 2020, fully offset in the following two years. With regard to the health situation, the best-case scenario assumes effective containment of the virus, with a strict lockdown period followed by a gradual revival of the economies. The successful containment of the spread of the virus during the second wave is due to rapid progress in treatment and efficient coverage by vaccines, paving the way for a gradual return to normal activity. This



scenario does not foresee a resurgence of the virus and envisages that the economic responses from the authorities will be very successful.

Compared to the baseline scenario, the best-case scenario assumes a stronger recovery already in 2021 driven by the clear success of the healthcare and public support measures. In this scenario, the impacts of the pandemic are substantially offset over the next three years. For the countries most affected by the pandemic in terms of decline in GDP in 2020, such as Italy, the scenario assumes a more rapid rebound, as already observed between Q2 and Q3 2020.

The above scenarios were applied for the forward-looking assessments for the purposes of IFRS 9 ECL. For the international subsidiary banks of the International Subsidiary Banks Division and Banca Intesa Russia, the assessments were made in line with the approach adopted centrally, taking into account the lower sophistication of some of the entities.

In line with the guidance from the regulators and the best practices in the market, the Intesa Sanpaolo Group has adopted specific management overlays to include ad hoc corrective measures, not captured by the models, to better reflect the particularities of the COVID-19 impacts in the measurement of loans. Therefore, given that the underlying reasons continue to apply and substance, the choices made at the time of the Half-yearly Report have been maintained. In summary:

- one-off treatments to provide more granularity through extraordinary staging triggers of the impacts of the current scenario on counterparties in the micro-sectors most penalised by the crisis, also in light of the specific analyses on counterparties and the presence of moratoria measures;
- adoption of corrective factors on default rates to include the expected benefits of major economic support initiatives such as government guarantees not captured by satellite models, on the one hand, and to incorporate in the models the worsening effects of the moratoria during the period of their validity in postponing the transition to default status to future years.

The Group's decisions regarding these aspects, as adopted in the financial statements at 31 December 2020, are described in more detail below. In relation to the decisions made in the Half-yearly Report, the solutions adopted are more sophisticated, in light of the larger time frame available and the increased wealth of information that can be used.

To best capture the credit risks of the individual counterparties in the COVID-19 scenario, a micro-sector analysis was performed in December 2020 to assess the level of risk of the micro sectors and to reclassify counterparties to Stage 2 where necessary, resulting in a rise of the provisioning level (calculation of lifetime ECL). This analysis was conducted through a combination of a top-down approach based on micro-sector analysis and a bottom-up approach, which takes into account the one-to-one assessment of the individual counterparties. More specifically, corporate counterparties have been transferred to Stage 2 when they belong to risky micro-sectors, have an unsatisfactory rating and have been granted extraordinary measures, i.e. moratoria. For Retail and SME counterparties, the classification to Stage 2 is linked to the CRA (Credit Risk Appetite) status, unsatisfactory rating and presence of moratoria. Additional Stage 2 classifications have been made on the basis of single name assessments carried out by the CLO Area on the Corporate, Retail and SME segments.

With regard to the treatment in the forward-looking ECL estimate of the government guarantees and moratoria, the satellite models obviously do not take into account the impact of the major economic support initiatives implemented by the various countries where the Group has a credit exposure. This positive impact must be taken into account for the determination of the ECL, as also underlined by ESMA in its document *"Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9"* of 25 March this year: *"In ESMA's view, when making forecasts, issuers should consider the nature of this economic shock (i.e. whether the COVID-19 effect is expected to be temporary) and the impact that the economic support and relief measures (including debt moratoria) will have on the credit risk over the expected life of the instruments, which include, depending on the instruments' maturities, longer-term estimates"*. The ECB has also asked banks to *"exercise an informed judgement to update those projections to reflect both the lockdowns and the severe social distancing restrictions imposed on the various economies as well as the substantive public support measures announced and implemented across countries"*.

In particular, the system of government guarantees such as those deriving from the "Cura Italia" and "Liquidità" Decrees are expected to have a positive impact, as they will enable banks to expand their support for the liquidity needs of businesses, enabling at least some of them to survive the current crisis. This aspect was therefore the subject of a specific quantitative analysis based on the detailed analyses carried out for the Credit Risk Appetite (CRA), comparing scenarios with and without government guarantees, which supported the managerial decision to include the benefits in the reduction of default rates and ECL estimates as at 31 December.

In addition, the effects of the moratoria in terms of shift of the expected default rates have been estimated on the basis of specific considerations relating to the impact of the moratorium measures and the prospective defaults and, in particular, with regard to the temporal delay of part of those defaults. More specifically, the simulations conducted in the Half-yearly Report on the effects of the moratoria (confirmed by the final analysis) allowed for transferring to the next year (2021) part of the defaults of the customers of the Domestic Corporate and Retail SME segments estimated by the models, whereas, in these Financial Statements (as a result of a 2020 mitigating effect due to the lower defaults recorded in the year) the expectation remains of a 2021 cliff effect, resulting in additional flows compared to those indicated by the satellite models, estimated based on the updated scenario. The effect of this overlay, considered in the forward-looking conditioning in the half-yearly report, now acts through the SICR measure, leading to an increase in transfers to Stage 2 and, consequently, in ECLs.

All of the valuation approaches described above had a significant impact on the income statement for the year.

Net adjustments to loans totalled 4,160 million euro. Of these, around 2,164 million euro related to the "COVID-19" effects, 986 million euro of which for performing loans and 1,178 million euro for non-performing loans.

For a description of the models used, see Part E - Information on risks - Credit risk of the Notes to the financial statements.

#### *Impairment testing of goodwill and intangible assets*

In the current challenging market environment, measuring the recoverable amount of intangible assets is also particularly difficult. The COVID-19 pandemic and the related restrictions adopted by the various governments in an effort to contain its

spread had a significant impact on the GDP of both the Eurozone and Italy in 2020. As a result, the growth estimates originally envisaged in the Business Plan for 2020 and 2021 have proved to be no longer sustainable. The continued challenging environment for growth in industrial production and the expectation that monetary authorities will prolong their expansionary measures suggest that a scenario of very low interest rates is likely for quite some time.

This situation has affected the impairment tests pursuant to IAS 36, which must be carried out at least once a year to verify the recoverable amount of the intangible assets with indefinite useful lives recognised on the balance sheet, which consist of the brand name and goodwill for Intesa Sanpaolo. In line with the guidance issued by ESMA which views the effects of the COVID-19 pandemic as an indicator of impairment, an impairment test on the recoverability of the value of goodwill and the brand name was carried out for the Half-yearly Report as at 30 June 2020, which showed recoverable amounts of the various CGUs higher than the corresponding book values. Therefore, no adjustments were made to intangible assets. In any event, as also indicated in the Half-yearly Report as at 30 June 2020, the sensitivity analyses conducted on the main parameters relevant for the purposes of the recoverable amount showed marginal critical issues with regard to the Banca dei Territori CGU.

The method adopted to carry out the tests for the 2020 Financial Statements was the same as that used in previous years, based on the calculation of the value in use, i.e. the current value of future cash flows that the Group is expected to generate. To this end, individual estimates made internally for the period 2021-2025 have been used, which take into account the budget data for 2021, whereas the future cash flows for the following years have been determined through inertial tracking of the cash flows for 2021, and therefore without considering the effect of new managerial initiatives, based on the forecasts relating to the macroeconomic scenario produced by the Parent Company's Research Department for the period 2021-2025. The future cash flows also take into account the estimated synergies from the integration of the UBI Group.

With regard to Banca dei Territori, as a result of the increase in the carrying amount of the CGU following the capital increase for the Public Purchase and Exchange Offer on UBI Banca and the deterioration in the macroeconomic situation compared to the scenario considered for the impairment testing as at 30 June 2020 – particularly with regard to the expected changes in interest rates, estimated to be negative until the end of 2024 and only marginally positive in 2025, which were partially offset by the positive effects of the estimated synergies resulting from the merger with the UBI Group – the impairment tests identified a goodwill impairment loss for the CGU of 981 million euro, gross of related tax. As a result of this impairment, the goodwill related to the Banca dei Territori CGU was fully written off. With regard to the intangible assets with finite useful lives allocated to the Banca dei Territori CGU, i.e. the brand name, the carrying amount of 1,507 million euro was supported by a valuation by an independent expert, which confirmed that the fair value was higher than the carrying amount.

No impairment losses were identified for the other CGUs that intangible assets with finite useful lives have been allocated to, namely IMI Corporate & Investment Banking, Asset Management, Private Banking and Insurance, as their values in use as at 31 December 2020 were higher than their accounting carrying amounts.

The adjustment made did not have a negative impact on the Intesa Sanpaolo Group's solvency ratios, because the value of the goodwill recognised is already fully deducted from own funds, as required by Regulation (EU) No. 575/2013 of 26 June 2013 (CRR).

Lastly, with regard to the intangible assets with finite useful lives, following the acquisition of the UBI Group, new intangible assets, all with finite lives, were recognised in 2020 as part of the Purchase Price Allocation (PPA) envisaged by IFRS 3, relating to the acquiring activities and the asset management and insurance portfolios. The analyses performed as at 31 December 2020 did not identify any critical issues or indicators of impairment in relation to any of the Group's intangible assets with indefinite useful lives, including those recognised in the PPA for the acquisition of the UBI Group, and their carrying amounts were therefore confirmed.

After the above impairment losses and the amortisation of the intangible assets with finite useful lives, the residual value of the intangible assets as at 31 December 2020 was 5,841 million euro, of which 3,154 million euro relating to goodwill.

A detailed description of the tests performed is provided in Section 10 "Intangible Assets", point 10.3 of Part B of the Notes to the Consolidated Financial Statements, which describes the methods adopted, the activities performed and the results obtained.

#### *Impairment testing of equity investments and valuation of securities at fair value*

Also for the impairment testing of the equity investments, in line with the ESMA guidance, the effects of the COVID-19 pandemic were considered as an indicator of impairment. Consequently, the valuation of the main equity investments was also updated for the Financial Statements as at 31 December 2020. Specifically, in accordance with IAS 36, the Group's valuation policies assume that for these types of assets the recoverable amounts correspond to their values in use, which require an estimate of the future cash flows that may be generated through the continuous use of the asset valued. A number of prudential measures were taken to factor the effects of the COVID-19 pandemic into the assessments. In particular, where present, the updates made available by the investees with regard to 2021 budget data or the update long-term business plans were used, which therefore included the effects of the COVID-19 pandemic on the future ability of the investees to generate income flows. Where, on the other hand, there were no updated data that took into account the effects of the pandemic, again on a prudential basis, the discount rate was increased by adding a scenario risk premium, as required by IAS 36. Finally, for the valuations that had a greater correlation with the macroeconomic scenario, reference was made to sensitivity analyses in order to appreciate the impact of alternative scenarios on the valuations carried out.

This approach was also used for the valuation of the level 3 fair value equities, whose value is linked to the prospective cash flows generated by the investees or by specific assets in the portfolio (DCF and DDM income-based approaches or equity-based approaches). The fair value of level 1 and level 2 fair value equities, i.e. equities that derive their value directly (listed securities) or indirectly (convertible investments or investments closely linked to listed instruments or measured using market multiples) from market quotations, was updated as usual by referring to market quotations.

Lastly, with regard to the investments in Funds, the valuations for the Financial Statements as at 31 December 2020 have been updated based on the latest available NAVs, issued by the fund management companies in the second half of 2020 and they therefore take into account the estimated effects of the pandemic on the underlying investments and future performance of the funds. The valuations have been made on a prudent basis, also with the application of discounts in cases provided for by the Group policies.

*Probability test on deferred tax assets*

In accordance with IAS 12, the book value of deferred tax assets must be tested each year to determine whether it is likely that taxable income will be earned in the future that will ensure their recovery.

Regarding deferred tax assets carried among the Group's assets, also for the 2020 Financial Statements, an analysis was conducted to verify whether the projected future income – updated to take account of changes in the reference macroeconomic and banking scenario and the Group's scope of operations following the acquisition of the former UBI Group – was sufficient to ensure the recovery of those deferred tax assets and thus justify recognising and continuing to carry them (a procedure known as a "probability test").

The probability test was positive for all the deferred tax assets recognised in the financial statements as at 31 December 2020.

For more details see Section 11 "Tax assets and liabilities" of Part B of the Notes to the Consolidated Financial Statements.

**Impacts of the epidemic on the operating results, business activities and risk profile**

From the last week of February 2020, the health emergency generated by the pandemic still underway has affected both the performance of the markets and business operations, with the latter penalised by the increasingly severe containment measures imposed, which have led to the suspension of many production activities in Italy and around the world. Intesa Sanpaolo responded very promptly to the emergency, immediately implementing a wide range of initiatives aimed at protecting the health of the Group's people and customers, in order to ensure business continuity and counter the social and economic effects of COVID-19.

The main impacts on operations and the effects on business activities, operating results and the risk profile, are detailed below.

The initiatives concerning business continuity and protection of health were implemented in the following areas:

- prevention of workplace hazards, with the formalisation and adoption of the personal and collective protection measures required to respond effectively to the continuous evolution of the public health requirements at national, local and sector level in relation to the spread of the pandemic;
- wide-scale adoption of smart working, with the associated investments in technological equipment and strengthening of the corporate information technology network to permit simultaneous access by a growing number of users;
- enhancement of remote channels for contact with customers and implementation of measures to facilitate digital interaction (improving the remote offering, expanding the contract dematerialisation and digital signature processes, etc.);
- strengthening of IT security measures to reduce the risk of fraud attempts against customers;
- revision of operational processes at the head offices and the distribution network including, for example, revision of site access and travel management policies or changes to branch opening hours.

Many of the above measures have rapidly evolved from a tactical basis – aimed at ensuring a timely response to emergencies – to a strategic vision oriented towards addressing structural change in work organisation, business processes, customer interaction, business opportunities and the related risk management. One of the key indicators of this evolution is the rapid growth in remote working, both in the sales network and the head office structures: compared to the "pre-COVID" situation, the number of users enabled for remote working has risen from around 19,000 to around 65,500, representing around 75% of the staff of the Intesa Sanpaolo Group and from around 2,000 to around 14,700, representing around 75% of the staff of the UBI Group.

As a result, in the space of a few months, remote working has become a key element of a new model for work activity based on the dual notion of strengthening individual responsibility and improving work-life balance.

In terms of staff welfare, as well as giving additional days off to Group employees working in the branch network during the most acute phases of the emergency, the initiatives also included the recent promotion of a voluntary campaign for employees to receive flu and pneumococcal vaccines, which saw a significant contribution from the various corporate functions involved in procuring supplies on the market, gathering and prioritising requests and final distribution to the affiliated medical centres throughout Italy. In the same vein, rapid tests were made available to staff at sites in areas with very high spread of the virus.

Work has also been carried out aimed at supporting internal and external communications. At internal level, all available channels have been used to meet requests from staff, particularly in relation to conduct to be adopted, and to provide appropriate support in cases of acute psychological distress.

With regard to external communications, the Group opted to carry out actions that could combine the effectiveness and recognition of its role in serving local communities. This involved urgent funding measures for medical equipment and materials – provided to selected health facilities in the areas most affected by the epidemic – and the sponsorship of various initiatives aimed at managing the social effects of the crisis.

As discussed in more detail below, the initiatives implemented inevitably had a significant impact on operating costs and the capital budget. To mitigate the impact of these extraordinary expenses and strengthen the Group's earnings profile, the cost control and rationalisation prioritised the use of resources, while preserving the initiatives of strategic development and evolution of the business model in view of the radically altered environment that will emerge once the health crisis has been overcome and that, in part, is already generating significant impacts. In this context, the operating costs benefited from changes in customer behaviour and internal operational processes. Among the areas most impacted are the costs for business-related travel, cash transport and counting services, and mailing to customers, areas that are heavily affected by the extensive use of digital interaction and the dematerialisation of payments and contracts, which represent cost saving drivers that, combined with continued cost control activities, will be made increasingly stable and structural over time.

In terms of the impacts on the business, the following have been observed:

- the extraordinary measures to support the Italian economy and its businesses and households implemented by Intesa Sanpaolo. In fact, it was the first bank in Italy to suspend mortgage and loan instalments, before the specific regulations



came into force, and the first bank in Italy to sign the collaboration protocol with SACE, thus providing immediate support to enterprises under the “Liquidità” Law Decree 23 of 8 April 2020. At the end of December, around 597,000 suspension applications had been processed, for a volume of around 73 billion euro, mainly related to the “Cura Italia” measures provided for in Article 56 of Law Decree 18/2020. Applications from business customers accounted for around 74% in terms of volume.

With regard to the measures to support the production system, the Intesa Sanpaolo Group has provided an overall credit line of 50 billion euro dedicated to loans for businesses. The first bank in Italy to sign the collaboration protocol with SACE, thus providing immediate support to enterprises under the “Liquidità” Decree. Overall, including the SME Fund as well, around 30 billion euro in loans backed by a state guarantee has been granted to date (around 9 billion euro from SACE and around 21 billion euro from SME Fund), plus around 5 billion euro from UBI Banca.

In addition, the August Decree established the possibility of the automatic extension to 31 January 2021, without additional charges and unless not taken up by the customer, of the suspensions provided for by the “Cura Italia” Decree, expiring on 30 September 2020. This decree also established the possibility of extending the transitional and isolated non-installment credit lines expiring on 30 September 2020. Lastly, the “Rilancio” Decree introduced a measure to support the relaunch of the construction sector and aimed at renovating real estate in terms of energy efficiency and seismic resistance (so-called 110% Superbonus). Specifically, the provision provides for the accrual of a tax credit of 110% for individual house owners and apartment building residents that carry out energy efficiency and seismic resistance renovation work. The novel feature of this provision is that this tax credit can be assigned directly by the commissioner or the executor of the work to a financial intermediary. The Group has set up specific solutions both for individual house owners and apartment building residents, as well as businesses that use invoice discounts for the purchase of tax credits and the related settlement, with predefined prices and a dedicated advisory service through a partnership with the company Deloitte. The commercial offering was launched from 13 August, the date when the Italian Revenue Agency defined the operating procedures.

The UBI Group also immediately launched initiatives to support the economy and the areas most affected, by granting moratoria/suspension of payments (both in accordance with legislative provisions and at the Bank’s own initiative), loans – both with a Central Guarantee Fund guarantee (up to 30,000 euro and over 30,000 euro) and with a SACE guarantee – advances on furlough payments.

As at 31 December 2020, there was a stock of outstanding moratoria of 33 billion euro for the entire Group (of which 28 billion euro relating to the Parent Company).

With regard to the past-due moratoria, there was no increase in risk for almost all the exposures.

The Intesa Sanpaolo Group also supported the legislative and non-legislative measures adopted in the various countries where it operates in order to combat the crisis generated by the pandemic.

- the dynamics of the asset management business have been affected both by the depreciation in the value of financial assets and by the way relations with customers are managed, due to social distancing measures.

The Group’s response to mitigate these effects has been immediate and extensive. We immediately began an intensive communication campaign with customers to manage emotionally-driven responses that could lead to impulsive and detrimental behaviour, such as panic selling. We also continued the development of new investment solutions for retail, private and institutional customers, aimed at taking advantage of the opportunities offered by the current situation. With regard to the control of risk, we focused in particular on the management of the liquidity of the open-ended UCIs, by setting up daily monitoring of the liquidity situation of each fund and the related redemption rates. The back-office processes, which manage the instruments that can be activated for liquidity management, have also been strengthened.

Thanks in part to these measures, there were no particular pressures in terms of redemptions/repayments of managed products or strains relating to the level of liquidity of the assets. As a result, the fall in assets under management was mainly limited to the impacts resulting from the performance of the stock indices and interest rates, which came under pressure, especially during March 2020, and then gradually climbed back to end the year with assets under management above those in December 2019.

At the end of the first quarter of 2020, the assets under management of the Asset Management Division of Intesa Sanpaolo had declined by 6.7% compared to the end of December 2019, but in the final part of 2020 this trend reversed generating an annual growth in assets under management of 2.8%. For Pramerica SGR (UBI Banca Group), the changes in assets under management compared to the end of 2019 amounted to -7.4% in March and +4.0% as at 31 December 2020;

- the management of proprietary financial investments, which continued using the approach adopted since March 2020. In particular, as a result of the significant increase and volatility of the risk premium caused by the exceptional circumstances generated by the pandemic, from the second quarter of 2020 the Intesa Sanpaolo Group initiated a process of reduction and diversification of the securities portfolio with the aim of preserving the functionality of the liquidity and investment portfolios in terms of maintaining an appropriate risk, diversification and earnings profile. As a result of the actions described above, within the managerial risk measures – as explained in more detail below – the average VaR in the fourth quarter decreased by 200.2 million euro, compared to the average value of 363.5 million euro observed in the second quarter of 2020 (this effect was the result of the sales made, as well as the lower volatility in the markets, which led to lower risk measures).

With regard to UBI Banca, following its consolidation within the Group, tactical solutions have been implemented with regard to the managerial market risk measures in order to report those risks in Intesa Sanpaolo’s portfolio. Specifically, the trading book is reported within the IMI C&IB Division (year-end value of around 0.8 million euro) while the HTCS portfolio has been divided between the Group Treasury and Finance Department (liquidity portfolio) and the IMI C&IB Division (investment portfolio). As at 31 December 2020, these portfolios respectively absorbed 0.2 million euro and 18 million euro in terms of managerial VaR.

With regard to the most significant impacts of the COVID-19 pandemic on the operating income of the Group, the increases in intermediated volumes related to the legislative and non-legislative measures implemented to combat crisis situations

connected with the pandemic – together with the contribution from the TLTROs with the ECB, which amounted to around 70.9 billion euro as at 31 December 2020 (excluding the contribution of 12 billion euro from UBI Banca) – had a positive impact on net interest income, amounting to 7,070 million euro over the twelve months (net of 713 million euro relating to UBI Banca), an increase of 0.9% on the like-for-like figure of 7,005 million euro for 2019.

In contrast, net fee and commission income was negatively affected, falling to 7,582 million euro in 2020 (not including, for a like-for-like comparison, the 721 million euro relating to the UBI Banca), compared to 7,962 million euro in 2019 (-4.8%, amounting to -380 million euro). The decline was particularly sharp in the second quarter, coinciding with the adoption of stricter containment measures. However, the gradual easing of restrictions from May, enabled a considerable recovery in net fee and commission income in the following months, with a rise in the last quarter equal to 14.6% on the previous three months of 2020 and more than 22% on the second quarter (+272 million euro and +389 million euro respectively), returning to levels close to those earned in the same period of 2019 (-33 million euro, or -1.5%).

In terms of operating costs, the expenses incurred by the Intesa Sanpaolo Group as at 31 December 2020 for measures related to the pandemic amounted to around 72 million euro (in addition to 115 million euro of investments), while the costs relating to UBI in the August-December period amounted to around 8 million euro of ongoing charges. However, as noted above, this was accompanied by measures adopted to further strengthen the control of operating costs, which resulted in a 5.4% decrease in the Group's administrative expenses (net of UBI), amounting to savings of 141 million euro on 2019 (-3.4%, or -321 million euro, for total operating expenses).

However, the most significant effect related to the considerable increase in the annualised cost of risk, which rose to 104 basis points in December 2020 from 53 basis points at the end of 2019, due to the adoption within the projection models of the ECB – Bank of Italy scenarios and the managerial overlays, which led to an increase in ECL and macro-scenario additions, despite default rates still remaining low. Excluding the COVID-related component, the annualised cost of risk fell to 50 basis points.

Net adjustments to loans totalled 4,160 million euro (4,214 million euro including the results of the UBI Group) almost double the 2,089 million euro for the same period of 2019. Of these, 2,164 million euro related to the "COVID-19" effects, 986 million euro for generic coverage of performing loans and 1,178 million euro for specific coverage of non-performing loans. These impacts resulted from the effect on the ECL, the significant migration of positions to Stage 2 as a result of a Significant Credit Risk Increase, and the vulnerability of the positions with moratoria. Non-performing loans were affected by the slowdown in recovery activities and the resulting increase in the vintage of the non-performing portfolio, as well as the adjustments connected to the significant derisking activity.

With regard to the risk dynamics, details about credit risk are provided in the paragraph "The Intesa Sanpaolo Group's approach to the preparation of the Financial Statements as at 31 December 2020" above and the specific disclosures in the Notes to the financial statements, while the main impacts on the Group in the situation resulting from the COVID-19 epidemic for the other types of risk are described below:

- for the market risk from a management perspective, the Group continued the reduction of its securities portfolio in the fourth quarter. For the full year 2020, the Group's average managerial VaR was 254.8 million euro, up compared to 151.5 million euro in 2019. The performance of this indicator – mainly determined by the IMI C&IB Division – derives from an increase in the risk measures, mainly due to the volatility in the markets as a result of the COVID-19 pandemic. The fourth quarter saw a reduction in the managerial VaR compared to the previous quarter, from 277.6 million euro to 200.2 million euro (average value for the fourth quarter), mainly due to scenario rolling effects and a reduction in the HTCS portfolio of the IMI C&IB Division. With regard to market risk capital absorption, despite the increase in volatility, the trading book recorded only a slight increase in its prudential requirement compared to the previous quarter. Despite an inevitable increase in the cyclical measure (VaR), the hedging strategies have limited the exposure to the risk factors most affected by the pandemic (sovereign and financial spreads). In detail, the Intesa Sanpaolo Group's market risk weighted assets at 31 December 2020, calculated according to the internal model, amounted to 17 billion euro. This figure was in line with December 2019 despite the increased volatility that affected the financial markets during 2020;
- at the level of liquidity risk, the crisis connected to the COVID-19 health emergency resulted in the activation from March 2020 of all the necessary preventive management and monitoring measures to mitigate a potential exacerbation of the liquidity conditions. Thanks to the high level of liquid reserves and the significant contribution of stable customer deposits, the Group's liquidity position always remained solid and both the regulatory indicators (Liquidity Coverage Ratio – LCR – and Net Stable Funding Ratio – NSFR) were well above the minimum regulatory requirements throughout 2020. During the year, the Group's Liquidity Coverage Ratio (LCR), measured according to Delegated Regulation (EU) no. 2015/61 and also consolidating the UBI Group from August, amounted to an average of 159.1%. The available liquidity reserves at the various Group Treasury departments, including the consolidation of the UBI Group from August, amounted to an average of 143 billion euro (last 12 monthly observations) and reached a total of 195 billion euro as at 31 December 2020;
- at the level of the interest rate risk generated by the banking book, the value shift sensitivity for a rate shock of +100 basis points amounted to -1,305 million euro at the end of December 2020, compared to +394 million euro at the end of December 2019. The change in the exposure was due to banking book management measures such as the hedging of fixed-rate funding through cash flow hedges and the merger of UBI;
- at the level of counterparty risk, the pandemic crisis entailed an initial increase in exposures, mainly due to the decline in Euro area interest rates and the general, significant increase in the volatility of the main risk factors. However, no critical issues were encountered in the margining process with market counterparties, despite the sharp increase in collateral calls, by both number and volume, during the weeks of greatest stress on the markets. Margin processes with central counterparties also did not generate any operating issues. The situation on the financial markets gradually stabilised, although interest rates remain at record lows, resulting in high levels of exposure to customers. With regard to the customers of the Banca dei Territori Division, the Bank implemented the "Cura Italia" Decree pursuant to Italian Law Decree 18 of 17 March 2020 (a customised Italian governmental measure) for derivatives as well: in particular, customers in the SME segments in good standing that submitted moratorium applications for their loans may also apply for a moratorium on any hedging derivatives until the end of January 2021. At the end of December, 175 applications for

suspension of OTC derivative payments had been received, relating to an outstanding amount of 339.8 million euro and payments suspended until 30 June 2021 of around 4.8 million euro. The most significant transaction had an outstanding amount of 22 million euro and suspended payments of 285 thousand euro;

- with regard to operational risks, from the outset of the emergency the Group decided – as already noted above – to adopt preventive initiatives to ensure business continuity, while also maintaining the maximum level of safety for its customers and employees. This was also done in the light of the rapid development seen in the realm of cyber-threats, which seek to exploit for fraudulent purposes the fears and sense of urgency of individuals and the opportunities offered by the remote-banking solutions adopted by financial institutions. In particular, the business continuity plan was activated and additional actions were immediately identified to respond effectively to the extensive spread of the pandemic (e.g., extension of remote working to almost all the staff of the head office functions and the online branches and part of the staff of the “physical” branches and enhancement of IT infrastructure for remote connectivity), the digital transformation process was expedited, moving forward significant investments intended to develop methods of interaction with customers (e.g., expansion of the services offered via Internet and mobile banking), security infrastructure for access to the company network and data and information protection measures were progressively enhanced to increase the ability to respond to the sharp rise in cyber-threats and attacks (e.g., distributed denial of service and malware), and numerous training and communications initiatives were launched to raise awareness amongst customers and employees of growing social-engineering and phishing campaigns. The long-term sustainability of the solutions of the most critical suppliers was also verified.

With regard to measures to protect the health of employees and customers, protective devices such as masks and gloves were purchased and distributed, sanitising gel was supplied and company premises were periodically sanitised. Among the various mitigation measures described above, only this latter component was considered for the purposes of calculating the operational risk capital requirement.

In addition, from the very outset of the emergency, access to the branches has been organised in accordance with precise rules on social distancing and the number of employees and customers in the premises, to ensure the protection of their health. This approach was adapted over time based on the different government measures and the course of the contagion.

A contagion risk model was also developed to protect personnel; it supports the decision-making for the measures to be adopted, such as plans for the return of head office personnel able to perform their duties remotely to company offices in accordance with safe distance regulations. A medical questionnaire was developed for employees to complete before they are authorised to return to the office, in addition to a tool that can be used to plan the presence of personnel in the office; this tool ensures centralised monitoring of total presences in the head offices.

At the end of 2020 a voluntary vaccination campaign was launched to provide flu and pneumococcal vaccines to employees.

Overall, during the twelve months 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.

In general, in terms of impacts on the Group’s risks, it should be noted that, in view of the tension seen in the early months of the year some indicators already reflected the negative effects of the COVID-19 scenario, whereas for others, such as certain metrics related to credit risk, for now the negative impacts have not yet fully manifested themselves also thanks to the effects of the extraordinary measures adopted. The extent of the impacts for the Group and any improvements or deterioration in the coming months, will be closely related to the actual development of the macroeconomic environment, and in particular to the evolution of the COVID-19 situation and any new tensions that may arise, as well as any new support measures put in place.

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. These analyses have shown that, even considering more severe scenarios than the market consensus and those considered most likely by the Central Banks, the Group would nonetheless be able to ensure – including through specific actions – compliance with regulatory requirements and its own stricter internally set limits.

## Intesa Sanpaolo in 2020

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### Consolidated results

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As described in detail below, the accounts 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 (therefore from August). 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 operations in these financial statements refer to the income and capital components net of the UBI Group’s data, in order to ensure a like-for-like comparison. However, in order to improve the reader’s understanding, in the chapters analysing the income statement figures and the balance sheet aggregates, the main amounts referring to the Group acquired and the consolidated figure including said amounts are highlighted in the tables.

The consolidated income statement for 2020 posted net income of 3,277 million euro. The net income includes the effects of the acquisition of UBI Banca and, in particular, the amount – as definitively determined – of the negative goodwill arising from the business combination of UBI Banca and its subsidiaries as well as the integration charges for the acquired entity. With regard to the acquisition, more details of which are provided in the paragraph “Accounting treatment of the acquisition” below, we note that the amount of negative goodwill, net of the transaction costs for the Public Purchase and Exchange Offer (for the component not attributable to shareholders’ equity) and other expenses strictly linked to the transaction, has been recognised in the reclassified income statement caption “Effect of purchase price allocation (net of tax)” for a total of 2,062 million euro. This figure covered the significant amount of charges for integration related to the acquisition (1,378 million euro after tax). The income statement also includes the impairment recognised on the goodwill allocated to the Banca dei Territori Division

(912 million euro after tax), which is now fully written down, also as a result of the increase in the carrying amount of the Cash Generating Unit following the integration of UBI Banca, as discussed above.

Without taking into account the income statement effects of the consolidation and integration of UBI Banca and its subsidiaries and the above-mentioned goodwill impairment, consolidated net income would have been 3,083 million euro compared to 4,182 million euro for 2019. This slight fall from the previous year was attributable to the significant impact of the adjustments to loans (4.2 billion euro compared to 2.1 billion euro in 2019, as detailed further below) – only partly offset by the consideration from the sale to Nexi of the business line consisting of the acquiring activities within the payment systems area, completed at the end of the first half – and the decrease in net fee and commission income and the profits (losses) on financial assets and liabilities in the aftermath of the COVID-19 epidemic.



Looking in detail at the cost and revenue components, net – for like-for-like comparison – of the contributions from the UBI Group included in the consolidated income statement from the acquisition date (therefore from August), the operating income was down slightly on 2019. The above-mentioned fall in net fee and commission income, the decline in profits (losses) on financial assets and liabilities designated at fair value and the net operating costs were only partially offset by the positive performance of the income from insurance business and the modest growth in net interest income.

More specifically, net interest income, amounting to 7,070 million euro (net of 713 million euro for UBI), increased overall (+0.9%), due to the higher contribution from customer dealing and, within other net interest income, the higher contribution from the TLTRO programmes. These changes fully offset lower contributions from

financial assets and liabilities, accounts with banks and non-performing assets, with the latter due to the progressive reduction in NPLs, also as a result of the derisking activities.

The fall in net fee and commission income (-4.8% to 7,582 million euro, net of 721 million euro for the UBI Group), which represented almost 44% of the operating income, was attributable to the effects of the contraction in operations due to the situation generated by the COVID-19 epidemic. The performance of this caption reflected the fall in all the areas of operations: commercial banking (-6.3%), management, dealing and financial consultancy (-2.4%) and other net fee and commission income (-14.2%). However, fee and commission income picked up in the third and fourth quarter of the year, as noted further below.

Income from insurance business – which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, and also includes the results of Intesa Sanpaolo RBM Salute – recorded an increase compared to the like-for-like figure for 2019 (+5.9% to 1,343 million euro, net of 10 million euro for UBI), due to the increase in the technical margin, due to the strong performance of the non-life business. This caption benefited from the performance of the recently acquired company in the healthcare segment.

In contrast, profits (losses) on financial assets and liabilities designated at fair value, which include profits (losses) on trading and the fair value adjustments in hedge accounting were down significantly (around -25% to 1,441 million euro, net of 131 million euro for the UBI Group), due to the lower contribution from transactions in instruments designated at fair value through other comprehensive income and financial liabilities as a result of lower capital gains realised, which fully offset the increase in profits (losses) on financial assets and liabilities designated at fair value.



Other operating income (expenses) – a caption which comprises profits on investments carried at equity and other income and expenses from continuing operations – recorded a negative balance, net of the UBI Group (net expenses of 27 million euro compared to net income of 4 million euro in 2019), almost entirely due to the lower contribution from the investments carried at equity. At consolidated level, the net balance of this caption including the contribution from UBI was a positive amount of 12 million euro.

As a result of the above changes, operating income for 2020 amounted to 17,409 million euro (net of a contribution of 1,614 million euro relating to UBI), slightly down – as already mentioned – on 2019 (-4.2%).

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 reduction in the variable component – which more than offset the effect of the salary increases linked to the renewal of the National Collective Bargaining Agreement – and for administrative expenses (-5.4%). The latter recorded decreases in all the main items of expenditure, also due to the additional control measures adopted. The trend in operating costs also reflected the lower direct and indirect personnel costs, influenced by the widespread use of remote work in the situation generated by the public health emergency. In contrast, amortisation and depreciation, which in accordance with IFRS 16 also include the amount relating to rights of use acquired under operating leases, increased (+3.5%) as a result of the greater IT investments.

The cost/income ratio for the period, in which the lower costs were offset by the reduction in revenues, stood at 52.2% (51.8% in 2019). With the UBI Group included, the ratio was 52.4%.

As a result of these revenue and cost trends, the operating margin amounted to 8,323 million euro (net of the contribution of 729 million euro from UBI), down by 5% on the like-for-like figure for the previous year.



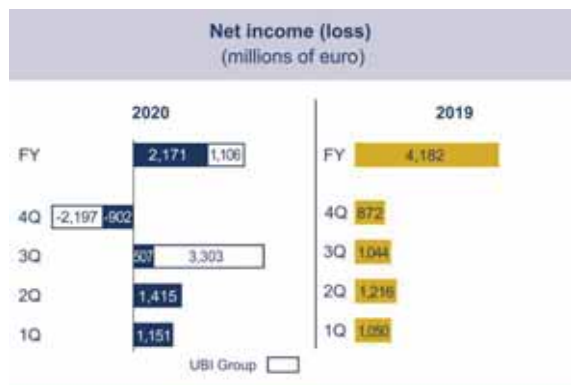
As already mentioned, net adjustments to loans (at 4,160 million euro, net of 54 million euro relating to UBI) doubled in amount with respect to 2019. This was due to the revision of the scenario, in the situation generated by the COVID-19 epidemic, with the application of the methods developed by the Group and taking into account the projections made by the ECB and the Bank of Italy, with the recognition of around 2,164 million euro of adjustments, of which 986 million euro on performing loans and 1,178 million euro on non-performing loans. The annualised cost of risk, expressed as the ratio of net adjustments to net loans, rose to 104 basis points (compared to 53 basis points at the end of 2019) as a result of these extraordinary effects. Excluding the COVID-19-related component, the annualised cost of risk fell to 50 basis points.

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 net positive balance higher than the figure for 2019 (64 million euro, or +16.4%).

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, of which 315 million euro consisting of the day-one profit on the purchase of the Nexi shares) and the income for the year 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), with a tax rate of 23.6%, which was particularly low due to the presence of the above-mentioned capital gain on the sale of the acquiring business line subject to a specific tax regime. With the income components relating to UBI included, the tax rate was 23.8%.

Charges (net of tax) for integration and exit incentives amounted to 174 million euro, net of 1,387 million euro relating to UBI. More specifically, the latter consisted almost entirely (1,378 million euro) of expenses relating to the integration of the UBI Group into the Intesa Sanpaolo Group, as previously mentioned and as detailed below, relating for the most part to the agreement reached with the trade unions for the voluntary exits, and for the remainder to IT and advisory expenses connected with the integration process.

The effects of purchase price allocation (net of tax) amounted to -102 million euro, accompanied by 2,062 million euro relating, as already mentioned, to negative goodwill arising from the business combination of UBI Banca and its subsidiaries (net of the transaction costs for the Public Purchase and Exchange Offer for the component not attributable to shareholders' equity and other expenses strictly connected to the transaction).

The charges aimed at maintaining the stability of the banking industry were still significant and were up compared to 2019, totalling 465 million euro after tax (360 million euro in 2019), corresponding to 670 million euro before tax, essentially consisting of ordinary and additional contributions to the resolution fund, the contributions to the deposit guarantee schemes and the levies relating to international subsidiary banks. These amounts do not include the charges relating to UBI, which amounted to 47 million euro after tax.

Impairment of goodwill and other intangible assets (net of tax) also included the goodwill impairment allocated to the Banca dei Territori Division (912 million euro, net of tax), which was fully written off as a result of the increase in the carrying amount of the Cash Generating Unit following the capital increase for the Public Purchase and Exchange Offer for UBI Banca and the deterioration of the macro economic environment compared to the scenario considered for the impairment testing as at 30 June 2020.

Lastly, minority interests were allocated their share of the net income, amounting to 38 million euro (net of 19 million euro relating to UBI).

As already noted above, the consolidated income statement for 2020 posted net income of 3,277 million euro. Without taking into account the income statement effects of the acquisition and integration of UBI Banca and its subsidiaries and the goodwill impairment, consolidated net income would have been 3,083 million euro compared to 4,182 million euro for 2019.

The consolidated income statement for the fourth quarter of 2020 showed a net loss of 3,099 million euro compared to net income of 3,810 million euro for the previous three months. The result for the last three months of the year reflected the final recognition of the purchase price for the UBI Group and the related integration charges, not yet included in the accounts as at 30 September, which had also included the provisional measurement of the negative goodwill. It also reflected the above-mentioned goodwill impairment of the Banca dei Territori.

Without considering the profit and loss effects of the consolidation and integration of UBI Banca and its subsidiaries – including the final measurement of the negative goodwill and the amount of the integration charges – and the goodwill impairment allocated to the Banca dei Territori Division, which, as already noted, has been fully written down, the quarterly income statement would have ended at essentially breakeven, penalised by the substantial adjustments to loans.

More specifically, the growth in revenues, driven by the significant contribution from fee and commission income – in previous months strongly impacted by the negative effects of the performance of the markets and restrictive measures linked to the pandemic – was offset by higher operating costs and above all by the significant adjustments to loans in the aftermath of the COVID-19 epidemic.

Looking in greater detail at the cost and revenue components, the operating income for the fourth quarter was up on the third quarter (+4.1% to 4,251 million euro, net of 1,039 million euro relating to UBI).

Specifically, net interest income fell slightly (-3.5%), while net fee and commission income, which in previous quarters had been particularly affected by the difficult environment, increased overall (+14.6%), as a result of the positive performance of all the segments: commercial banking (+6%), management, dealing and consultancy (+16.5%) and other net fee and

commission income (around +30%). Income from insurance business also increased (+5.8%), mainly as a result of the technical margin, while the profits (losses) on financial assets and liabilities designated at fair value was down (around -48%) due the lower activity on the securities portfolio and the significant downsizing in the Debt Value Adjustment (DVA) related to liabilities in the form of certificates.

Operating costs were down on the previous quarter (+13.3% to 2,487 million euro, net of 525 million euro relating to UBI Banca), attributable both to personnel expenses (+5.8%, particularly for the variable component of remuneration) and administrative expenses (+32.3%, due to the seasonal factors that characterise the final months of the year).

In relation to the revenue and cost trends, the operating margin for the fourth quarter was down on the third quarter (around -6.5% to 1,764 million euro, net of 514 million euro relating to UBI Banca).

As already mentioned, the net adjustments to loans (around +77% to 1,506 million euro, net of 31 million euro relating to UBI), in the environment resulting from the health crisis, had a significant impact.

Other net provisions and net impairment losses on other assets were up (121 million euro, net of 1 million euro relating to UBI, compared to 60 million euro for the previous quarter), due to the higher adjustments to other assets.

As a result of the above changes, gross income for the fourth quarter fell significantly compared to the previous quarter (around -80% to 196 million euro, net of 544 million euro relating to UBI).

Taxes on income amounted to 27 million euro (net of 139 million euro relating to UBI).

Charges (net of tax) for integration and exit incentives amounted to 97 million euro, in addition to 1,387 million euro relating to UBI. More specifically, the latter consisted almost entirely (1,378 million euro) of expenses relating to the integration of the UBI Group into the Intesa Sanpaolo Group, as previously mentioned and as detailed below, relating for the most part to the agreement reached with the trade unions for the voluntary exits, and for the remainder to IT and advisory expenses connected with the integration process.

The effects of purchase price allocation (net of tax) were negative by 25 million euro, accompanied by a negative effect of 1,202 million euro for the UBI Group in relation to the final determination of the purchase price of UBI Banca and its subsidiaries.

The charges aimed at maintaining the stability of the banking industry recognised in the quarter amounted to 40 million euro net of tax (corresponding to 58 million euro before tax), in addition to a positive effect of 2 million euro relating to UBI.

Impairment of goodwill and other intangible assets included the already mentioned goodwill impairment loss allocated to the Banca dei Territori Division (912 million euro, net of tax), which was fully written off as a result of the increase in the carrying amount of the Cash Generating Unit following the capital increase for the Public Purchase and Exchange Offer for UBI Banca and the deterioration of the macro economic situation compared to the scenario considered for the impairment testing carried out as at 30 June 2020.

Lastly, minority interests were allocated their share of the net income (totalling 12 million euro, representing the sum of 3 million euro of losses net of UBI and 15 million euro of net income relating to UBI).

As already mentioned, the consolidated income statement for the fourth quarter of 2020 posted a net loss of 3,099 million euro. As already noted, without taking into account the income statement effects of the acquisition and integration of UBI Banca and its subsidiaries and the goodwill impairment, the consolidated net income would have been substantially breakeven.

With regard to the balance sheet figures, as described in the related chapter, which you are referred to for more details, as at 31 December 2020, the movement in loans and deposits was affected by the classification under assets held for sale, in accordance with IFRS 5, of the loans to be sold in 2021, as part of the de-risking strategies of the Group NPL Plan, and of the assets and liabilities pertaining to the going concern of the branches to be sold as part of the acquisition of the UBI Group.

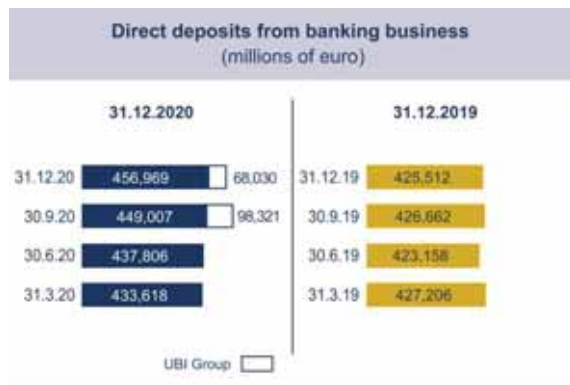


As at 31 December 2020, loans to customers totalled around 402 billion euro (net of 60 billion euro relating to the UBI Group), up on the end of 2019 (+6.6 billion euro, or +1.7%), due to the varying trends in the components that make up the aggregate on a like-for-like basis. Specifically, commercial banking loans were up overall (+6.6%), due to the positive performance of mortgages and other medium-/long-term loans to corporate and individual customers (+32 billion euro, or around +18%), which reflect the Group's support for the Italian economy, including in relation to the extraordinary measures taken by the government. The changes in this component, together with the contribution – although much smaller – from the loans represented by securities (+0.5 billion euro, or +8%), offset the much smaller decrease in advances and other loans (-6.8 billion euro, or -4.6%) and current accounts (-2.4 billion euro, or -11.7%).

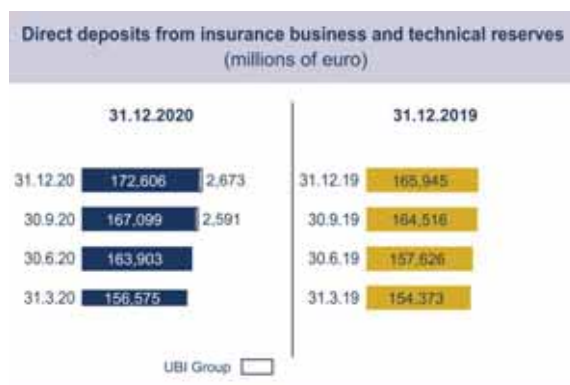
Non-performing loans fell significantly (-3.9 billion euro, or -27.3%), due to the above-mentioned de-risking operations. Specifically, in 2020 non-performing loans continued to fall as a percentage of total loans due to lower reclassifications to the NPL category and the securitisations in December of portfolios of bad loans (around 4.3 billion euro gross of adjustments and around 1.2 billion euro net of adjustments, plus around 0.8 billion euro gross of adjustments and around 0.4 billion euro net of adjustments relating to UBI Banca) as well as the recognition among non-current assets held for sale and discontinued operations of portfolios of the Parent Company classified as available for sale at the end of 2020 of around 3.2 billion euro gross of adjustments and around 0.5 billion euro net of adjustments (around 5.4 billion euro gross of adjustments and around 2.1 billion euro net of adjustments including the contribution from UBI and the ongoing concerns to be sold).

Lastly, the financial component of the repurchase agreements was down sharply (-12.8 billion euro, or around -43%).





On the funding side, direct deposits from banking business amounted to 457 billion euro at the end of December 2020 (net of 68 billion euro relating to the UBI Group), up on the figure at the end of 2019 (+31.5 billion euro, or +7.4%), driven by current accounts and deposits (+45.2 billion euro, or around +14%). There were also increases in other forms of funding, including certificates of deposit and commercial paper (+3.4 billion euro, or around +14%) and subordinated liabilities (+0.3 billion euro, or around +4%). In contrast, bonds were down (-13.2 billion euro, or around -20%) and, although only slightly, also certificates of deposit (-0.6 billion euro, or -13.6%). With regard to the financial component, there was a decrease in repurchase agreements and securities lending (-3.6 billion euro, or around -80%), largely due to transactions with institutional counterparties.



Direct deposits from insurance business – which also include the technical reserves that constitute the amounts owed to customers taking out traditional policies or policies with significant insurance risk – were up at around 173 billion euro (net of 2.7 billion euro relating to the UBI Group) at the end of December compared to the end of 2019 (+6.7 billion euro, or +4%). This performance was driven by growth in the different components of the aggregate: to a greater extent for technical reserves (around +5 million euro, or +5.8%) and, a lesser extent, for other deposits (+0.5 billion euro, or around +62%) and financial liabilities measured at fair value (around +1 billion euro, +1.3%), consisting entirely of unit-linked products.

The Group's indirect customer deposits, at the end of 2020, 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 both components.

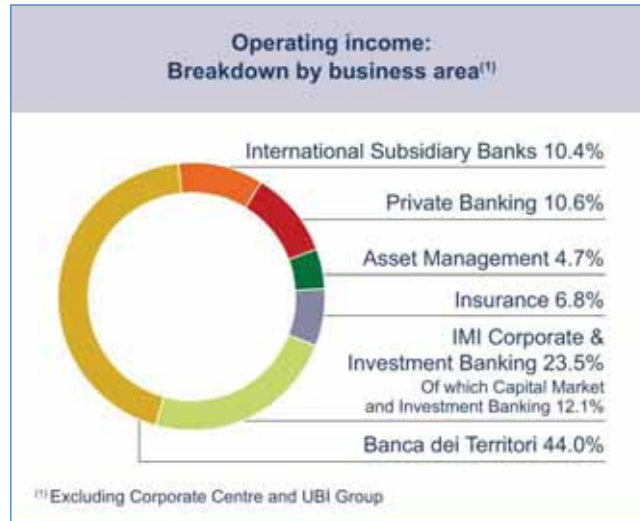
Specifically, assets under management – which account for two-thirds of the total aggregate – increased by 11.4 billion euro (+3.2%), mainly driven by portfolio management schemes (+4.4 billion euro), technical reserves and insurance financial liabilities (+3.7 billion euro) and mutual funds (+2.4 billion euro). Relations with institutional customers and pension funds also grew. Like assets under management, also assets under administration increased (+3.4%, or +6 billion euro), concentrated in securities and third-party products in custody.

## Results of the Business Units

The Intesa Sanpaolo Group organisational structure is based on six business segments: Banca dei Territori, IMI Corporate & Investment Banking, International Subsidiary Banks, Asset Management, Private Banking and Insurance. In addition, there is the Corporate Centre, which is charged with providing guidance, coordination and control for the entire Group and - albeit temporarily - the contribution of the UBI Group.

The share of operating income attributable to each business segment confirmed that commercial banking activities in Italy continue to account for the majority (44% of the operating income of the business areas), although significant contributions were also provided by corporate and investment banking (around 24%), commercial banking activity abroad (around 10%), private banking (around 11%), insurance business (around 7%) and asset management (around 5%).

Where necessary, the division figures for the comparative periods have been restated to reflect the changes in scope of the business units to enable a like-for-like comparison, except for the figures relating to the UBI Group, which as indicated have not been restated.



In 2020, Banca dei Territori – which oversees the traditional lending and deposit collecting activities in Italy and related financial services – reported operating income of 8,083 million euro, representing around half the consolidated operating revenues for the Group (net of the UBI Group), down (-3.7%) on the same period of the previous year, both due to the fall in net fee and commission income (-6.4%), which was affected by the sharp slowdown in the first half of the year following the lockdown related to the containment of the COVID-19 pandemic – attributable to both the management, dealing and financial consultancy activities and the commercial banking activities – and, to a lesser extent, in net interest income (-1.1%). Among the other revenue components, which however provide a marginal contribution to the Division’s income, profits (losses) on financial assets and liabilities designated at fair value grew significantly (+16.3%).

Operating costs fell (-4.3% to 5,065 million euro), both for personnel expenses (-5.6%), due to the reduction in the average

workforce, and for administrative expenses (-2.1%), despite higher costs connected to the health emergency. As a result of the changes described above, the operating margin amounted to 3,018 million euro (-2.7%). Gross income, equal to 385 million euro, was heavily affected by the significant increase in adjustments to loans mainly correlated with the revision of the scenario following the pandemic. Net income, after allocation to the Division of taxes and charges for integration, and following the adjustment fully writing off the goodwill associated with the increase in the carrying amount of the Division following the integration of UBI Banca (goodwill impairment of -912 million euro) amounted to -677 million euro.

The balance sheet figures at the end of December 2020 showed significant growth in total intermediated volumes of loans and deposits from the beginning of the year (+11.1%). In detail, loans to customers increased (+6.8% to 207,533 million euro), due to medium-/long-term loans to SMEs and retail companies, which reflect the Group’s support to the Italian economy, also in relation to the extraordinary measures taken by the government. Direct deposits from banking business were up sharply (+15.3% to 229,677 million euro) in the amounts due to customers component, due to the higher liquidity accumulated on deposits held by businesses and individuals awaiting a more favourable scenario.



The IMI Corporate & Investment Banking Division (renamed following the merger of Banca IMI into the Parent Company) – which oversees corporate banking, investment banking and public finance in Italy and abroad – recorded operating income of 4,325 million euro in 2020 (around 25% of the consolidated figure for the Group, net of the UBI Group), an increase on 2019 (+5.4%). In detail, net interest income increased significantly (+13.8% to 2,131 million euro), due to the higher contribution from loans to customers. In contrast, net fee and commission income fell (-2% to 979 million euro), due to the performance of the commercial banking segment. Profits on financial assets and liabilities designated at fair value were down slightly (-2% to 1,207 million euro), mainly owing to the significant reduction of the valuation effects due to the debt value adjustment (DVA) correlated with liabilities in the form of certificates. Operating costs were down (-4.4% to 1,098 million euro), both for personnel expenses (-2.1% to 423 million euro) and administrative expenses (-5.6% to 654

million euro), as well as depreciation and amortisation (-8.7% to 21 million euro).

As a result of the above revenue and cost trends, the operating margin came to 3,227 million euro (+9.1%). Gross income, amounting to 2,782 million euro, was up (+3.1%), despite higher net adjustments to loans in the environment generated by the COVID-19 epidemic. Net income for the period came to 1,875 million euro (+2.5%).

The Division's intermediated volumes increased overall compared to the beginning of the year (+2%). In detail, loans to customers increased (+2.4% to 135,004 million euro), attributable to medium-/long-term loans for structured finance transactions, as did direct deposits (+1.5% to 88,183 million euro) mainly due to the growth in amounts due to global corporate customers.



In 2020, the operating income of the Division – which is responsible for the Group's operations on international markets through commercial banking subsidiaries and associates – came to 1,908 million euro, down (-4.5%) on the same period of the previous year (-4% at constant exchange rates) due to the performance of net interest income (-4.4% to 1,310 million euro) and net fee and commission income (-6% to 505 million euro), only minimally offset by the greater contribution from the profits (losses) on financial assets and liabilities designated at fair value (+5.6% to 131 million euro). Operating costs decreased slightly (-1% to 981 million euro, -0.2% at constant exchange rates) due to the slight fall in personnel expenses (-2.4% to 527 million euro) and administrative expenses (-0.6% to 344 million euro), while depreciation and amortisation increased (+4.8% to 110 million euro). As a result of the above revenue and cost trends, the operating margin decreased (-7.9%) to 927 million euro. Gross income decreased by 28.8% to 672 million euro, also due to higher

adjustments to loans, primarily attributable to the pandemic. The Division closed 2020 with net income of 473 million euro (-34.6%).

The Division's intermediated volumes grew at the end of 2020 by 6.4% from the beginning of the year, owing to both loans to customers (+6%), in the medium-/long-term component, and to direct deposits from banking business (+6.7%), in particular amounts due to customers.



The Private Banking Division – which serves the top customer segment (Private and High Net Worth Individuals) creating value by offering top products and services – generated gross income of 1,282 million euro in 2020, down (-3.9%) on 2019, due to lower operating income (-27 million euro) only partially offset by lower operating costs (-10 million euro) and higher net adjustments to loans (+10 million euro).

Specifically, the revenue performance was mainly attributable to the reduction in both net fee and commission income (-33 million euro) and net income (loss) of financial assets (-13 million euro), with net interest income up (+19 million euro), due to higher average volumes. The Division closed the half year with net income of 873 million euro, down (-4.9%) on 2019.

As at 31 December 2020, assets gathered, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 213.9 billion euro (+10.4 billion euro compared to the beginning of the year). This performance was due to the positive contribution

of net inflows, along with the revaluation of assets in the second half of the year. The assets under management component amounted to 130.9 billion euro (+8.3 billion euro).



The Asset Management Division – whose mission is to develop asset management solutions targeted at the Group's customers and is present on the open market segment through the subsidiary Eurizon Capital and its investees – posted operating income of 867 million euro in 2020, an increase (+3.2%) on 2019 mainly due to the contribution of net fee and commission income (+4.5%). Operating costs were essentially stable (at 156 million euro). As a result of the above revenue and cost trends, the operating margin came to 711 million euro (+4.1%). The Division closed 2020 with net income of 519 million euro (substantially in line with 2019).

Overall, assets managed by the Asset Management Division amounted to 273.3 billion euro as at 31 December 2020, up by 7.5 billion euro (+2.8%) year-on-year, as a result of the revaluation of assets and net inflows (+1.5 billion euro).



In 2020, the Insurance Division – which oversees management of the subsidiaries of the insurance group Intesa Sanpaolo Vita, and Fideuram Vita, with the mission of developing the insurance and pension product mix targeting Group customers – achieved income from insurance business of 1,268 million euro, up (+3.3%) on 2019. The improved result – achieved despite the lower financial profitability of investments in the life insurance portfolio compared to the previous year – was mainly attributable to the increase in revenues linked to the non-life business, characterised by a significant decline in claims recorded during the period of lockdown as a result of the COVID-19 emergency. Gross income was essentially stable (+0.9% to 999 million euro). Net income came to 686 million euro (+3.8%).



As a result of the completion of the acquisition of UBI Banca during the year, within the segment reporting, the results for the UBI Group – reported from the acquisition date (therefore from August) – have been temporarily represented as a separate business unit and will be assigned to divisions at a later date, as the integration proceeds. As stated above in the comments on the consolidated results, given the particular case in question, no adjustments have been made to the historic reclassified data in order to retroactively reflect the effects of the acquisition. As a result, no comparative figures have been provided.

Operating income of 1,614 million euro is 44% composed of net interest income, 45% of fee and commission income and 8% of profits (losses) on financial assets and liabilities at fair value. Specifically, net fee and commission income showed a positive trend, which continued in the third quarter, driven both by the contribution from management, dealing and financial consultancy services and the recovery of traditional banking activity, which

generated greater fee and commission income than in previous periods, which had been negatively impacted by the shutdowns and slowdowns caused by the lockdown. Operating costs amounted to 885 million euro. In view of the revenue and cost components described above, the operating margin came to 729 million euro.

As a result of the measurement of the negative goodwill, recognised following the acquisition through the calculation at the acquisition date of the fair value of the identifiable assets acquired and liabilities assumed from the UBI Group, and the costs related to the integration and improvement of operational efficiency and reduction of the risk profile, the net income of the business unit amounted to 1,106 million euro.

With regard to the balance sheet figures, at the end of December direct deposits from banking business amounted to around 68 billion euro, net of around 30 billion euro reclassified to liabilities held for sale relating to the going concern to be sold to BPER as part of the ISP-UBI integration, whereas loans amounted to 59.7 billion euro net of around 24 billion euro, which were also reclassified to assets held for sale.



## Highlights

The highlights for the year 2020 are described below.

### Integration of the UBI Group

#### *Completion of the transaction*

The acceptance period for the Public Purchase and Exchange Offer (below “Offer” or “Public Offer”) launched by Intesa Sanpaolo for a maximum of 1,144,285,146 ordinary shares of Unione di Banche Italiane S.p.A. (below “UBI Banca”), representing all subscribed and paid-in share capital, ended on 30 July 2020. The Private Placement of UBI Banca shares reserved for “qualified institutional buyers” launched by Intesa Sanpaolo in the United States also ended on that date.

Detailed information about the Offer is provided in the Offer Document, the Information Document and all the documentation made available in accordance with the law, as well as the individual announcements made regarding the progress of the Offer and its outcome. However, we remind you here that the Offer was made by Intesa Sanpaolo on 17 February 2020, initially in the form of a Public Purchase Offer, based on a unit consideration of 1.7000 newly issued Intesa Sanpaolo ordinary shares for each share of UBI Banca tendered in acceptance. The Intesa Sanpaolo shares offered as consideration would be issued by virtue of a capital increase with the exclusion of the pre-emption right pursuant to Article 2441, paragraph 4, of the Italian Civil Code, reserved to the persons tendering UBI Banca’s shares to the offer. In this regard, the Shareholders’ Meeting held on 27 April 2020 – with 8,935,308,480 votes in favour equivalent to 98.04467% of the ordinary shares represented – granted the Board of Directors powers to approve a share capital increase, by 31 December 2020, up to a maximum total amount of 1,011,548,072.60 euro, in addition to any share premium, with the issuance of a maximum number of 1,945,284,755 ordinary shares. The Shareholders’ Meeting also decided to consequently amend Article 5 of the Articles of Association and grant the Chairman of the Board of Directors and the Chief Executive Officer of the Company, on a several basis and through possible appointment of special attorneys, powers to do whatever required, necessary or useful to execute the resolutions above. The Offer was subsequently amended on 17 July 2020 following the increase in the consideration per share, through the establishment of a cash consideration of 0.57 euro for each UBI Banca share tendered in acceptance. At the same time, the acceptance period was extended ex officio by CONSOB from the initial deadline of 28 July 2020 to 30 July 2020, pursuant to Article 40, paragraph 4, of the Issuers’ Regulation, through Resolution No. 21460 of 27 July 2020.

Furthermore, to prevent possible antitrust concerns, on 17 February 2020 Intesa Sanpaolo and BPER Banca (below also “BPER”) entered into a binding agreement, conditional on the success of the Public Offer (“BPER Agreement”), which provides for the purchase by BPER of a going concern consisting of a pool of branches of the entity resulting from the combination of Intesa Sanpaolo with UBI Banca. The original agreement provided for the sale of around 400/500 branches of the combined entity and the related assets and liabilities for a consideration equal to a multiple of 0.55 times the CET 1 of UBI Banca allocated to the branches identified as being subject of the sale. Subsequently, to take appropriate account of the economic situation generated by the outbreak of the COVID-19 pandemic, and following discussions held between Intesa Sanpaolo and BPER, the pricing mechanism described above was modified by establishing a consideration for the above-mentioned going concern equal to 0.38 times the value of the fully-loaded CET 1 at the reference date allocated to the risk-weighted assets of the branches to be sold. In order to remove the specific antitrust concerns raised by the Italian Antitrust Authority (“AGCM”), on 15 June 2020 Intesa Sanpaolo negotiated and signed an agreement supplementing the BPER Agreement under which the number of branches to be transferred was increased (from 400/500 to 532, of which 501 of UBI Banca and 31 of Intesa Sanpaolo) with the precise identification of the details and consequent redefinition of the estimated values. By decision adopted at the meeting of 14 July 2020 and notified to Intesa Sanpaolo on 16 July 2020, AGCM approved the transaction for the acquisition of control of UBI Banca subject to the execution of structural sales in accordance with the BPER Agreement and the commitments made by Intesa Sanpaolo.

Again with regard to the BPER Agreement, on 12 November 2020 a supplementary agreement to the binding agreement was signed, which completed the identification of the branches and of the people to be included in the going concern. The final scope of the going concern comprises 486 branches with accounting autonomy where customer accounts are legally registered (7 more than previously agreed) and 134 operational outlets (such as sub-branches) that provide services to branch customers and do not have accounting autonomy. A total of 5,107 people will be included in the going concern and will mainly be deployed in the network of branches and operational outlets and in the Private and Corporate business areas, in addition to those working in the “semi-central” governance areas in support of the regional and local units that coordinate the network of branches included in the going concern and “central” governance areas for the strengthening of central, control and IT functions.

The sale to BPER Banca of the former UBI Banca going concern – including a going concern owned by UBISS (a consortium company controlled by UBI Banca) essentially focused on services to the branches being acquired – took effect on 22 February 2021, while the sale of the branches owned by Intesa Sanpaolo will take effect from 21 June 2021.

In addition, with regard to the sales to be made to fulfil the commitments made to AGCM<sup>9</sup>, on 15 January 2021 Intesa Sanpaolo signed an agreement with Banca Popolare della Puglia e della Basilicata (below also “BPPB”) for the sale to the latter of a going concern consisting of 17 branches with accounting autonomy and 9 operational outlets of UBI Banca, with a total of 148 employees, in Abruzzo, Molise, Basilicata and Calabria. The transaction is subject to legal authorisations, with completion expected by the end of the first half of 2021.

Based on the final results – announced to the market on 3 August 2020 – a total of 1,031,958,027 UBI Banca shares were tendered in acceptance of the Offer during the acceptance period (including those tendered in acceptance through the Private Placement), equal to approximately 90.184% of the share capital of UBI Banca. As a result of the settlement of the Offer (and the Private Placement) and on the basis of the results of the Offer (and of the Private Placement), the Offeror Intesa Sanpaolo came to hold a total of 1,041,458,904 UBI Banca shares, representing approximately 91.0139% of the share capital of UBI

<sup>9</sup> As stated in the Registration Document published on 26 June 2020, in the event that, even if the sale of the going concern to BPER Banca was successful, the AGCM still found any critical antitrust issues in certain local areas (where there are no branches to be sold to BPER), Intesa Sanpaolo made a commitment to enter into agreements with one or more independent third parties, within nine months of the payment date for the Offer, for the sale of additional 17 bank branches of UBI Banca in total, and the AGCM made its authorisation conditional upon that commitment.

Banca, given that (i) the Offeror held, directly and indirectly (including through fiduciary companies or nominees) a total of 249,077 ordinary shares of the Issuer, equal to 0.0218% and (ii) UBI Banca held 9,251,800 own shares equal to 0.8085% of the share capital of the Issuer.

Lastly, acceptances “with reserves” were also received in respect of a total number of 334,454 UBI Banca shares from 103 acceptors. These acceptances have not been counted for determining the percent acceptance of the Offer. Based on the final results indicated above, the Percentage Threshold Condition (i.e. the condition that the Offeror comes to hold an overall interest at least equal to 66.67% of the Issuer’s share capital) was fulfilled and all the other conditions precedent of the Offer were fulfilled or, as the case may be, waived by Intesa Sanpaolo. As a result, the Offer was effective and was able to be completed.

On 5 August 2020, in exchange for the transfer of the ownership of the UBI Banca shares, Intesa Sanpaolo issued and assigned the acceptors of the Offer a total of 1,754,328,645 new Intesa Sanpaolo shares, representing 9.107% of the share capital of Intesa Sanpaolo, based on the ratio of 1.7000 Intesa Sanpaolo shares to 1 UBI Banca share. In addition, on 19 August 2020, Intesa Sanpaolo paid the entitled parties the cash consideration (i.e. 0.57 euro for each UBI Banca share tendered in acceptance) which amounted to a total of 588,216,075.39 euro.

The interest held directly or indirectly by Intesa Sanpaolo in the share capital of UBI Banca at the end of the acceptance period was more than 90%, but less than 95%, which meant that the conditions were met for the compulsory squeeze-out pursuant to Article 108, paragraph 2, of the Consolidated Law on Finance, with Intesa Sanpaolo having already declared in the Offer Document that it would not implement measures to restore the minimum free float conditions for normal trading of the UBI Banca ordinary shares. Therefore, pursuant to Article 108, paragraph 2, of the Consolidated Law on Finance, Intesa Sanpaolo was required to purchase the remaining ordinary shares from the shareholders of UBI Banca who requested it, for a total amount of 112,327,119 UBI shares and representing 9.8163% of the share capital. The consideration per remaining share, identified in accordance with the provisions of Article 108, paragraphs 3 and 5, of the Consolidated Law on Finance, was determined as follows:

- i. a consideration equal to that offered to the acceptors of the Public Purchase and Exchange Offer, namely 1.7000 newly issued Intesa Sanpaolo ordinary shares and 0.57 euro for each UBI Banca share tendered in acceptance; or, alternatively,
- ii. only to the shareholders so requesting, a cash consideration in full whose amount for each UBI Banca share, calculated in accordance with Article 50-ter, paragraph 1, letter a) of the Issuers’ Regulations, was equal to the sum of (x) the weighted average of the official prices of the Intesa Sanpaolo shares recorded on the Italian Stock Exchange during the five trading days prior to the payment date (i.e. on 29, 30 and 31 July, and 3 and 4 August 2020) multiplied by the exchange ratio (2.969 euro) and (y) 0.57 euro, for a total consideration of 3.539 euro per remaining share.

The compulsory squeeze-out procedure, pursuant to Article 108, paragraph 2, of the Consolidated Law on Finance, which was carried out between 24 August and 11 September 2020, resulted in sale requests for a total of 90,691,202 remaining shares, representing 7.9256% of the share capital of UBI Banca and 80.7385% of the remaining shares. With reference to the 90,691,202 remaining shares:

- i. for 87,853,597 remaining shares, the owners have requested the consideration established for the Public Offer; and
- ii. for the other 2,837,605 remaining shares, the owners have requested the cash consideration in full, i.e. 3.539 per remaining share.

Taking into account (a) the 1,031,958,027 shares tendered in acceptance of the Offer, (b) the 90,691,202 remaining shares purchased through the procedure pursuant to Article 108, paragraph 2, of the Consolidated Law on Finance, (c) the 131,645 ordinary shares of the Issuer held directly or indirectly by Intesa Sanpaolo and (d) the 8,903,302 own shares held by UBI Banca, Intesa Sanpaolo, following the procedure pursuant to Article 108, paragraph 2, of the Consolidated Law on Finance, came to hold a total of 1,131,684,176 UBI Banca shares, equal to 98.8988% of the share capital of UBI Banca. Intesa Sanpaolo made the payment of the consideration for the compulsory squeeze-out pursuant to Article 108 paragraph 2 of the Consolidated Law on Finance on 17 September 2020 through:

- i. the issuance of 149,351,114 new Intesa Sanpaolo shares, representing 0.77% of the bank’s share capital, and the payment of a consideration of 50,076,550.29 euro to the accepting shareholders who chose the consideration established for the Offer;
- ii. the payment of 10,042,284.10 euro for the accepting shareholders that requested the cash consideration in full.

Subsequent to the procedure pursuant to Article 108, paragraph 2 of the Consolidated Law on Finance, Intesa Sanpaolo, having come to hold more than 95% of the share capital of UBI Banca, exercised its right of squeeze-out pursuant to Article 111 of the Consolidated Law on Finance and, at the same time, carried out the compulsory squeeze-out pursuant to Article 108, paragraph 1 of the Consolidated Law on Finance for the shareholders of UBI Banca that requested it, through a specific joint procedure that, as agreed with CONSOB and Borsa Italiana (the “Joint Procedure”), was carried out in the period 18 – 29 September 2020. The Joint Procedure targeted a maximum of 21,635,917 UBI residual shares. The consideration established in the Joint Procedure was the same as that paid for the shares purchased in the procedure pursuant to Article 108, paragraph 2 of the Consolidated Law on Finance. During the Joint Procedure, sale requests were submitted for a total of 3,013,070 remaining shares, i.e. 13.9262% of the shares subject to the procedure. More specifically:

- i. for 408,474 shares, the owners requested the consideration established for the Public Offer; and
- ii. for the other 2,604,596 shares, the owners requested the cash consideration in full, i.e. 3.539 per remaining share.

No sale requests were submitted by the holders of the 18,622,847 remaining shares. Those residual shares also include 8,877,911 own shares (representing 0.7758% of the Issuer’s share capital) held by UBI Banca and 120,985 UBI Banca ordinary shares held on own account by Intesa Sanpaolo before 17 February 2020, the announcement date of the Offer. The UBI Banca own shares and UBI Banca ordinary shares held on own account by Intesa Sanpaolo were not transferred to Intesa Sanpaolo under the Joint Procedure. Intesa Sanpaolo made the payment of the consideration for the Joint Procedure on 5 October 2020 through:

- i. the issuance of 17,055,121 new Intesa Sanpaolo shares, representing 0.09% of the Bank’s share capital and the payment of a consideration of 5,718,482.25 euro to the accepting shareholders who chose the consideration established for the Offer and to the shareholders that did not submit any sale requests;
- ii. the payment of 9,217,655.24 euro for the accepting shareholders that requested the cash consideration in full.

Following the conclusion of the Joint Procedure, Intesa Sanpaolo came to hold 100% of the share capital of UBI Banca.



In addition, with resolution no. 8693 of 17 September 2020, Borsa Italiana ordered the delisting of UBI Banca shares from trading on the Mercato Telematico Azionario (electronic stock exchange) as of 5 October 2020 (settlement date of the Joint Procedure), subject to suspension of the share during the sessions of 1 and 2 October 2020.

Lastly, on 29 January 2021, the plan for the merger by incorporation of UBI Banca S.p.A. into Intesa Sanpaolo S.p.A. was filed with the Torino Company Register.

The merger was then approved by the Board of Directors of Intesa Sanpaolo on 2 March.

#### *Start of the integration activities*

The integration between Intesa Sanpaolo (ISP) and UBI Banca (UBI) has three main objectives: i) creating value through a rapid and successful business integration, able to achieve significant synergies; ii) harnessing the talents of the two Groups (people, skills, distinctive assets); and iii) creating a European-scale champion that can play a leading role in the evolution of the post-COVID-19 banking sector.

The ISP-UBI Integration Programme was launched in September 2020, involving the entire Group (over 400 Intesa Sanpaolo and UBI managers) and with robust governance ensured through guidance of the Programme by the Programme Managers and periodic dedicated meetings at both project and programme level (Steering Committee, Programme Progress Updates, Strategic Coordination Committee, Project Progress Updates).

The Programme is also organised on an effective and granular basis with 4 “staff” and 25 “vertical” projects, over 100 sub-projects and over 3,000 finished products monitored biweekly. The 4 “staff” projects include:

- “Harnessing synergies, cost control and analytical support”: to estimate and harness the synergies resulting from the integration, monitor the Programme costs and investments, and provide analytical support to the projects for the main strategic initiatives;
- “Programme Coordination”: to coordinate and monitor the progress of the Programme and the individual projects;
- “Communications”: to manage internal, external and investor communications related to the Integration Programme;
- “Supporting structures”: to direct specific issues on-demand (e.g. legal and compliance) to the references already identified within the individual projects.

The other “vertical” projects covered the following areas:

- 1. “Founding values of the integration”: to define the main founding values of the integration (local areas and community, customers and people) and identify specific initiatives to be implemented;
- 2. “ESG-Impact: Social and Environmental Responsibility” to map existing the ESG/Impact activities and draw up a roadmap for sustainability and for the commitment to local areas and communities;
- 3. “Corporate compliance and mandatory communications” to ensure the fulfilment of all the corporate obligations towards the supervisory authorities and to prepare the documentation for the institutional bodies;
- 4. “Mandatory, operational and functioning requirements” to map and ensure the implementation of all the mandatory requirements and the interim choices for each Governance Area;
- 5a-5d: “Organisational Model and HR” to identify and address the organisational impacts resulting from the integration (also in the transitional period) and develop the target organisational model, to devise the talent enhancement strategy and the related initiatives and launch a change management plan, to identify and address the HR impacts resulting from the integration and develop the target HR model, and to ensure effective management of procedures and trade union agreements (both upon full implementation and during the transitional period);
- 6. “IT and Processes Integration” to manage the interventions for the migration of UBI to ISP’s IT and operational platform, addressing the IT and process impacts resulting from all the projects of the Integration Programme;
- 7a-7d. “Sales” to define the strategy, methods and timing of the sales in line with the Programme’s objectives (including the definition and segregation of the going concern) and to manage the IT, governance and business interventions to effectively and efficiently complete the planned sales (ISP branches to BPER, UBI branches to BPER, insurance operations to Unipol SAI Assicurazioni, additional ISP branches to Banca Popolare di Puglia e Basilicata - BPPB) on time (including the necessary support to BPER);
- 8a-8m. “Business and Operational Integration Choices” to map, prioritise and address the main interim business choices necessary for the integration during the transitional phase (e.g., developing policies for interim pricing decisions).

The Programme drew up a joint work plan whose main milestones concerned the sale of the UBI branches to BPER, successfully completed in February 2021, and the merger of UBI into ISP (and completion of the related IT migration), scheduled for April 2021.

The Programme has now initiated all the activities envisaged in the plan. Some of the main activities are listed below:

- appointment of Gaetano Micciché as Managing Director and Chief Executive Officer of UBI Banca;
- approval by the Board of Directors of Intesa Sanpaolo of the list for the renewal of the Board of Directors of UBI Banca;
- definition of the founding values, identifying three key value pillars underpinning the integration;
- mapping of the ISP and UBI ESG/Impact initiatives (selected studies underway) and preparation of the 2020 Consolidated Non-Financial Statement;
- completion of all the required preparation work for the integration plan;
- adoption of the ISP Group’s regulations by UBI;
- signing of the trade union agreement for the voluntary exits without social impacts, three months in advance, as described in more detail below;
- implementation of the new organisational structure of the Group resulting from the integration of UBI into ISP with the publication of Service Orders and Service Memos for the Governance Area, the Banca dei Territori Division (having defined the target local structure, involving the creation of the new Regional Governance Centres and the Agribusiness Department and Central Structures) and the IMI C&IB Division;
- approval by the ISP Board of Directors and the UBI Board of Directors of the cascading of the Risk Appetite Framework (RAF) and Credit Risk Appetite (CRA) onto the UBI Group;
- in the area of IT integration, the start, according to the plan, of the implementation of the gap analysis with initial releases, completion of the second simulation with user certification, completion of the mailing of mandatory communications, and

definition and implementation of actions to enable the transition of UBI customers to ISP's digital channels (e.g., mobile phone clearance);

- start-up of the activities for the additional sales of branches to BPER and BPPB focusing on the most urgent activities (such as mandatory communications to customers);
- completion of the main strategic and business choices, based on the analyses made;
- identification of the target role of the main product companies within the Group;
- completion of the alignment of the ISP-UBI customer commercial communication plans;
- consolidation of the target geographical “footprint” of Intesa Sanpaolo Private Banking (ISPB) and completion of the reorganisation of customer portfolios to manage the effects of the BPER demerger, and definition of the management approach for the customers shared between UBI Top Private and ISPB;
- completion of the detailed business continuity plan, including the IT, organisational and procedural measures for IW Bank;
- definition of the scope of UBI customers to be allocated to the IMI C&IB Division (final analyses being completed);
- presentation of the Eurizon/Pramerica integration project to the Supervisory Authorities and start of the merger process;
- completion of negotiations and submission of applications for the acquisition of Aviva Vita and Lombarda Vita and finalisation of the agreement for the acquisition of Cargeas;
- confirmation of the closure of the Nice branch after the merger of 12 April and identification of contingency solutions to ensure business continuity post ISP-UBI integration until the closure of the branch.

As mentioned above, on 30 September Intesa Sanpaolo signed an agreement with trade unions which aims at enabling generational change at no social cost while continuing to ensure an alternative to the possible paths for staff re-skilling and redeployment as well as the enhancement of the skills of the people of the Intesa Sanpaolo Group resulting from the acquisition of UBI Banca.

The agreement identifies ways and criteria to reach the target of at least 5,000 exits on a voluntary basis by 2023, with Group's people either to retire or access the Solidarity Fund. Furthermore, by 2023, indefinite-term employment contracts will be signed according to the proportion of one hire for each two voluntary exits, up to 2,500 hires, against a minimum of 5,000 envisaged voluntary exits, a calculation which does not include the exits of people moved due to the transfers of business lines. The new hires will support the Group's growth and its new activities, with a focus on the branch Network and on the disadvantaged areas of the country, including through the “stabilisation” of people currently on fixed-term contracts. The Group envisages that at least half of the hires will concern the provinces in which UBI Banca has its historical roots (Bergamo, Brescia, Cuneo and Pavia) and the South of Italy.

The agreement has been signed well ahead of the deadline originally planned for year-end, thus highlighting the effective progress of the integration process.

Specifically, the agreement provided that:

- the offer relating to the voluntary exits would be addressed to all the people of the Intesa Sanpaolo Group's Italian companies which apply the CCNL Credito (bank employees National Collective Labour Contract), including the managers;
- people who met the retirement requirements by 31 December 2026, including by applying the so-called calculation rules “Quota 100” and “Opzione donna”, could subscribe to the offer by November 2020 in the ways communicated by the Group;
- people who subscribed to the Intesa Sanpaolo 29 May 2019 Agreement or the UBI 14 January 2020 Agreement but were not included in the lists could submit requests for voluntary exit under defined terms;
- in the event that applications for retirement or access to the Solidarity Fund were in excess of the number of 5,000, a single list would be drawn up at Group level based on the date when the retirement requirement is met. The list would give priority to those people who had previously subscribed to the former Intesa Sanpaolo Group 29 May 2019 agreement or to the former UBI Group 14 January 2020 agreement and had not been included among the envisaged exits, as well as to people entitled to provisions under Article 3, paragraph 3 of Law 104/1992 for themselves, and to disabled people with a disability of at least 67%.

Subsequently, on 14 January 2021, Intesa Sanpaolo announced that it would hire a further 1,000 people, in addition to the 2,500 already provided for in the trade union agreement of 29 September 2020 described above. Intesa Sanpaolo, following verification with the Trade Unions that the offer for voluntary exit was taken up by at least 5,000 people, intends to accept the total of over 7,200 voluntary exit applications submitted which fulfil the requirements, and consequently, as sought by the Trade Unions, to hire 3,500 people in total by the end of the first half of 2024.

This decision confirms the effective progress of the process for the integration of UBI Banca into the Intesa Sanpaolo Group. It follows the agreement signed with the Trade Unions on 30 December 2020 regarding the 5,107 people who are part of the going concern to be sold to BPER Banca.

On 30 December 2020, the trade union agreement regulating the transfer of personnel to BPER Banca was signed, as part of the fulfilment of the requirements established by the antitrust authority following the completion of the public exchange offer through which ISP acquired control of UBI Banca. The agreement was signed by representatives of Intesa Sanpaolo, BPER Banca and the Trade Unions.

Specifically, BPER has agreed on a process with the trade unions, which will last until 31 December 2021, during which – without affecting the application throughout 2021 of the treatments currently envisaged in Intesa Sanpaolo and UBI Banca – it will seek to harmonise the regulations applied at BPER, while still guaranteeing not only the rights established in terms of remuneration, but also all the contributions due for supplementary pensions and supplementary health care at the selling banks after the end of 2021.

The agreement therefore ensures significant continuity, for the personnel involved, concerning all the important aspects of their employment relationship: professional development, agile working, holidays, training, supplementary pensions, supplementary health care, loans and financing, and much more.

#### *Accounting treatment of the acquisition*

The Public Purchase and Exchange Offer (below “Offer” or “Public Offer”), which allowed Intesa Sanpaolo to obtain control of UBI Banca, is a business combination that must be accounted in accordance with International Financial Reporting Standard

(IFRS) 3, which requires the application of the acquisition method. According to this method, on the acquisition date, identified as the settlement date of the Offer (5 August 2020), the acquirer is, in short, required to allocate the cost of the combination (Purchase Price Allocation – PPA) to the identifiable assets acquired and liabilities assumed, both measured at their fair values. Any excess of the unallocated cost of the combination must be recognised as goodwill; alternatively the negative difference, resulting from the recognition of the combination at favourable prices, is recognised in the income statement as negative goodwill or badwill.

IFRS 3 allows the initial recognition of a business combination to be provisional and gives the acquirer a period of 12 months to obtain the information necessary to identify and assess the items required for the final recognition of the business combination and, therefore, adjusting the provisional amounts retroactively from the acquisition date. Using this option provided by the standard, a provisional amount of the negative goodwill arising from the business combination was determined for the Interim Statement as at 30 September 2020. In the 2020 Financial Statements, the transaction has been recognised on a final basis following the completion of the PPA process.

IFRS 3 establishes that the consideration transferred in a business combination must be determined on the basis of the acquisition-date fair values of the assets transferred by the acquirer and the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. In the present case, the consideration transferred consists of the sum of (i) 3,445 million euro, equal to the fair value of the shares issued by Intesa Sanpaolo under the capital increase and assigned to the shareholders of UBI Banca (1,920,734,880), and (ii) 663 million euro, equal to the cash consideration transferred to them. The valuation of the Intesa Sanpaolo shares issued was based, in accordance with Intesa Sanpaolo's fair value policy, on the reference price of the Intesa Sanpaolo shares on 4 August 2020 (1.7936 euro per share), corresponding to the last available price before the transaction that allowed Intesa Sanpaolo to acquire control of UBI Banca. Lastly, IFRS 3 states that in a business combination achieved in stages, the acquirer must remeasure its previously held equity interest in the acquiree at its acquisition-date fair value. The 120,985 UBI shares already held by Intesa Sanpaolo were therefore measured at the listing price of UBI Banca on 4 August 2020 (3.709 euro per share), for a total value of 1 million euro and that amount was also recognised in the calculation of the cost of the acquisition. Based on the above, the total cost of the business combination was 4,109 million euro.

For the recognition of the acquisition, the consolidated shareholders' equity of UBI Banca as at 31 July 2020, in consideration of the acquisition that, as already mentioned, took place on 4 August 2020, was first of all compared against cost of the combination (4,109 million euro). The Additional Tier 1 instruments issued by UBI Banca have been removed from its consolidated shareholders' equity as at 31 July 2020, because – although these instruments are considered capital instruments in accordance with IAS 32 in the shareholders' equity of UBI Banca – they are subscribed by third parties and were not subject of the Public Purchase and Exchange Offer, which means they must not be included in the calculation and will continue to be shown as capital instruments also in Intesa Sanpaolo's consolidated financial statements. The consolidated shareholders' equity of UBI Banca for the PPA for the consolidated financial statements of Intesa Sanpaolo amounted to 9,883 million euro.

The following effects of the PPA were also considered for the calculation of the negative goodwill, again with regard to the consolidated shareholders' equity of the UBI Group as at 31 July 2020:

- derecognition of the UBI Banca Group's consolidated goodwill: as required by IFRS 3, the negative goodwill implicit in the transaction replaces the historical goodwill recognised in the financial statements of the acquired entity;
- derecognition of the intangible assets recognised as a result of previous PPAs of the UBI Banca Group: these were derecognised because new intangible assets were recognised under the PPA, representing the value of the relationships and assets of the entire UBI Group present at the acquisition date.

In addition, with regard to the branches to be sold to BPER and to Banca Popolare di Puglia e Basilicata, given that these transactions are strictly related to the acquisition of UBI Banca, because the AGCM approved the Public Offer by Intesa Sanpaolo on UBI Banca subject to the execution of those structural sales, the capital loss estimated based on the sale price has been recognised, net of the related price adjustments and tax, as a reduction in the negative goodwill in the consolidated income statement, solely for the amount attributable to the UBI Banca branches, because the PPA pursuant to IFRS 3, which gives rise to the negative goodwill, only concerns the assets and liabilities of the acquired entity (in this case UBI Banca). This capital loss amounted to 1,464 million euro before tax and 1,061 million euro after tax. In fact, it should be recalled that the agreement with BPER also provides for the sale of 31 Intesa Sanpaolo branches.

Lastly, because each of the going concerns to be sold has a sale price that represents their fair value, determined at the level of the business line as a whole and not allocatable to the individual accounting items that make it up, the assets and liabilities included in the going concern to be sold have been excluded from the calculation of the fair value in the PPA.

This first comparison resulted in a negative goodwill, which does not yet take into account the fair value adjustments of the individual accounting items, of 3,234 million euro.

The PPA then focused on the fair value measurement of the assets acquired and liabilities assumed, net, as specified above, of the balance sheet items attributable to the branches to be sold reclassified as assets held for sale.

The fair value measurement of the individual accounting items, subject of acquisition, was carried out with the aid of independent experts and mainly concerned:

- performing loans;
- non-performing loans;
- intangible assets not previously recognised by the acquired entity;
- investments in associates;
- real estate portfolio;
- valuable art assets;
- bonds issued.

The PPA also included the write-down of the UBI Group's property, equipment and intangible assets (mainly hardware and software), which, following the process of integration and migration into Intesa Sanpaolo, will no longer be used and will not contribute to the business production process.

In addition, given that UBI Banca has adopted macro-hedging relationships, the specific balance sheet captions representing the fair value adjustment of assets and liabilities macro-hedged against interest rate risk were derecognised in the PPA, because for Intesa Sanpaolo's consolidated financial statements the hedging relationships are designated ex-novo from the acquisition date and hedged items are recognised individually at fair value in accordance with IFRS 3. The amount derecognised in the PPA does not take into account the fair value adjustment of the assets and liabilities subject to macro-hedges included in the going concern to be sold to BPER.

The purchase price allocation, together with the accounting of the events strictly related to the acquisition, net of the related tax, led to the recognition of effects totalling -729 million euro. The comparison between the cost of the overall business combination and the consolidated shareholders' equity of UBI Banca, net of the intangible assets recognised following previous purchase price allocations, stated at fair value at the acquisition date and taking into account the loss recognised on the branches being sold, results in negative goodwill of 2,505 million euro. More details are provided in the table below:

(millions of euro)		
<b>UBI Group shareholders' equity at 31 July 2020 net of AT1 instruments</b>	<b>9.883</b>	<b>a</b>
<b>Purchase Price</b>	<b>-4.109</b>	<b>b</b>
<b>Derecognition of UBI Banca Group intangible assets net of tax effects</b>	<b>-1.479</b>	<b>c</b>
<b>Loss on branches held for sale net of tax effect</b>	<b>-1.061</b>	<b>d</b>
<b>Negative goodwill before fair value adjustments to individual accounting captions</b>	<b>3.234</b>	<b>e = a + b + c + d</b>
<b>Effects of fair value adjustments to individual accounting captions</b>	<b>-729</b>	<b>f</b>
- of which performing loans	1.290	
- of which non-performing loans	-1.683	
- of which intangible assets	593	
- of which investments in associates	119	
- of which adjustments to hedged assets/liabilities	-685	
- of which bonds issued	-296	
- of which write-offs of software and other intangible assets	-168	
- of which real estate portfolio	-126	
- of which valuable art assets	16	
- of which other accounting captions	-52	
- of which effects pertaining to minorities	-28	
- of which related tax effects	291	
<b>Negative goodwill</b>	<b>2.505</b>	<b>g = e + f</b>

With regard to the recognition of the negative goodwill, IFRS 3 establishes that, in order to ensure that the measurements made in the PPA appropriately reflect all available information as of the acquisition date, the acquirer, before recognising negative goodwill or badwill in the income statement, must conduct a reassessment of the measurement process already conducted, to verify the completeness of the remeasurement of the values and the reasonableness and non-arbitrariness of the measurement approaches and parameters adopted. In addition, the ECB, in its "Guide on the supervisory approach to consolidation in the banking sector" of 12 January 2021, stressed the need for the appropriate calculation of the badwill arising from the PPA to be duly verified.

To this end, Intesa Sanpaolo has carried out a reassessment of the main measurements, both directly and with the aid of its advisors. As further verification of the correctness and reasonableness of the conclusions reached and the resulting negative goodwill, Intesa Sanpaolo asked a different independent third party expert, the company Partners S.p.A., to carry out an independent verification of the correctness, reasonableness and non-arbitrariness of the methodological choices made in the PPA process, particularly with regard to the methodologies and measurement parameters used. Following these verifications, Partners S.p.A. – represented by Prof. Angelo Provasoli and Prof. Massimiliano Nova – expressed a positive opinion concerning the correctness and the methodological consistency, the soundness of the assumptions made, the appropriateness of the implementation choices, and the overall reasonableness of the results of the PPA in question.

The accounting effects of the acquisition also include the expenses related to the Public Offer totalling 146 million euro, with the part directly attributable to the capital increase and the corresponding issue of Intesa Sanpaolo shares (112 million euro) recognised as a reduction in shareholders' equity reserves and the remainder (34 million euro) recognised in the income statement.

For the reclassified income statement, in addition to the effects, already mentioned above, relating to the negative goodwill of 2,505 million euro and the transaction costs for the Public Offer for the component not attributable to shareholders' equity, amounting to -34 million euro, the following were allocated to the caption "Effects of purchase price allocation (net of tax)":



(i) -85 million euro as a capital loss, net of tax, related to the Intesa Sanpaolo branches to be sold to BPER Banca; and (ii) -37 million euro as the amortisation accrued in 2020, net of tax, of the differences resulting from the PPA between the fair values and the previous carrying amounts recognised by the acquired entity and (iii) -287 million euro net of tax (-428 million euro gross of tax) for the reinstatement of the ECL on the performing loans of the UBI Group that had been removed as a result of the fair value adjustment of the loan portfolio. The resulting overall profit and loss effect allocated to the caption "Effect of purchase price allocation (net of tax)" was 2,062 million euro.

In addition, as mentioned above, as part of the UBI Banca acquisition, expenses totalling 2,041 million euro, gross of tax (1,378 million euro net of tax), related to the integration of the two groups, were recognised in the 2020 consolidated income statement. These expenses included around 1,340 million euro related to the agreement reached with the trade unions for voluntary exits, while the remainder mainly related to IT and advisory costs connected to the integration process. For the overall measurement of the net effect of the transaction, as the resulting negative goodwill, the decision was made to expense the charges for integration in the year when the business combination became effective, even though they were not considered in the PPA as required by IFRS 3. In fact, these charges would not have been incurred without the Public Offer for UBI Banca and the price offered by Intesa Sanpaolo, which the negative goodwill amount depends on, is also related to the synergies that can be achieved once the restructuring programme is completed. This approach is consistent with the expectations of the ECB, which indicated in the document mentioned above that badwill should also be used to cover the charges for integration connected to the business combination "... Given these uncertainties, the acquirer is expected to take advantage of this relatively low acquisition price to increase the sustainability of the business model of the combined entity, for example to cover transaction or integration costs, or other investments, or to increase the prudence of assets' valuation in particular for non-performing loans ...".

Accordingly, the overall positive accounting effect recognised in the 2020 income statement as a result of the acquisition was 684 million euro.

For the going concerns that will soon be sold to BPER Banca and Banca Popolare di Puglia e Basilicata described above, the related assets and liabilities as at 31 December 2020 have been recognised in the specific held-for-sale asset and liability captions. In terms of amounts, as at 31 December 2020 the non-current assets held for sale amounted to 26 billion euro, including loans (net loans to customers) totalling 24.9 billion euro (of which 24 billion euro for performing loans and 0.9 billion euro for non-performing loans) and property and equipment totalling 0.7 billion euro. The associated liabilities totalled 33.1 billion euro, including deposits (amounts due to customers) amounting to 32.7 billion euro and other liabilities of 0.2 billion euro.

As already stated above, the capital loss estimated based on the sale price has been recognised, net of the related price adjustments and tax, as a reduction in the negative goodwill in the consolidated income statement, solely for the amount attributable to the UBI Banca branches. This is because the PPA process, according to IFRS 3, that gives rise to the negative goodwill, only concerns the assets and liabilities of the acquired entity (in this case UBI Banca). This capital loss amounted to 1,464 million euro before tax and 1,061 million euro after tax. In fact, it should be recalled that the agreement with BPER also provides for the sale of 31 Intesa Sanpaolo branches, the cost of which (108 million euro gross of tax and 85 million euro net of tax), as already mentioned, has been recognised in the income statement outside the PPA process.

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## Other highlights

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As mentioned in the 2019 Annual Report, in December of that year the Board of Directors of Intesa Sanpaolo and Intesa Sanpaolo Vita approved the acquisition of a controlling interest in RBM Assicurazione Salute, a company founded in 2007 by the RBH Group and wholly owned by the Favaretto family.

In May 2020, Intesa Sanpaolo Vita – after having obtained the necessary authorisations from AGCM and IVASS – completed the acquisition of 50% plus one share of the company. Subsequently, in the three-year period 2026-2029, the shareholding will be increased to 100%, with the purchase price which will be determined according to a mixed formula (equity and income) based on the achievement of pre-established growth targets.

RBM Assicurazione Salute – the only independent player – is the third largest operator in Italy in the health insurance market, in addition to having partnerships with over 130 supplementary healthcare funds and care assistance funds in Italy. The company operates under the new name Intesa Sanpaolo RBM Salute and targets both RBM's traditional customers and the Bank's retail and corporate customers, adding its healthcare services to the current "XME Protezione" product developed by Intesa Sanpaolo Assicura.

This transaction qualifies as a business combination and has consequently been recognised in accordance with the provisions of IFRS 3, using the purchase price allocation (PPA) method for the acquisition, which allocates the cost of the combination to the identifiable assets acquired and liabilities assumed, both measured at their fair values. The comparison of the total purchase price, amounting to 657 million euro, with the shareholders' equity at fair value resulting from the PPA, amounting to around 378 million euro, resulted in goodwill of 279 million euro, recognised in the Group's consolidated financial statements and allocated to the Insurance CGU.

On 13 June 2020, the last retrocession was made of the high risk loans originating from the former Venetian banks reclassified as bad loans and/or unlikely-to-pay loans, considering that the decree whereby the Ministry of the Economy and Finance formalised the High Risk Guarantee for an amount of 3.7 billion euro and Law Decree 99/2017 had established that Intesa Sanpaolo's right to retrocede the high risk loans must be exercised "within three years of the sale", completed on 26 June 2017. The retrocession applied to a total portfolio with a gross value of 201 million euro, for a retrocession price, aligned to the book value, of 176 million euro, relating to loans reclassified as non-performing in 2020, until the end of May. Another retrocession event occurred in the second quarter of 2020, on 18 April, involving a total of 121 million euro of gross value, for a retrocession price, in line with the book value, of 103 million euro, relating to loans reclassified as non-performing in the third and fourth quarters of 2019. Accordingly, as a result of the above, there were no longer any high risk loans

reclassified as assets held for sale pursuant to IFRS 5 and no other retrocession events will be planned. Overall, following the acquisition, the Group sold loans to banks in liquidation for a gross value of 1,138 million euro at a price of 953 million euro.

On 26 June 2020, Intesa Sanpaolo reached an agreement with Aleatica S.A.U., a Spanish company specialising in infrastructure investments, wholly-owned by the Australian IFM Global Infrastructure Fund, for the sale of the entire equity investment held in Autostrade Lombarde (of which Intesa Sanpaolo holds a 55.8% interest) and its operating subsidiary Brebemi, the concession holder for the Milan-Brescia (A35) motorway segment, for a consideration of around 300 million euro. After having received the necessary authorisations, the transaction was completed on 26 October 2020, with the recognition of a net gain in the consolidated income statement for the fourth quarter of 2020 for a total of 65 million euro.

On 30 June 2020, after having received the required authorisations from the relevant authorities, Intesa Sanpaolo and Nexi finalised the strategic agreement, in respect of payment systems, signed on 19 December 2019 and disclosed to the market on the same day, providing in particular for:

- the transfer to Nexi (by assignment to the subsidiary Nexi Payments) of the Intesa Sanpaolo business line consisting of the acquiring activities currently carried out for over 380,000 points of sale. Intesa Sanpaolo will retain the sale force dedicated to acquiring new customers;
- a long-term partnership, with Nexi to become the sole partner of Intesa Sanpaolo in the acquiring activities and the latter to distribute the acquiring services provided by Nexi while maintaining the relationship with its customers.

Intesa Sanpaolo sold the shares received from the contribution to Nexi and used part of the consideration to purchase shares of Nexi from the latter's reference shareholder, Mercury UK HoldCo Limited, equal to a 9.9% shareholding of Intesa Sanpaolo in the share capital of Nexi. The finalisation of the transaction generated a net capital gain of around 1.1 billion euro for the Intesa Sanpaolo Group's consolidated income statement in the second quarter of 2020. This figure has been calculated including the effect attributable to the difference between the purchase price of the 9.9% of the Nexi share capital and the corresponding value resulting from the stock exchange price of the Nexi shares.

The merger by incorporation of Banca IMI into the Parent Company Intesa Sanpaolo, closed in accordance with the Shareholders' Meeting and Board of Directors' resolutions passed by the two companies and the provisions of the deed of merger dated 19 June 2020, entered into effect on 20 July 2020. The integration of Banca IMI into the Parent Company, with the consequent creation of the new IMI Corporate & Investment Banking Division, is part of Intesa Sanpaolo's 2018-21 Business Plan, as a key driver for its implementation.

The new Division maintains a clear reference to Banca IMI, including at the level of its brand, to emphasise that the integration represents the continuation of a process of excellence that began several years ago and has been further reinforced in order to be optimally positioned to face the challenges that only organisations focused on the future, but with a wealth of solid history behind them, will be capable of overcoming.

The creation of the new IMI Corporate & Investment Banking Division allows the Intesa Sanpaolo Group to serve its corporate, public administration and financial institution customers even more effectively by drawing on a unique business model, specialist expertise and top-tier professionalism, in addition to a brand that represents Italian excellence in capital markets and investment banking and tells a story of essential values and lasting successes. This is in addition to the further reinforcement of an international structure consolidated over the years, based on a network of corporate hubs and branches located in 25 countries worldwide, capable of supporting and assisting customers in their activities outside Italy's borders.

On 5 October 2020 Fideuram – Intesa Sanpaolo Private Banking (Fideuram – ISP PB), the Private Banking Division of the Intesa Sanpaolo Group and REYL & Cie SA (REYL), an independent and diversified banking group headquartered in Geneva, announced they have agreed on the terms of a strategic partnership: Fideuram – ISP PB will acquire a 69% stake in REYL and will contribute its Swiss banking subsidiary, Intesa Sanpaolo Private Bank (Suisse) Morval (ISPBM), to REYL. Following the closing of the transaction – which is subject to the usual regulatory approvals and is expected to be completed by the first half of 2021 – ISPBM will be merged into REYL, creating a sizeable international private banking group, headquartered in Geneva, with close to 400 employees, assets under management of over CHF 18 billion and regulatory shareholders' equity of around CHF 250 million. In addition to Switzerland, the Bank will also be present in the European Union, Latin America, the Middle East and the Far East.

The partnership will enable Fideuram – ISP PB to strengthen its international private banking activities, particularly in promising growth areas, and to continue playing a leading role in the ongoing consolidation of the Swiss financial sector. It also confirms the choice of Switzerland as the headquarter for Fideuram – ISP PB's international private banking operations and adds significant scale to its existing presence in the country. With its distinctive track record, leading domestic private banking footprint and overall financial strength, Fideuram – ISP PB offers REYL a strong cultural fit and multiple growth catalysts whilst safeguarding its entrepreneurial DNA and its innovative business model.

REYL will continue to guide its successful 360° organic growth strategy, centred on delivering innovative solutions to its customers across its five business lines: Wealth Management, Entrepreneur & Family Office Services, Corporate Advisory & Structuring, Asset Services and Asset Management.

Fideuram – ISP PB's and REYL's management have jointly defined a long-term strategic plan, that will provide a robust foundation on which to build a leading business in the coming years. The transaction will bring numerous benefits, including strengthened governance and capitalisation, cross-referrals over all business segments, seeding capital for new product initiatives, and placement, syndication and co-advisory opportunities, in addition to a vastly expanded distribution network.

On 13 October, Intesa Sanpaolo, in cooperation with the EIB Group, launched a new synthetic securitisation of a portfolio of loans amounting to approximately 2 billion euro under the "GARC" (Gestione Attiva Rischio di Credito - Active Credit Risk Management) programme. The operation, which was launched together with the European Investment Fund (EIF) and the European Investment Bank (EIB), is designed to provide new loans at favourable conditions to the Group's SME and micro-enterprise customer base. Through this operation, the Bank continues its efforts to support businesses affected by the emergency caused by the COVID-19 epidemic: the resources made available through the EIF guarantee on the mezzanine tranche will be used to provide new loans to SMEs, including micro-enterprises.



The initiative is primarily intended for investments by businesses involved in the production chains and to support investments in digitisation and sustainability, in order to support the relaunch of Italy's productive economy. This will allow businesses to access new loans for a total amount of 450 million euro, of which 100 million euro have already been stipulated at particularly favourable conditions. The new loans may also be granted in combination with the government decree measures issued to address the pandemic emergency with guarantees from the Central Fund and SACE.

Intesa Sanpaolo supports production chains and supply chain suppliers through its innovative approach to assessing creditworthiness and therefore access to credit through its Sviluppo Filiere Programme – which was conceived at the end of 2017 to ensure the development of the country's production system – by leveraging supply chains which are often made up of outstanding small and medium-sized enterprises, which contribute to making Made in Italy products stand out throughout the world.

The securitisation forms part of Intesa Sanpaolo's dynamic credit risk management initiatives, which aim to optimise the Bank's resources and boost access to credit for SMEs through capital markets.

On 30 October, Intesa Sanpaolo Rent Foryou, a Group company that offers operating rental solutions to manufacturing and distribution businesses and their client companies, was created from the acquisition of Euroconsult RD Spa.

The company was founded to enhance the banking offering for businesses through an innovative, simple and sustainable alternative solution to purchasing and financial leasing. Intesa Sanpaolo Rent Foryou matches supply and demand for rental goods, gives customers rapid access to the latest technology on the market, reduces the risk of obsolescence and provides cost certainty, with fully deductible lease payments. The transaction qualifies as a business combination and has therefore been accounted for using the acquisition method according to IFRS 3.

On 18 November 2020, Intesa Sanpaolo concluded an ordinary share buy-back programme – launched on 16 November 2020 – servicing plans that assigned Intesa Sanpaolo ordinary shares for free to the Group's employees and Financial Advisors covering: (i) the share-based incentive plan for 2019 ("2019 Incentive Plan") reserved for Risk Takers who accrued a bonus in excess of the "materiality threshold", for the recipients of a "particularly high" amount, and for those who, among Middle Management or Professionals that are not Risk Takers, accrued "relevant bonuses"; and (ii) the 2018-2021 Incentive Plan for Financial Advisors of the Fideuram – Intesa Sanpaolo Private Banking and Sanpaolo Invest Networks (the "Fideuram Incentive Plan"), which provides for the use of ordinary shares of the Parent Company Intesa Sanpaolo for the beneficiaries identified as Risk Takers. In addition, the programme has been implemented in order to grant, when certain conditions occur, severance payments upon early termination of employment. The purchases were made in accordance with the terms authorised by the Shareholders' Meeting of Intesa Sanpaolo of 27 April 2020. The subsidiaries involved also concluded their purchase programmes of the Parent Company's shares to be assigned, free of charge, to their employees. The programmes were approved by their respective corporate bodies within their remits and are analogous to the programme approved at the Parent Company's Shareholders' Meeting.

On the three days of execution of the programme (16, 17 and 18 November 2020), the Intesa Sanpaolo Group purchased a total of 25,400,000 Intesa Sanpaolo ordinary shares, through its IMI Corporate & Investment Banking Division, representing approximately 0.13% of the share capital of the Parent Company, at an average purchase price of 1.852 euro per share, for a total countervalue of 47,046,279 euro. The Parent Company purchased 15,606,562 shares at an average purchase price of 1.854 euro per share, for a value of 28,941,497 euro.

On 23 November, UBI Banca signed an agreement with the Aviva Vita Group for the early termination of the partnership in the distribution of life insurance products, through which the Bank had acquired a 20% interest in the share capital of Aviva Vita at a price of around 400 million euro. The agreement also provided for the exercise of the call option held by UBI Banca to purchase the remaining 80% of the share capital of the subsidiary.

A similar agreement was signed on 23 December with the Cattolica Assicurazioni Group with which UBI Banca had life bancassurance agreements in place through the company Lombarda Vita in which the Bank has a 40% stake. This agreement is also aimed at the early termination of the partnership and the exercise of the option by UBI Banca to purchase the remaining 60% of the share capital at a price of between 290 and 300 million euro.

The exercise of the options is subject to the issue of the necessary authorisations by the competent supervisory authorities, and is expected by the end of the second quarter of 2021.

The above agreements were concluded in the light of one of the cornerstones of the UBI Banca integration, namely the distribution of Intesa Sanpaolo Group insurance products to the customers acquired.

Also in November, the ECB – in relation to the Supervisory Review and Evaluation Process (SREP) – announced that in 2021 Intesa Sanpaolo, on a consolidated basis, must continue to meet the capital requirement that was established last year. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.44% under the transitional arrangements for 2020 and 8.63% on a fully loaded basis.

On 15 December and 18 December, two securitisations were completed on portfolios of bad loans of UBI Banca and the Parent Company, previously sold to a vehicle under Law 130/99, worth around 5.1 billion euro gross and around 1.6 billion euro net, which comply with the regulatory requirements for bearing a State guarantee (GACS).

The securitisation vehicles issued senior and subordinated notes amounting, respectively, to 87% and 13% of the portfolio price for the transaction carried out by UBI Banca and 81% and 19% of the portfolio price for the transaction carried out by the Parent Company.

In both cases, the senior notes were fully underwritten, and will be retained by UBI Banca and Intesa Sanpaolo, respectively. These securities, which have received an investment grade rating from specialist agencies, are expected to bear a GACS by the first quarter of 2021.

The subordinated notes, also initially underwritten by UBI Banca and Intesa Sanpaolo, were sold 95% to third-party investors with the remaining 5% retained in compliance with current regulatory requirements in order to obtain full accounting and regulatory derecognition of the portfolio.

On 18 December, the Board of Directors of Intesa Sanpaolo, in line with the 2018-2021 Business Plan and the announcement made at the time of the Public Exchange Offer for UBI Banca, approved the start of the preparations for the execution of a series of transactions for the disposal, in 2021, of portfolios of loans classified as “bad loans” and “unlikely-to-pay” (UTP). As at 31 December 2020, these portfolios had a gross book value of 5.9 billion euro. In accordance with IFRS 5 and Intesa Sanpaolo’s accounting policies, the portfolios to be sold, relating to loans of the Parent Company, the UBI Group and Intesa Sanpaolo Provis, have been reclassified in the 2020 financial statements to assets held for sale, aligning their net carrying amount to their estimated realisable price upon sale, also based on specific fairness opinions, which, for the loans of the UBI Group, correspond to the fair values determined during the PPA.

Lastly, as part of the broader project aimed at focusing on core business and strengthening the Private Banking Division’s international operations, on 18 December 2020, the Board of Directors of ISP approved a transaction involving the sale by Fideuram Bank Luxembourg (below “FBL”) of the going concern related to the Custodian Bank, Fund Administration and accompanying services, together with the related contracts and staff. The sale of this going concern will allow FBL to refocus its activities on the core business of managing international retail customers, while reducing operational risks by outsourcing those services. The transaction is expected to be completed by the first half of 2021, subject to the necessary authorisations from the competent authorities. For the 2020 Financial Statements, the assets and liabilities pertaining to this going concern have been classified under non-current assets held for sale and discontinued operations and associated liabilities.

With regard to the events occurring after the end of the year – in addition to the above-mentioned developments related to the acquisition and integration of UBI Banca – on 8 February 2021 Intesa Sanpaolo Vita signed a memorandum of understanding with BNP Paribas Cardif, which contains the essential elements of a subsequent definitive agreement that will govern the acquisition of 100% of Cargeas Assicurazioni S.p.A., a non-life insurance company operating in the bancassurance sector, mainly through UBI Banca’s banking network.

Cargeas recorded Non-Life Premium Income of around 226 million euro in 2020, through the sale of solutions in the motor, property, health, credit protection, company and income protection segments, with around 600,000 customers throughout Italy.

The transaction is expected to be completed by the first half of 2021 and is subject to the necessary authorisations from the competent authorities.

The purchase price of 390 million euro will be paid in full upon completion of the transaction.

This initiative, which is consistent with Intesa Sanpaolo’s strategy for growth in the non-life insurance business, is expected to generate significant synergies, in addition to alignment with the Intesa Sanpaolo Group’s standards in terms of Corporate Governance, Risk Control and service levels.

BNP Paribas Cardif remains active in the global provision of insurance services, including non-life business in Italy and will continue to offer the full range of products for both the BNP Paribas Group and other partners.

On 23 February 2021, as part of the broader strategy of focusing more on its core business, Fideuram – Intesa Sanpaolo Private Banking signed an agreement with State Street Bank International GmbH (Luxembourg Branch) for the latter to take over the custodian bank and fund administrator activities currently carried out by its subsidiary Fideuram Bank Luxembourg.

The custodian bank and fund administrator functions taken on by State Street represent around 42 billion euro of assets under management that will remain with the Fideuram – Intesa Sanpaolo Private Banking Group.

Fideuram – Intesa Sanpaolo Private Banking is assigning these services to State Street, in recognition of its ability to reduce operational risks, support the Group’s growth plans, foster continuity and provide a high quality service, in keeping with its position as the main international partner that Intesa Sanpaolo Group has used for its securities services since 2010.

The completion of the transaction, which is subject to the necessary authorisations from the competent authorities, is expected by the end of June 2021.

## The progress of the 2018-2021 Business Plan

The 2018-2021 Business Plan seeks to maintain solid and sustainable value creation and distribution for Shareholders and to build the number 1 Bank in Europe.

The Group also aims to strengthen its leadership in Corporate Social Responsibility and leave a positive impact on society, while also increasing its own internal inclusion, without any discrimination.

In a new highly digitalised and competitive world, the Bank will continue to pursue its goals by leveraging its values and the proven ability of a results oriented delivery machine.

The pillars of the 2018-2021 Business Plan are:

- Significant de-risking at no cost to Shareholders;
- Cost reduction through further simplification of the operating model;
- Revenue growth capturing new business opportunities.

The enablers are our people, who continue to be Intesa Sanpaolo’s most important resource, and the completion of the digital transformation.

## De-risking

De-risking is the first pillar of the Business Plan, through which the Group aims to reduce the level of gross non-performing loans as a proportion of total loans, at no cost to Shareholders, as well as the development of specific Credit Strategies, at the origination stage, designed to direct the development and composition of the loan portfolio towards a risk/return profile that is recognised as optimal over the medium/long-term and consistent with the risk appetite and value creation for the Group.

Different instruments are used by the Group based on the degree of risk and type of customer.

With regard to the management of bad loans, the partnership with Intrum has helped to reduce their size in absolute and relative terms, also by improving the efficiency of the operational KPIs used for performance monitoring.

The Group has already achieved the target, one year ahead of schedule, for the reduction of non-performing loans set in the Business Plan for the entire four-year period 2018-21. Non-performing loans before adjustments amounted to 20.5 billion euro, excluding the contribution of UBI Banca (-31.6 billion euro since the beginning of the Plan), bringing the ratio of non-performing loans (before adjustments) to total loans to 4.9% excluding the contribution of UBI Banca (11.9% at the beginning of the Plan) and 4.4% including its contribution. The cost of risk stood at 104 basis points (50 basis points excluding the contribution of UBI Banca and the provisions for future impacts of COVID-19).

With regard to the containment of UTPs, from the first half of 2020 the proactive management of loans to businesses has been aided by the partnership with Prelios. At the end of the year, the gross stock of Corporate and SME UTPs fell to 7.1 billion euro (7.7 billion euro in 2019).

In order to strengthen its credit management models, the Intesa Sanpaolo Group has set up the internal Pulse unit to effectively manage past due payments for the retail segment, by identifying the reasons for the loan repayment difficulties, speeding up the process of recovering arrears and supporting the remediation of the positions, also by proposing negotiation strategies to customers using decision trees. During the year, its activities were extended to include the granting of moratoria to customers in difficulty due to circumstances connected with COVID-19, a service previously only provided by the branches of the Banca dei Territori Division.

Lastly, the Active Credit Portfolio Steering Department is responsible for the active risk management of the loan portfolio, in particular by implementing credit risk projects and hedging transactions aimed at reducing RWAs and extending the application of specific pricing adjustments to direct the strategy of new disbursements towards sectors with a better risk/return profile (Credit Strategies Adjustment).

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## Cost reduction

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Cost reduction is the Second Pillar of the 2018-2020 Business Plan, through which the Group aims to reduce the level of both fixed and variable costs on the income statement.

The staff reduction and renewal project sets a series of coordinated objectives in terms of reduction in labour costs, reskilling and staff renewal. In 2020, personnel expenses came to 5.531 billion euro, net of 608 million euro relating to UBI, (-217 million euro compared to the same period in 2019). On a like-for-like basis (net of the UBI Group), the workforce decreased to 86,141 (-11,259 since the start of the Plan). During the year, the reskilling process involved over 1,428 people (4,456 since the beginning of the Plan), while the renewal process resulted in the hiring of over 350 specialist professionals (around 1,200 since the beginning of the Plan). With regard to professional profiles with flexible work employment contracts, there are around 400 contracts and around 300 internships in place.

Within the framework of the strategic guidelines for the integration of UBI Banca into the Group, Intesa Sanpaolo – as already stated – has reached an agreement with the trade unions on the basis of which it accepted more than 7,200 applications for voluntary exit due to retirement or access to the Solidarity Fund by December 2023 and at the same time planned 3,500 hires by the first half of 2024. Another 5,107 people of the UBI Group are included in the branches of the going concern to be sold to BPER Banca.

The Branch strategy project involves the streamlining of the network of bank branches and their supplementation with alternative physical and virtual channels and non-captive networks. The number of retail branches fell to 2,940 in 2020 (-1,096 since the start of the Plan).

With regard to the alternative channels, work continued on the renovation of the self-banking services (ATMs, cash and deposit machines, self-service tills) and development of virtual operations by strengthening both the Online Branch and the Remote Relationship Manager.

In relation to the integration with non-captive networks, the Group has implemented a series of initiatives to expand its partnership with Poste Italiane, while the agreement between SisalPay and Banca 5 has led to the creation of Mooney, which is Italy's leading Proximity Banking & Payments company with over 45,000 points of sale nationwide.

Overall, the Branch strategy activities made it possible to extend the Group's coverage to 96% of the Italian population.

The Real estate scale back project aims to reduce the costs incurred for real estate properties through the disposal of redundant spaces, transfer to less costly locations, and renegotiation of leases for existing premises.

The process of corporate simplification continued with the merger of Banca IMI into the Parent Company in July, successfully completing the programme of corporate consolidations identified in the Business Plan.

Lastly, the plan to reduce administrative expenses fosters the achievement of ICT synergies, the improvement in the efficiency of structure costs, the control of advisory fees, the centralisation of purchasing decisions, and the extension of internal best practice to the International Subsidiary Banks.

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## Revenues

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The third pillar of the Business Plan seeks to increase Operating Income by capturing significant business opportunities in all the Divisions.

To achieve its objective of becoming one of the top four Italian P&C insurance companies and the first in retail non-motor, the Group is constantly renewing its strategies for the product mix and pricing and is continuing to develop the skills aimed at providing a top quality service to customers.

The integration is continuing for RBM Salute, whose acquisition – as already stated above – was completed in May: Intesa Sanpaolo Vita acquired 50% +1 share of RBM Assicurazione Salute and plans to increase its shareholding up to 100% of the share capital, progressively from 2026 to 2029. This transaction will enable the Group to significantly strengthen its position in the Healthcare business and, to this end, it is working to continuously improve the level of service offered to customers.

In the acute phase of the health emergency, Intesa Sanpaolo demonstrated its commitment to its customers by updating its offering to meet new insurance cover needs: cover for some customers already insured in the health and financing sector was extended and a new Collective Pandemic Policy was launched to protect companies and their employees.

The focus continued on the non-motor offering for retail and SME customers, which also included updating the health, home and accident modules of the “XME Protezione” policy.

The new service model provides for the re-evaluation of the central role of the relationship manager, whose expertise in insurance is ensured through specific training and coaching programmes. The efficiency improvement of processes is continuing through the dematerialisation of documents, which has already been completed for the motor sector.

With a view to the international growth of the Private Banking Division, a strategic partnership has been established with Reyl, a Swiss asset management bank. This initiative is part of the broader process of strengthening and repositioning the Division’s international operations, particularly in Switzerland, the main market for international business. Once the acquisition has been completed, Fideuram-Intesa Sanpaolo Private Banking will bring the assets under management in Switzerland to over CHF 18 billion. In the final months of the year, the applications were sent to the regulatory bodies for the necessary authorisations to start the integration process.

The Division’s international growth has also been boosted by launching the Advisory services in Latin America, making the product offering for the Middle East market fully operational and developing the target service and operating model for the Luxembourg operations. In Italy, since the start of the Plan, the sales network of the Private Bankers has been strengthened by adding around 720 professionals and expanding the use of flexible banking employment contracts.

Innovative products were successfully marketed, with placements higher than expected, including several portfolio management schemes and alternative funds.

The service models are being upgraded for the various customer segments of Intesa Sanpaolo Private Banking and Fideuram, expanding the HNWI (High Net Worth Individual) structure for Private Banking and defining differentiated service models for each customer segment for Fideuram.

Finally, the development of the multichannel home banking services continued for both Fideuram and Intesa Sanpaolo Private Banking, which led to a significant increase in operations through digital platforms.

With regard to asset management, the Group’s product unit provides ongoing support to the business structures by developing products that meet the needs and investment objectives expressed by the various customer segments. For example, for retail customers, products have been designed for the enhancement of liquidity also through gradual entry into the stock market and currency diversification. The ability to carry out transactions (subscription and post-sale) in Eurizon mutual funds through the dedicated app for investments also became fully operational.

The strengthening continued of “Valore Insieme”, the advanced advisory service developed to leverage the Group’s specific expertise in managing the investment, insurance, real estate and succession needs of customers: over 100,000 contracts were in place at the end of December.

The development of new digital services led to the release, from July, of “Smart Save”, the first “Risparmio Digitale” service for investing in mutual funds via app.

The evolution of the distribution strategy aims to strengthen the deployment of the flexible work employment contract, expand the offering for institutional customers, continue the expansion of the partnership with the Poste Group and develop Eurizon Capital’s international presence, also by opening a branch in Spain and the strengthening the presence in Hong Kong.

The Banca dei Territori Division’s strategy for SMEs is aimed at supporting them in their process of growth, particularly through the digitalisation of the product mix: several solutions are being adopted to support the development of remote customer relationships, both during and after sale. The offering for businesses is continuously being developed with new products also connected to the current circumstances, such as those relating to tax bonuses for construction. An offering has been launched to support businesses in carrying out energy/seismic renovation work, enabling the transfer of tax credits resulting from the rules introduced by the “Rilancio” Decree, which allows for an increase to 110% of the deduction for expenses relating to energy efficiency improvements and reduction of earthquake risk. The development also continued of insurance products aimed at business customers, also taking into account the new cover needs related to the health emergency. Activities in the area of loans included the support for the liquidity of companies during the lockdown period, the continuation of the Basket Bond programme and the opening of the Circular Economy Plafond to green investments. The focus on new entrepreneurship and innovative start-ups also continued.

The strengthening of extraordinary finance continued, also through the subscription of 12 bonds under the Basket Bond programme, together with the support for the international expansion of businesses, through the work of dedicated specialists, using an approach that is not only commercial, but is also based on providing advice and guidance. Of particular importance, in this regard, is the participation in trade fairs and the organisation of thematic events, which can be a significant opportunity for customers to develop a network of international relations to help develop business ideas.

The development continued of non-financial services in the areas of welfare, corporate travel management, digitalisation and networking, and distance learning. With regard to the supply of capital goods, a commercial company dedicated to their rental has been set up, with the involvement of the Branch network and the ISP Forvalue network for the affiliation of suppliers of goods and services. The continued development of the “Dialogo Industriale” platform is enabling relationship managers to liaise with entrepreneurs on an increasingly informed and effective basis, improving their ability to listen and understand customer needs, also by expanding the information assets supporting the action strategy for a sustainable post-emergency recovery.

To develop international business, the IMI Corporate & Investment Banking Division (IMI C&IB), in addition to enhancing the marketing for selected customers, completed the hiring of 74 specialists and is identifying other priority positions to be filled in order to strengthen the coverage and skills of the international network.

Another important objective for the IMI C&IB Division is the strengthening of its leadership position in the Italian market. This included the continued monitoring of commercial initiatives, in synergy with the Banca dei Territori Division and the Governance structures, also to develop support measures for businesses most impacted by the COVID-19 emergency, together with the strengthening of the Confirming initiative in support of Italian business sectors, to promote growth and innovation projects. The Originate to Share model is operational and the relationships continued with a selected number of counterparties, with regard to both origination and distribution, for the establishment of collaboration and partnership agreements to the extent possible in the current market scenario.



Work also continued on the development of a new strategy for the International Subsidiary Banks, aimed at optimising the international presence, maximising synergies within the Group and continuing the digital evolution.

Within the process of extending the HUB approach, the repositioning of Intesa Sanpaolo Bank Slovenia in the SEE HUB continued, with the activation of digital and CRM services for all customers. Work is also continuing on aligning the operating model and strengthening commercial synergies for the EC HUB. Implementation of the repositioning plan in Ukraine also continued. The progress of the activities is in line with the new priorities established in 2020 in light of COVID-19.

The pilot phase for the adoption of a new Core Banking System (Constellation) in the Czech Republic has been completed and a feasibility study has been launched to identify the best approach for its development in Slovakia.

A new service and operational model for IT is currently being developed for the International Subsidiary Banks and the Group's target distribution model is being extended to Slovakia, Croatia, Serbia, Hungary, Slovenia, Romania, Albania and Bosnia.

The adoption of the advanced advisory model in wealth management has been progressively extended to the customer segments with more sophisticated investment needs. The activation of new functionalities and services of the digital channels is also continuing at the participating banks (Croatia, Hungary, Egypt, Albania and Slovenia) and initiatives have been implemented to encourage the use of digital services during the health emergency.

With regard to the development of the wealth management services in China, after having obtained the license for the distribution of mutual funds and the business permit, Yi Tsai has started its business activities. The first phase consisted of the start of the execution only sale of products via app and the implementation of a smart advice system, based on an omnichannel relationship between financial advisors and customers. The sales network in Qingdao has been expanded and recruitment has begun in two more cities (Beijing and Jinan).

With regard to the establishment of the security company, the procedure with the Bank of Italy/ECB to obtain authorisation to operate in China has been completed and the application submitted to the Chinese regulator CSRC for the necessary licences has been approved.

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## People and Digital Transformation

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The Group constantly implements a series of initiatives dedicated to its personnel, who are considered to be Intesa Sanpaolo's most important resource.

The People Care project aims to ensure, at Group level, the effective design, implementation and - where necessary - direct management of services and initiatives aimed at improving quality of life and well-being within the company, by enhancing employee engagement and sense of belonging.

Since the launch of the initiative, a process has begun, which involves, on the one hand, increasing customisation of the personal care services, and, on the other hand, the introduction of other completely new initiatives for Intesa Sanpaolo. The first was Consultation and Support, a psychological support service provided remotely, 24/7, in partnership with specialist institutions and companies. Launched at the end of 2019 on a pilot basis, the Consultation and Support service has been extended since March to cover the entire company population in Italy, also in relation to the Coronavirus emergency and the sudden consequent lockdown.

The second and most recent innovation is the launch of CareLab, a portal dedicated to personal wellbeing that provides access to multimedia content, instruments and initiatives to promote or consolidate healthy lifestyles and habits, created by experts and are divided into three areas: Nutrition, Movement, and Energy and Emotional Wellbeing. Around 25,000 Group employees have used the services offered so far.

Implementation is also continuing of the Diversity & Inclusion project, aimed at creating equal opportunities and promoting strong engagement among the staff: the objective is to support greater inclusion and create the conditions for the full empowerment of women and people with various disabilities and for the effective reintegration of employees who have been absent from work for a long time. The drafting of a rules document on sexual harassment issues has also been initiated.

The job rotation continued for the approximately 250 people involved in the various editions of the International Talent Program aimed at developing the next generation of middle management through training programs, managerial mentoring and personalised career paths.

The enhancement of employee skills was implemented by providing around 11.8 million training hours during the year, an increase of around 10% compared to last year. Major investments in training enabled the extension of the digital training offering to all Group employees: the introduction of new information content (around 2,500 learning objects added during the year, over 8,000 in total) has provided greater access to the training platforms (Appendo, MyLa App for the staff of Banca dei Territori and the Management School App).

As already noted, the use of remote working was strengthened in response to the COVID-19 emergency and has shown itself to be a successful model of work organisation, in addition to being an effective intervention tool: organisational processes have been revised and specific regulations have been adopted, together with technological and IT measures, to enable the extension of remote working within the Group, also to the staff of the Local Network and the Online Branches. To date, around 65,500 staff (around 80,500 with UBI Banca) have access to this innovative way of working.

On the Personnel management front, a progressive digital transformation of HR services is underway, which involves a review of management models and processes, focusing on dematerialisation and centralisation of administrative procedures.

Lastly, the process is continuing for the implementation of the Strategic Succession Management Model, whose primary goal is to ensure managerial continuity for the roles of responsibility within the Group, with a view to ensuring business continuity, while also enabling the development of Management by proactively identifying the best people in advance in the different managerial levels and job areas in order to promote their development through targeted actions.

The Business Plan envisages significant investments in Digital Transformation in all the Group's areas of operations, with a particular focus on developing multichannel, self-banking and remote services, expanding the use of remote working, strengthening cybersecurity, developing data management, and the digital redesign of business processes (sales, credit, transaction and governance).

With regard to the distribution channels, the figures for 2020 confirm the increasing spread of digital services in terms of customers, products and sales. There are around 10.3 million multi-channel customers (over 12 million with UBI Banca), 6.5 million users of the Banking App (over 7 million including the UBI Banca App) and 57,600 Online Branch customers.

The products available on multi-channel platforms account for around 85% of the offering. Sales through remote channels, also due to the COVID-19 emergency, rose to 26.4% of the total (from 9.2% in 2019).

The extension also continued of the target cybersecurity model, which currently comprises 42 Group companies.

The data management projects, in particular the advanced analytics and artificial intelligence projects, pursue objectives strictly coordinated with commercial objectives, such as service customisation, process automation (for example for the Robot Process Automation for asset management) and the mitigation of credit risk (de-risking).

As a result of the Group's high level of digitisation (60% of total operations at the end of 2020), we were able to respond effectively to the COVID-19 emergency through extraordinary measures, including the already mentioned acceleration of the adoption of remote working, the strengthening market access infrastructure to handle high peaks in online activities and a series of specific initiatives to strengthen remote operations.

To promote innovation within the Group, a number of initiatives have been launched whose aims include identifying the most important trends in technology and finance, setting the efficiency threshold for investments and using new service design methods for project implementation. Lastly, special attention is given to the monitoring of the Fintech Ecosystem, to identify best practices and potential partners for the development of high-tech products and services.

## Sustainability

The COVID-19 health emergency that hit Italy, Europe and much of the world in 2020 has triggered radical social, economic and financial change. In this scenario, thanks above all to its financial solidity, the Intesa Sanpaolo Group has been able to strengthen its role as a social accelerator, reaffirming its commitment to supporting Italy's revival and growth. Strong roots in local communities and commitment to pursuing a strategy focused on sustainability were the two pillars underpinning successful completion during the year of the merger with UBI Banca, which is also committed to supporting Italy's economy and able to support Intesa Sanpaolo's commitment to sustainable and inclusive growth.

The 2020 results enabled Intesa Sanpaolo to create sustainable value for all its stakeholders, in line with the commitments made in the 2018-2021 Business Plan and confirming that it is also a reference model in the areas of social, cultural and environmental sustainability, as also demonstrated by its positioning in the main sustainability indices and rankings. Indeed, Intesa Sanpaolo is included in the Dow Jones World and Europe Sustainability Indices, the Refinitiv Diversity and Inclusion Top 100 Index, the CDP Leadership Band with an A- rating, and the Corporate Knights ranking of the world's 100 most sustainable companies.

The Group's commitment to sustainability is also expressed through its participation in a series of international initiatives, including the UNEP FI's Principles for Responsible Banking, the UN Sustainable Development Goals, the Principles for Sustainable Insurance, signed up to by Intesa Sanpaolo Vita, and the Principles for Responsible Investment (PRI) signed up to by Eurizon already in 2015 and by Fideuram Asset Management SGR and Fideuram Asset Management (Ireland) at the beginning of 2021.

The internal Programme, ISP4ESG, launched at the end of 2019 and aimed at consolidating Intesa Sanpaolo's leadership in sustainability, by gaining a better understanding of the evolving external environment and responding more and more effectively to our stakeholders' expectations, mainly focused on Governance and Sustainable Credit in 2020. With regard to the first area, the ESG Control Room has been set up, which plays an important role in supporting the Steering Committee in the strategic planning for ESG issues and in the operational coordination for the implementation of initiatives by the Divisions/Governance Areas. The ESG Control Room is supported by a dedicated organisational structure, created by introducing the role of Sustainability Manager (SM) for each Division/Governance Area. With regard to Sustainable Credit, an ESG sector mapping of the Group's loan portfolio was carried out, developing a proprietary borrower aggregation framework aligned to market best practices and designed to meet the rapidly changing regulatory requirements.

The Bank has confirmed its role as a driving force for Italy's real economy and sustainable and inclusive development, disbursing approximately 87 billion euro in 2020 in new medium-/long-term loans (over 205 since 2018), of which approximately 77 billion euro disbursed in Italy, with around 63 billion euro granted to households and SMEs. In addition, the Group facilitated the return from non-performing to performing status of around 11,500 Italian companies, with a positive impact on employment through the protection of approximately 57,000 jobs. The Group's status as one of the most solid and profitable institutions in Europe has enabled it to provide innovative and effective instruments capable of generating a positive and inclusive impact on society as a whole.

## Financial inclusion and supporting production

The COVID-19 pandemic that marked 2020 has exacerbated existing economic and social inequalities. In 2020, around 37.2 billion euro of high-social-impact loans were disbursed (42.5% of total disbursements), of which around 32 billion euro in support of business and industry during the health emergency.

In particular, Intesa Sanpaolo acted promptly to support the real economy, through moratoria – including renewals – on loans for households and businesses for around 73 billion euro (the first bank in Italy to launch this initiative before the regulations came into force), providing 21 billion euro in government-backed loans, 9 billion euro in loans backed by a SACE guarantee, and 50 billion euro in loans to support businesses and professionals, helping to protect jobs and enable the management of payments during the emergency.

One of the main initiatives in support of local communities to cope with the pandemic is the "Rinascimento" Programme, which includes grants and impact loans to micro-enterprises and start-ups, to enable them to recover and readapt their business model for the post-COVID-19 period, through innovative projects aimed at strengthening economic and social growth and



community cohesion. This programme involved the areas of Bergamo (initiatives for a total value of 30 million euro, in partnership with the city) and Florence (50 million euro, in partnership with the Fondazione CR Firenze).

The core of Intesa Sanpaolo's commitment to Italy's growth continues to be the focus on financial inclusion. In its 2018-2021 Business Plan, Intesa Sanpaolo set itself the goal of becoming the world's leading Impact Bank and, to this end, the Fund for Impact enables the disbursement of 1.25 billion euro to categories of society that have difficulty in accessing credit despite their potential. The first initiative launched through the Fund for Impact was "per Merito", an unsecured loan aimed at young university students living in Italy, which disbursed 51.5 million euro in 2020 (90.6 million euro since the start of the programme in 2019). New types of loans were introduced during the year: the first aimed at working mothers, Mamma@work (236,000 euro disbursed in 2020), to support them in their financial commitments after maternity leave; the second, XME Studio Station, is a loan for families with children who are studying through distance learning, to fund the purchase of computers and internet connectivity (1.2 million euro disbursed in 2020). Lastly, two new initiatives were announced in 2020, to support working mothers in India and people over 50 who have lost their jobs or have difficulty accessing pension schemes.

In 2020, the Group supported households and businesses affected by earthquakes and other natural disasters by suspending mortgages on affected properties for a total of around 500 million euro and providing subsidised loans of over 163 million euro (around 497 million euro since 2018).

Around 470 million euro was also granted to support social enterprises and the non-profit sector.

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### Promoting jobs and the right to education

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Intesa Sanpaolo has always been keen to invest in young people, also with a view to promoting jobs and the right to education, which represent key values for the Group, because they are aimed at reducing social inequalities, promoting talent, creating new jobs and therefore contributing to Italy's growth and economic development. In collaboration with Generation Italy, the Bank launched the "Giovani e Lavoro" (youth and work) programme aimed at offering free training courses, over several years, to 5,000 young people aged between 18 and 29 who do not have a job, in order to help them gain the skills needed by companies and enable them to find companies that are looking to hire young people (hiring target of at least 75-80%). The programme, launched in the geographical areas with the greatest potential for development, starting in 2019 with Naples, Rome and Milan, has so far attracted 15,000 young candidates, with over 1,500 students accepted on the courses, with a recruitment rate of 80% for the initial graduating students, with the involvement of over 1,400 companies through locally-based meetings. The Giovani e Lavoro initiative is also geared towards involving Group staff in encouraging participation by corporate customers in the communities covered by the project.

The COVID-19 health emergency did not stop the programme, with 740 young people attending lessons in 2020. The courses were remodelled and delivered remotely and a new module on Hi-Tech Industry 4.0 was added to the training programme. Another key training initiative is "P Tech" by the IBM Foundation, in which the Intesa Sanpaolo Group is collaborating to combat school dropout. The project is currently running in the province of Taranto with a programme that begins in the third year of secondary school and takes students through six years of highly specialised training consisting of seminars and theme-based workshops aimed at finding work.

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### Innovation and digital transformation

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Digitalisation and multi-channel services are strategic factors for the Group, reflecting the importance of anticipating the growing trends in these areas. In 2020, also as a result of the health emergency, Intesa Sanpaolo accelerated the digital transformation to enable all the Group's customers and employees to operate remotely in a fully effective, efficient and safe manner. The Bank's operations are supported by cybersecurity activities that already meet the best international standards and are certified by national authorities, protecting the interests and rights of our customers thanks to substantial investment in technology and continuous oversight of the Bank's information assets. The care given to relationships and the excellence of the services offered have enabled the Group to establish itself as Italy's leading digital bank and one of the top three banks in Europe with around 10.3 million multichannel customers, representing around 88% of total customers.

The challenge of innovation in Italy plays a major role for the development of the new economy. In 2020, the Group continued its start-up development and enhancement programme, analysing around 1,400 start-ups (around 2,650 since 2018) and activating 8 acceleration programs (implemented online due to COVID-19) for 155 start-ups (around 390 since 2018) which were presented to selected investors and other players in the ecosystem (around 5,600 at the end of 2020). From the earliest days of the pandemic, the Group, through the Intesa Sanpaolo Innovation Center, supported the research efforts of the Sacco Hospital in Milan by immediately providing expertise and technology for the genomic sequencing and mapping of COVID-19.

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### Sustainable investment products and sustainable insurance

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Intesa Sanpaolo is also committed to further strengthening its offering of sustainable investment products, which combine financial criteria with environmental, social and governance (ESG<sup>10</sup>) aspects. Specifically, Eurizon has 55 funds focused on this type of investment. Following the launch, in 2018, of the Eurizon Absolute Green Bonds Fund, the first fund managed by an Italian asset manager specialising in the international bond markets that makes it possible to finance projects connected with the environment, Eurizon Global Trends 40 (consisting of three equity sub-funds that invest in companies that are sensitive to protection of the planet, human wellbeing and technological innovation) was launched at the end of 2019. In addition, 12 new products were developed in 2020, including the new megatrend mutual funds of the Eurizon Planet, Eurizon People and Eurizon Innovation line.

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<sup>10</sup> Environmental, Social and Governance.

At the end of 2020, the total assets of Ethical and ESG funds managed by Eurizon and Fideuram amounted to 18.4 billion euro.

On the insurance front, the commitment to sustainability continues to underpin the Group's operations: to encourage the integration of ESG principles within the organisation, while also strengthening its market positioning as a sustainable player, the Insurance Division has adopted its own Sustainability Policy, setting guidelines for promoting a responsible and sustainable business model.

With regard to the product offerings on the market during the year, Fideuram Vita launched the new Fideuram Millennials sub-fund, within the Fideuram Pension Fund, entirely based on ESG investment criteria and modified the investment policy of the open pension fund to include exclusion criteria for investments in certain sectors and countries.

In the Healthcare sector – as already mentioned – the acquisition of RBM Salute (now Intesa Sanpaolo RBM Salute), a leader in this business segment, was completed in 2020. Intesa Sanpaolo RBM Salute's offering includes high social impact ESG products, such as Tutto Salute, a modular product designed to protect categories of customers not normally recognised in national employment contracts (e.g. interns, housewives, etc.).

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### Contributions to the community

With the COVID-19 pandemic, Italy, Europe and, to a large extent, the entire world were simultaneously hit by four very serious crises: health, economic, financial and social.

In keeping with its commitment to social issues, the Group has made over 184 million euro in monetary contributions to society, including – as already noted – 100 million euro donated during the first phase of the health emergency to support the National Health Service and 10 million euro to the Dioceses of Bergamo and Brescia to support families in financial and social difficulty.

In 2020, the Charity Allowance, through which the Bank allocates a part of its profits to support solidarity, social welfare and human value projects, performed its social role in combating poverty and vulnerability, exacerbated by the health emergency, disbursing over 16 million euro.

One of the major projects involved combating poverty, which, by providing support to charitable organisations and associations, in the period 2018-2020, enabled the distribution of 16.1 million meals and the provision of over 994,000 beds, around 228,000 medicines and 178,000 items of clothing.

Particular attention has been paid to children through local collaborations and projects, including the Intesa Sanpaolo Program for long-term inpatients, with the launch of the WE-CONNECTED! project, developed jointly by Intesa Sanpaolo and Intesa Sanpaolo Vita.

In addition, For Funding played an important role in the initial phase of the health emergency, during which a fundraising event in support of the Department of Civil Protection and other initiatives related to the health emergency were hosted on the platform, raising donations totalling over 3.5 million euro.

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### Support for the green economy and the circular economy

Intesa Sanpaolo maintained its strong focus on supporting the green economy and the circular economy, for which loans totalling over 2.5 billion euro were disbursed corresponding to 2.9% of the total disbursements.

Specifically, the Bank's commitment to the circular economy – developed in partnership with the Ellen MacArthur Foundation – involved the establishment, for the period 2018-2021, of a dedicated credit plafond of 5 billion euro (subsequently increased to a total of 6 billion euro following the integration of the UBI Group) and the issuance in 2019 of the green bond focused on the circular economy for 750 million euro. In 2020, disbursements from the plafond totalled around 1.5 billion euro (2.2 billion euro since the launch of the plafond).

In 2017, Intesa Sanpaolo was the first Italian bank to issue a green bond, for an overall amount of 500 million euro to finance projects dedicated to renewable energy and energy efficiency in particular. The proceeds of the green bond financed 76 projects with annual savings of around 460 thousand tonnes of CO<sub>2</sub> emissions.

In February 2021 Intesa Sanpaolo placed a third green bond for 1.25 billion euro, which received considerable interest from investors. Demand for the bond exceeded 3.5 billion euro.

In January 2020, the Group pledged to provide a programme of disbursements of 50 billion euro in Italy over the coming years, in support of the European Green New Deal. In this context, with a view to the creation of solutions for the ESG transition of enterprises, the Bank has developed the S-Loan, through which it supports SMEs by identifying specific ESG KPIs, agreeing sustainability improvement objectives with the borrower firms. A dedicated plafond of 2 billion euro has been allocated for this new loan and 130 million euro was disbursed in 2020.

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### The Group's People

As stated in the paragraph on the Business Plan, the results achieved in the complex environment of 2020 were possible thanks to the contribution of the people who work for Intesa Sanpaolo, who continue to be the Group's key resource. Helping them to develop and strengthening their sense of belonging are crucial to achieving the Group's strategic objectives.

The Bank responded very rapidly to the emergency, quickly setting up large-scale use of remote working for around 65,500 people (around 80,500 with UBI Banca) to allow employees to work safely and ensure business continuity. Thanks to digital technology, the Bank was able to quickly reorganise remote activities and encourage flexible training, which has been extended to all employees in the Network. Around 11.8 million hours of training were provided in 2020 (of which over 11 million through distance learning), with active users representing around 97% of the workforce.

In 2020, a voluntary flu and pneumococcal vaccination campaign was launched for Group staff, which offered them the option of receiving either both or just one of the vaccines.

In order to make its commitment to valuing diversity, promoting policies of inclusion and combating all forms of discrimination even clearer and more concrete, in 2020, following the creation of a dedicated structure in 2018, the Group published the Principles on Diversity & Inclusion and set up the D&I Operating Committee, responsible for coordinating, discussing and agreeing Diversity & Inclusion initiatives with all the Structures.

To promote female talent and foster the creation of fair and inclusive working environments, initiatives for the development of female professionals and managers continued in 2020, including job rotation programmes, shadowing and training for female empowerment.

In line with previous years, and with the support of the Welfare, Safety and Sustainable Development Committee, numerous initiatives were implemented to promote issues related to organisational wellbeing, disability and to help employees at particular times in their private and/or working lives, such as the programme for people on long-term absences, aimed at forging a close relationship during their absence and promoting their successful return to work.

As part of the company welfare initiatives, CareLab was introduced in 2020, an integrated virtual system of content, tools and initiatives focused on three areas: nutrition, movement, energy and emotional wellbeing, aimed at supporting them in the complex emergency situation.

In 2020, a KPI, equal to 10% of the overall assessment, was also included in the performance scorecards of over 1,200 managers, dedicated to enhancing female talent, expanding the scope of the 1,100 managers involved in 2019.

Following the integration of the UBI Group, voluntary exits were agreed – as already mentioned – for around 7,200 Group personnel, against which 3,500 new employees will be hired with the aim of protecting jobs, encouraging the professional development of individuals and ensuring generational change.

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## Task Force on Climate-Related Financial Disclosures

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Since October 2018, the Intesa Sanpaolo Group has supported the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), to identify, assess and manage the risks and opportunities linked to climate change, committing itself to providing transparent reporting on this subject. The key aspects are presented below and these are discussed in detail in the Consolidated Non-financial Statement and, for the governance aspects, in the Report on Corporate Governance and Ownership Structures.

### Governance

The Managing Director and CEO submits the establishment of strategic guidelines and policies on sustainability (ESG), including combating climate change, to the relevant Board Committees and to the Board of Directors, with the support of the Steering Committee. The Board of Directors approves the strategic guidelines and policies on sustainability (ESG) – with the support of the Risk Committee – taking into account the objectives of solid and sustainable creation and distribution of value for all stakeholders, including the environment as stated in the Group's Code of Ethics. In addition, the Steering Committee – composed of the top management – meets at least quarterly to examine sustainability issues (ESG). To support the Steering Committee in its task of identifying ESG initiatives and prioritising them according to their strategic relevance, an ESG Control Room was set up in 2020, chaired by the Chief Financial Officer and the Head of the Strategic Support Head Office Department, with the role of support in developing the strategic proposition for ESG issues and operational coordination of the implementation of the initiatives.

In confirmation of its commitment to the environment, the Group, which is already a supporter of the United Nations' Sustainable Development Goals, a subscriber to the Equator Principles (EP) and a member of UNEP FI, has also subscribed to the Principles for Responsible Investment (PRI), the Principles for Responsible Banking (PRB) and the Principles for Sustainable Insurance (PSI).

### Strategy

Intesa Sanpaolo is aware of the significant influence that a large diverse financial Group – with revenues from lending, investment, insurance underwriting and asset management – has in terms of environmental and social sustainability, in the short- and long-term. It considers the environment – and the more specific issue of climate change – to be a fundamental part of a broader social and environmental strategy that involves integrating sustainability into all the Group's structures and Banks.

In addition to directly managing its energy consumption to increase efficiency and reduce greenhouse gas emissions in its buildings, the Group can exert an influence on the activities and behaviour of its customers and suppliers.

The main focus of the climate strategy is on promoting sustainable finance instruments to support the transition to a low-carbon economic model and to models based on the circular economy. Integrating climate concerns into the provision of financial services can have a significant impact and make a substantial contribution to combating climate change.

### Management of risks and opportunities

Intesa Sanpaolo takes into account the ESG risks associated with the activities of its corporate customers and the economic activities it invests in and focuses in particular on examining sensitive sectors that are characterised by significant socio-environmental risk. In its social and environmental risk assessment, the Bank focuses in particular on the risk arising from climate change.

The Chief Risk Officer Area and the Chief Financial Officer Area, with the support of the various Governance Areas and Divisions, work together in identifying and analysing the range of risks and opportunities related to climate change, in order to include them in the ordinary risk assessment and monitoring processes and the credit strategies, and to establish the objectives and guidelines aimed at implementing the actions designed to manage and mitigate those risks.

In this regard, in May 2020 Intesa Sanpaolo issued the "Rules for operations in the coal sector" as part of the "Guidelines for the management of environmental, social and governance risks in relation to credit" to establish specific criteria for limiting or excluding lending activities, thereby reinforcing the monitoring of ESG issues in the provision of credit to particularly socially and environmentally sensitive sectors.

Within its Risk Appetite Framework, the Group has introduced a specific reference to climate risk, with a commitment to integrate it into its Enterprise Risk Management framework, particularly for credit risk and reputational risk. In 2020, the work, which began in 2019, continued on identifying the business sectors in the loan portfolio potentially most affected by climate change risk, in terms of financial materiality, arising from both transition risk and physical risk.

Since 2019, Intesa Sanpaolo has participated in the two phases of the “UNEP FI TCFD Banking pilot programme” working group, which involves more than 39 international banks, coordinated by UNEP FI, with the objective of improving methods for assessing climate change risks, including through long-term scenario analysis, and improving their disclosure. The programme has developed tools, frameworks and papers that have enabled the participants to better analyse each of the TCFD recommendations. Intesa Sanpaolo has actively participated in the pilot also through the preparation of two case studies: one on physical risk published in the report *Charting a new climate* (Intesa Sanpaolo case study - Physical climate risk measurement: the UNEP FI Phase I Excel tool applied to Energy and Oil & Gas companies) and one on transition risk (published in February 2021).

With regard to the business opportunities related to climate change, Intesa Sanpaolo has been committed for many years to promoting sustainable finance instruments with an offering of ESG products and services to support the transition to a low-carbon economic model, both in relation to loans for the green economy and the circular economy and to asset management where it offers a wide range of ESG funds.

### Metrics and objectives

Intesa Sanpaolo reports climate change impacts and performance using the metrics of the Global Reporting Initiative (GRI) standard, the main benchmark for sustainability reporting.

- **Emissions:** The Intesa Sanpaolo Group’s greenhouse gas emissions are reported in CO<sub>2</sub> equivalent, according to the GHG protocol. The Group reports Scope 1 and Scope 2, direct and indirect emissions, and part of the Scope 3 indirect emissions, such as those related to paper consumption, waste, and office machinery. The Group has set targets for the reduction of emissions at 2022 and 2037. The 2022 targets include a reduction in absolute emissions attributable to (direct and indirect) energy consumption of 37% with respect to 2012 and targets for the consumption and production of energy from renewable sources. In 2020, CO<sub>2</sub> emissions (Scope 1 and Scope 2) decreased by 13.1% compared to 2019.

- **Loans:** In 2020, the Group disbursed over 2.5 billion euro in support of the green economy and the circular economy. With regard to the circular economy, the Group, also with the support of the Ellen MacArthur Foundation, has already disbursed 2.2 billion euro of loans since the launch of the credit ceiling of 5 billion euro (subsequently increased to 6 billion euro following the integration of the UBI Group) made available in its 2018-2021 Business Plan for companies that adopt a circular business model and also extended to green loans from 2020. Specifically, over 5,100 green mortgages were granted to customers in 2020, for over 800 million euro.

The Group has also pledged to provide a programme of disbursements of 50 billion euro in Italy over the coming years, in support of the European Green New Deal.

In this context, the S-Loan, the loan dedicated to ESG transition for companies, particularly SMEs, was developed in 2020. It has been allocated a dedicated plafond of 2 billion euro and 130 million euro has been disbursed.

A total of 10 loans were screened for the EP and achieved financial approval, for an amount granted of 1,181.5 million euro.

Lastly, 50 partnerships and 104 loan transactions were subject to an ESG/reputational assessment.

- **Funding:** the first 500 million euro green bond issued in 2017 has enabled the funding of 76 projects, with around 460 thousand tonnes of CO<sub>2</sub> emissions avoided annually. This is accompanied by the 750 million euro green bond focused on the circular economy, issued in 2019, which, thanks to the 12 projects financed, has enabled the avoidance of climate-changing gas emissions of over 255,000 tonnes of CO<sub>2</sub><sup>11</sup>.

- **ESG investments:** Intesa Sanpaolo is the leading operator in Italy in the area of sustainable funds, with assets of 18.4 billion euro (24.5 billion euro with UBI Banca) and a market share of over 22.8% (30.4% with UBI Banca). Specifically, Eurizon Capital has brought its assets managed according to sustainable and ethical criteria to over 17.7 billion euro (approximately 10.1% of Italian- and foreign-registered funds). In 2018, Eurizon launched the Eurizon Absolute Green Bonds Fund which, as of June 2020, had invested in around 379 green and thematic bonds, helping to produce around 722 thousand Megawatt/hour from renewable energy installations and to save around 458 thousand tonnes of CO<sub>2</sub>.

### Economic value generated and distributed

The economic value generated by the Group during 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 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 is distributed among the stakeholders with which the Group interacts in various ways on a day-to-day basis. More specifically:

- 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. Benefits for employees relating

<sup>11</sup> The emission factors have been determined using the life cycle approach and following the GHG protocol. Sources used – the main source used is Ecoinvent. Where available, representative emission factors for the processes considered (e.g. emission factor for average national electricity generation => AIB report on European residual mix) and sector statistics have also been used to increase the representativeness of the emission factor. Mass or energy flows are converted to tCO<sub>2</sub>eq using the emission factors identified for each KPI. Calculations of avoided emissions are made gross of impacts for the implementation of projects (e.g. construction of renewable energy plants, recycling processes, etc.).



to the redundancy incentive agreement signed with the trade unions, as a result of the integration with UBI Banca, are also included;

- 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 to 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. Numerous social and cultural initiatives and other actions were also undertaken to support the charity allowances and issue disbursements by way of social and cultural contributions, also in the situation resulting from the COVID-19 pandemic;
- 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 around 1 billion euro, subject to the ECB Recommendation of 15 December 2020 in light of the COVID-19 epidemic. Specifically, the proposed dividend is 694 million euro, the maximum permitted under the Recommendation. For more details in this regard see the Proposals to the Shareholders' Meeting in the Intesa Sanpaolo S.p.A. financial statements.

The remaining amount, 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 significant amount of economic value retained is a reflection of the above-mentioned ECB Recommendation of 15 December 2020 on dividends. In addition, as already mentioned, 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%.

Economic value	millions of euro	
Economic value generated	19.490	100,0%
Economic value distributed	-14.339	73,6%
Employees and collaborators	-8.315	42,7%
Suppliers	-2.855	14,7%
Government, Organisations and Institutions, Community	-2.189	11,2%
Shareholders, Holders of equity instruments and Third	-980	5,0%
<b>Economic value retained</b>	<b>5.151</b>	<b>26,4%</b>



Sustainability and ESG issues are covered in depth in the Consolidated Non-financial Statement (CNFS) drafted in accordance with Italian Legislative Decree 254/2016, a separate report from the Annual Financial Report and available on the Group's website.

In September 2019, for the first time and on a voluntary basis, Intesa Sanpaolo published a Half-Yearly Consolidated Non-financial Statement containing the most relevant indicators.

## Progetto Cultura

Progetto Cultura is the three-year programme of initiatives through which Intesa Sanpaolo actively expresses its commitment to promoting art, culture and knowledge throughout Italy, to promote the growth of communities. Launched in 2011, the Project has grown in importance over the years in terms of the social value it generates, contributing significantly to reinforcing the Group's role as an impact bank and strengthening its ties with local communities. Its presence in the 2018-2021 Business Plan reflects how much it is an integral part of the Bank's mission and corporate policies.

During the pandemic, Intesa Sanpaolo confirmed its position as a solid anchor for the country and in this context Progetto Cultura's contribution was fundamental in supporting the arts and culture sector, which was hard hit by the crisis and is considered one of the strategic drivers for Italy's revival and future.

The focus is on promoting the historical and art assets of the Bank and of the nation. The initiatives are devised, implemented and organised by the Parent Company's Art, Culture and Historical Heritage Department, in collaboration with the main local, national and international museums and institutions, public and private entities, the Ministry of Culture and Tourism, foundations, schools and universities, and professionals in the culture sector.

The commitment to culture, recognised as a distinctive feature of the Bank's identity, together with the social impact, has a positive impact on the brand's values, as it contributes to enhancing the Group's reputation and strengthening both its system of relations with stakeholders and its competitive positioning. The Bank's exhibition spaces, the Gallerie d'Italia, have been described as Intesa Sanpaolo's most iconic project.



## Gallerie d'Italia

The Gallerie d'Italia in Milan, Naples and Vicenza promote the Group's historic buildings and art collections, host temporary exhibitions deriving from original scientific projects in collaboration with museums around the world, and offer various educational and cultural activities.

In 2020, the number of visitors was affected by the closure of museums in response to the COVID-19 epidemic (almost a whole semester, March-May and November-December). During the months when they were open, the Gallerie d'Italia received around 210,000 visitors (of which almost 160,000 alone in the two months prior to the health emergency). At the end of the first lockdown, a reopening plan was organised in full compliance with the prevention measures, ensuring the protection of both the public and the museum staff.

During the year, 15 exhibition projects were organised (including temporary exhibitions and renovations of itineraries for the permanent collection):

- 3 dossier-exhibitions opened before the start of the pandemic:
  - *Umberto Mariani. Fragments from Byzantium Act III* (Milan), 19 artworks on display (9 from the Intesa Sanpaolo collections);
  - *Stories returned. Documents from the anti-Semitic persecution in the Historical Archive* (Milan; on the occasion of Remembrance Day), 26 items of documentary material from the Intesa Sanpaolo Historical Archive on display;
  - *Newspaper Heroes. Mimmo Paladino for the Carabinieri Police Force. Texts by Margaret Mazzantini* (Milan; in collaboration with the Carabinieri Police Force) 20 artworks on display.
- 3 exhibitions extended after the interruption of the first lockdown:
  - *Canova | Thorvaldsen. The birth of modern sculpture* (Milan; curated by Fernando Mazzocca and Stefano Grandesso, in collaboration with the Hermitage Museum in St. Petersburg and the Thorvaldsen Museum in Copenhagen), 171 artworks on display; during its opening period it was the most visited exhibition in Italy;
  - *David and Caravaggio. The cruelty of nature, the scent of the ideal* (Naples. In collaboration with the Institut Français in Naples and the Museo e Real Bosco di Capodimonte in Naples), 9 artworks on display;
  - *And Andrea Mantegna. Reliving the ancient, building the modern* (Turin, Palazzo Madama; conceived and co-produced with Fondazione Torino Musei and Civita Mostre e Musei), 130 artworks on display.
- 9 exhibition projects set up in the second half of the year, which involved a considerable organisational effort:
  - *Cantiere del '900*, a new exhibition of the project for the study, promotion and display of the Intesa Sanpaolo collections of modern and contemporary art hosted in the Gallerie d'Italia in Milan, 51 artworks on display;
  - *Nuclear art. Other dimensions of reality, from Milan to Naples*, a temporary study linked to *Cantiere del '900*, 34 artworks on display;
  - *Napoli Liberty. N'aria 'e primmavera* (Liberty Naples. Spring in the air) (Naples; curated by Fernando Mazzocca and Luisa Martorello), 71 artworks on display (4 from ISP collections);
  - *Ma noi ricostruiremo. La Milano bombardata del 1943 nell'Archivio Publifoto Intesa Sanpaolo* (We will rebuild. Bombed-out Milan in 1943 in the Intesa Sanpaolo Publifoto Archive) (Milan; edited by Mario Calabresi), 70 historical photographs from the Intesa Sanpaolo Publifoto Archive and contemporary photographs by Daniele Ratti;
  - *Future. Art and society from the Sixties to tomorrow* (Vicenza; curated by Luca Beatrice and Walter Guadagnini), 99 artworks on display (25 from the Intesa Sanpaolo collections), accompanied by images from the Intesa Sanpaolo Publifoto Archive;
  - *Tiepolo. Venice, Milan, Europe* (Milan; curated by Fernando Mazzocca and Alessandro Morandotti; in collaboration with Gallerie dell'Accademia di Venezia and Turin University), 75 artworks on display; under the Patronage of the President of the Italian Republic, the only exhibition organised in Italy to mark the 250th anniversary of Tiepolo's death;
  - *Seeing the invisible. Russian icons from the Intesa Sanpaolo collection* (Vicenza; opening scheduled for November and postponed due to the health emergency; curated by Franco Barbieri and Silvia Burini, in collaboration with CSAR-Centro Studi sulle Arti della Russia of the Ca' Foscari University of Venice), an innovative update of the permanent exhibition dedicated to the Intesa Sanpaolo collection of Russian icons, 70 panels on display;
  - *Valery Koshlyakov. Celestial architectures*, a one-year exhibition-dossier included in the *Seeing the Invisible* itinerary, 16 artworks by the Russian artist Koshlyakov displayed in a site-specific installation;
  - *Folle* (an online digital exhibition on the artissima.art platform, part of the Artissima Unplugged 2020 edition of which Intesa Sanpaolo is a partner), 26 photos from the Intesa Sanpaolo Publifoto Archive.

The catalogues produced for the exhibitions are part of the Gallerie d'Italia publishing project in collaboration with Skira.

Training, educational activities and links with schools have always been at the centre of the Gallerie d'Italia's cultural programme. In the first two months of the year alone, before the health crisis prevented them from taking place, 678 workshops were held, attended by 17,000 children and young people, and 107 courses for "vulnerable" individuals, attended by 2,000 participants and offered for free.

In addition, 100 young art historians work permanently at the Gallerie d'Italia in managing museum services, in collaboration with Civita.

## The new Gallerie d'Italia: Piazza San Carlo in Turin and Via Toledo in Naples

The project for Intesa Sanpaolo's new museum in Piazza San Carlo in Turin was presented to the press on 14 January 2020. The fourth venue of the Gallerie d'Italia will be in the historic Palazzo Turinetti (approximately 6,000 sqm) and will be mainly devoted to photography – focusing on the Publifoto Archive – and the digital world. During the lockdown, the work with the Real Estate and Logistics Department and Studio De Lucchi on the development project continued remotely. In December, the area to be renovated was assigned to the contractor.

Work has also begun on the relocation of the Neapolitan Gallerie d'Italia to the historic Banco di Napoli building in Via Toledo, designed by Studio De Lucchi. In addition to Caravaggio's masterpiece, the new monumental venue (approximately 9,000

sqm) will host collections ranging from archaeology to contemporary art, and educational activities will be expanded in collaboration with local organisations. The presentation to the press was postponed due to the epidemic.

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### Galleria di Palazzo degli Alberti a Prato

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Work was completed on the Galleria di Palazzo degli Alberti a Prato, allowing the art collections formerly belonging to the Cassa di Risparmio e Depositi di Prato to be opened to the public in a renovated museum. These collections now belong to Banca Popolare di Vicenza in compulsory administrative liquidation and have been given in custody to Intesa Sanpaolo, the owner of Palazzo degli Alberti. Intesa Sanpaolo is committed to promoting the artworks present inside the building and tied to it – by virtue of the MiBACT order – as an indivisible and appurtenant collection. The collection consists of 142 artworks, including masterpieces by Caravaggio, Giovanni Bellini, Filippo Lippi and Bronzino. The challenging construction project, aimed at adapting the building to house a museum, was directed by the Parent Company's Real Estate and Logistics Department. The layout of the exhibition was organised in agreement with the Soprintendenza Archeologia, Belle Arti e Paesaggio of Florence, Pistoia and Prato. The initiative represents the "restitution" of an art asset of significant importance to the community's identity, a result achieved thanks to the Bank's commitment (Banca dei Territori Division-Tuscany and Umbria Regional Governance Centre, Real Estate and Logistics Department, and Art, Culture and Historical Heritage Department). The inauguration, scheduled for December, was postponed due to the deterioration of the health situation.

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### Art Assets

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Intesa Sanpaolo's major Corporate Collection of over 30,000 artworks (of which 1,000 on display in the Gallerie d'Italia) is continuously being preserved, studied and promoted.

*Fair Value Project.* In 2017, Intesa Sanpaolo pioneered the process of fair value measurement of its "valuable art assets", developing a procedure aimed at ensuring that the related accounting standard (IFRS 13 Fair value measurement) is correctly adopted from a formal and substantive point of view. This operation is divided into three-year cycles and is conducted with the Administration and Tax Department. In 2020, a new fair value measurement was carried out for the approximately 3,700 artworks belonging to the "valuable art assets" category, entrusted to the company Eikonos Arte. The updated value is 294 million euro. As part of the process of integrating the art collections from UBI Banca, the scope of the "valuable art assets" was determined based on the criteria used for Intesa Sanpaolo's assets. Of the approximately 6,000 assets in UBI's collections, 721 were considered valuable and measured at fair value (for a total value of 27 million euro).

*Diogene Project.* Assessment programme to ensure better management of the 30,000 artworks of Intesa Sanpaolo and the Group companies, involving the survey, verification of location and state of preservation, and assessment of prestige of the artworks. In 2020, the verification – despite the difficulty in carrying out inspections during the pandemic – concerned artworks belonging to the "valuable art assets". An analysis of artworks of "lower value" belonging to the category "other assets of historical and decorative interest" and the decorations of Intesa Sanpaolo's buildings was started in coordination with the Parent Company's Real Estate and Logistics Department.

*Carte dell'Arte.* In collaboration with the Historical Archive, the project continued for the reorganisation and digitalisation of the archive documents relating to the "valuable art assets", with particular regard to ownership titles.

*Historical Map.* As an addition to the Historical Map (the Group's family tree available on the website) curated by the Historical Archive, work is underway to reconstruct the collection and cultural policies of the banks merged into the Group (so far, 27 collection profiles have been produced).

*Updating of the permanent itineraries in the Gallerie d'Italia.* In 2020 the museum itineraries dedicated to the 20th century collections (Gallerie d'Italia, Milan) and the Russian icons collection (Gallerie d'Italia, Vicenza) were renewed. The updating of the 1900s itinerary is part of the preparatory activities for the future display of the precious Luigi and Peppino Agrati contemporary art collection, which, in accordance with the donation to Banca Cultura Onlus (a non-profit organisation linked to the Bank and that has already decided to become a Foundation) will be exhibited in the museum spaces in Piazza Scala. In addition, a three-year partnership agreement has been signed with the University of Padua - Department of Cultural Heritage, Archaeology, History of Art, Cinema and Music - for the promotion of the collection of Attic and Magna Graecia ceramics preserved in Vicenza, through a programme of study, educational activities and exhibitions ("Progetto MemO" curated by the University of Padua with the support of the Fondazione Cassa di Risparmio di Padova e Rovigo, already participated in by 14 museums in the Veneto region hosting archaeological collections).

*Artwork Loans.* In 2020, a total of 185 artworks from the corporate collections (and 25 from Fondazione Cariplo) participated in 31 temporary exhibitions, organised by museums in Italy (MART in Rovereto, Fondazione Pistoia Musei in Pistoia, Palazzo Reale in Milan, Museo e Real Bosco di Capodimonte in Naples, Fondazione MAXXI in Rome, Musei di San Domenico in Forlì, Museo di Roma, Palazzo Roverella in Rovigo, and Castello di Rivoli-Museo d'Arte Contemporanea) and abroad (Petit Palais in Paris, Fundación MAPFRE in Madrid, National Museum in Warsaw, Multimedia Art Museum in Moscow, and Musée d'Orsay et de l'Orangerie in Paris).

*Loans for use.* In 2020, 29 of Intesa Sanpaolo's artworks were given on loans for use to third parties. In addition, in view of the importance of the work, it is worth noting that the ASST of Lodi has entrusted Intesa Sanpaolo with the painting by Francesco Hayez *Portrait of Countess Zumali Marsili*, now included in the exhibition itinerary of the Gallerie d'Italia in Milan.

*Restoration.* In 2020, a total of 166 restoration and/or extraordinary maintenance interventions were carried out on the Bank's artworks.

*"Energy Lines" conference.* The live streaming digital conference *Energy lines* (2 November) was held as part of the Artissima Unplugged 2020 agenda. This is the fourth edition of a study project dedicated to the restoration of contemporary artworks, in collaboration with the Fondazione CCR "La Venaria Reale" and the IGIC-Italian Group of the International Institute for Conservation. The study day – which involved restorers, artists, art historians and critics, curators, and conservators – registered almost 300 participants connected to the live broadcast and reached 8,000 users. The publication of the proceedings of the 2017-18-19 conferences was presented on this occasion.

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## Historical archive

Intesa Sanpaolo's Historical Archive is one of the largest corporate archives in Europe. It represents not only the Group's memories but also a highly valuable collective cultural asset. It holds 12 km of documentation consisting of maps dating from 1472 to 2006, as well as photographic and multimedia material, publications and an exhibition and museum section. It also manages the significant collection of around 7 million images in the Publifoto Archive.

The core document preservation work (acquisitions, disposals, inventories and restoration) continued in 2020. In addition, digitalisation of documents and photographs was intensified, also to make them available to the public during the closure of the consultation rooms in Milan and Rome due to the pandemic. The enhancement of the website dedicated to the inventories of the Archive (over 70,000 new records published, over 42,300 users and over 192,500 pages viewed) was accompanied by the updating and restyling of the Historical Map website, which shows the Group's family tree. The Historical Archive continued its attention to new technologies with the Digital Archive Project, aimed at safeguarding native digital documentation of historical interest, and with projects devoted to the promotion of Linked Open Data in the cultural sphere (including, "Archives. What an enterprise!" for the publication of data on business financing). Activities on the promotion front included: the initiatives dedicated to the EGELI fund consisting of over 2,000 files on the expropriation of Jewish property (exhibition *Stories returned* at the Gallerie d'Italia, publication of the inventory on a specific website and production of a catalogue); the participation in the digital events *Archivissima* in Turin and *Archivi Aperti* organised by Rete Fotografia (an association of which the Archive is a member); and in collaboration with the IMI Corporate & Investment Banking Division, the production of a film on Raffaele Mattioli, a docufilm on the history of IMI and three podcasts on Sergio Siglienti.

Special attention was given to the Publifoto Archive, also with a view to the future opening of the Gallerie d'Italia in Turin. The conservation and digitalisation work continued (6,580 photographs restored and over 12,100 digitalised), partly in collaboration with Fondazione CCR "La Venaria Reale". Groups of photos were featured in the exhibitions *Ma noi ricostruiremo* (Gallerie d'Italia, Milan), *Futuro* (Gallerie d'Italia, Vicenza), *Folle* (on the Artissima platform), *Noi...non erano solo canzonette (Us...they weren't just ditties)* (Bologna, Palazzo Belloni; Pesaro, Musei Civici di Palazzo Mosca and Museo Nazionale Rossini).

Within the long-standing synergy between the Historical Archive and the academic world, again in 2020 the Archive contributed to the teaching of the master's course "History and business documentation" at the University of Milan, giving students the opportunity to work directly on the sources. In 2020, two research projects were completed (on the Contini-Mattioli correspondence with Università dell'Insubria and on the Montale-Solmi correspondence with the Università Cattolica of Milan) and a three-year project was launched with the La Sapienza University of Rome and the University of Buenos Aires (on the relationship between Italian companies and migration to Argentina). In addition, there are currently 16 undergraduate theses and 7 doctoral theses in progress using the sources of the Intesa Sanpaolo Archive. Also worth mentioning are the important collaborations with Fondazione 1563 per l'Arte e la Cultura (Historical Archive of Compagnia di San Paolo), and with Fondazione CAMERA di Torino and Fondazione CCR "La Venaria Reale".

The reconstruction has begun of the family tree of the banks merged into the UBI Banca Group (130 banks identified so far) and work has started on taking charge of all the former UBI archives (10 archives have been surveyed to date, consisting of around 2.3 km of documentation).

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## The 'Restituzioni' Programme

*Restituzioni* is an expression of Intesa Sanpaolo's commitment to the defence and promotion of Italy's historical and artistic heritage. It is the largest restoration programme in the world and is considered an exemplary form of public-private partnership. It has been curated by the Bank since 1989, in collaboration with the Ministry of Culture and Tourism and the local bodies responsible for protecting artworks, with the scientific support of Carlo Bertelli, Giorgio Bonsanti and Carla Di Francesco. Thanks to more than 30 years of work, 2,000 Italian masterpieces, which have been restored, promoted and displayed in major exhibitions at the Gallerie d'Italia and other national museums, were among the "restitutions".

Despite the impact on the timing due to the health emergency, the restoration work for the 19th edition of the programme is coming to an end. The projects involve 218 assets from all 20 Italian regions – as well as an artwork from France, the Group's European area of reference – involving 52 conservation bodies (Inspectorates, Regional Museums Departments and Autonomous Museums), 80 owner bodies (including museums, churches and archaeological sites) and hundreds of art historians and restorers. Particularly in these difficult times, the important support provided by *Restituzioni* to the restoration sector, in which Italy is an international leader, deserves special attention.

On 2 December, the "restitution" of one of the artworks included in the current edition, the sculpture *Madonna and Child* by Giacomo del Maino (15th century) kept in the Grosotto Sanctuary (Sondrio), was presented to the public in an online event. The approach underlying the programme consists of working both on famous artworks and on lesser-known works of high artistic value and significance for their communities of origin.

## National and international partnerships

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Through its active partnerships, Progetto Cultura supports important cultural institutions and initiatives in Italy (exhibitions, festivals, art-related events, photography, archives, publishing and reading). This support was all the more necessary in the months when the health emergency also put the culture sector in serious difficulty. In particular, our contribution made it possible to carry out initiatives which, in response to the physical distancing requirements, were able to reorganise and transform themselves into digital events, also relaunched by Intesa Sanpaolo's social media channels and the Group website.

*Cortona On The Move. The Covid-19 Visual Project.* With the Cortona On The Move Association, whose International Photography Festival we have been supporting since 2018, a permanent and continuously updated digital archive has been created (online since 11 May; 853,345 unique users) that documents the effects of the pandemic around the world through photographic projects (54 to date) commissioned from internationally renowned artists. A special edition of the festival was organised using these images, offering 21 exhibitions in different locations in Cortona, in compliance with the distancing rules. These included *Locked in Beauty*, with photographs by Paolo Woods and Gabriele Galimberti dedicated to the museums closed during the lockdown, such as the Gallerie d'Italia (Intesa Sanpaolo and Gallerie d'Italia social media channels: 61,965 views).

*International Book Fair, Turin.* We supported the innovative online versions of the 2020 edition of the Book Fair, of which Intesa Sanpaolo has been a partner for 13 years: *SalTo Extra*, a programme of 12 live-streamed meetings attended by 140 national and international guests (5 million people reached, 63,715 interactions); *SalTo Notte*, an experimental summer format that gave voice to publishers, authors and artists in the late evening in a number of symbolic cultural venues in Turin, Naples, Milan and Rome: two of the six episodes were hosted at the Gallerie d'Italia in Milan and Naples (Intesa Sanpaolo and Gallerie d'Italia social media channels: over 45,000 views); and *Vita Nova*, 22 online lessons for schools held by 26 national and international authors (20,670 students connected).

Activities for the promotion of books and reading included the support for the *Festival della Lettura di Ivrea* and *Il Circolo dei Lettori* in Milan (37 meetings in 2020, of which 23 online).

*Archivissima and Archives Night, Turin.* We supported the 3rd digital edition of the Archives Festival, a programme of over 50 episodes of podcasts, videos and streaming events involving over 200 Italian archives. It was also an opportunity to promote our Historical Archive with a podcast on the presence of women in the bank from the Great War to the present day (Archivissima platform: 125,000 unique views; Intesa Sanpaolo social media channels: 17,244 views).

*Quadriennale d'arte, Rome.* Intesa Sanpaolo is a partner of the 17th edition of the Quadriennale d'arte of Rome entitled *Fuori*. The Bank also supported the *Q-Rated* training project dedicated to young Italian artists and curators, which took place in 2018-2019 in preparation for the 2020 edition of the Quadriennale (6 workshops in different Italian cities, 120 participants under 35).

*Artissima. International Fair of Contemporary Art in Turin.* Intesa Sanpaolo has become a partner of Artissima, one of the most important trade fairs in the world. The 27th edition of the event, Artissima Unplugged 2020, was held digitally, including two Intesa Sanpaolo projects viewable on the artissima.art platform: the exhibition *Folle*, with images from the Publifoto Archive (11,000 views; the exhibition is linked to the *Sunday Photo 2020* photography competition in collaboration with "La Stampa"); and the *Energy Lines* conference devoted to the restoration of contemporary works of art. Relaunch of the partnership on Intesa Sanpaolo social media channels: 72,000 views, 2,000 interactions.

*Fondazione Compagnia di San Paolo, Turin.* A three-year partnership agreement (2019-2021) in which the Bank is contributing to the implementation of projects proposed by the Fondazione Compagnia di San Paolo, such as the Development and Fundraising Project of the Fondazione Museo delle Antichità Egizie, the activities of the Fondazione Polo del 900 and conservation work for the protection of places of particular historical and architectural value in Turin. In October 2020, the restoration of the courtyard of the Palazzo dell'Arsenale, now home to the Scuola d'Applicazione dell'Esercito, was completed with the Consulta di Torino.

Again with the Consulta di Torino, and the Compagnia di San Paolo and other Turin-based organisations, after the restoration of the monumental statue of Hercules, the artwork was repositioned in its original location at the centre of the fountain in the Gardens of the Reggia Venaria, a further step towards the completion of the more wider programme for the restoration of the Teatro delle Acque complex.

Also worth mentioning is the restoration of the sculpture *La Totalità* by the Greek artist Costas Varotsos and its relocation to the new venue of the Giardino Grosa next to the Intesa Sanpaolo skyscraper in Turin. The project was carried out with the City of Turin and the Fondazione Centro Conservazione e Restauro "La Venaria Reale".

*Fondazione 1563 Per l'Arte e la Cultura, Turin.* Intesa Sanpaolo continued to support the activities of the Compagnia di San Paolo's Historical Archive in 2020.

*Fondazione CAMERA-Centro Italiano per la Fotografia, Turin.* The Bank, which is a founding member of CAMERA, has been supporting the centre since 2015. The initiative supported included the provision of free educational activities using the materials from the Intesa Sanpaolo Publifoto Archive which, during the months of physical distancing, enabled the production of online guides for teachers and itineraries for schools that could also be used remotely.



Collaboration and support for important Italian museums were strengthened in 2020: *Castello di Rivoli-Museo di Arte Contemporanea* (loan of 2 Intesa Sanpaolo artworks for the *Espressioni* exhibition); *Museo e Real Bosco di Capodimonte* (support for the exhibition *Gemito. From sculpture to drawing*, with 17 artworks from the Intesa Sanpaolo collections and *Luca Giordano. From nature to sculpture*); *Gallerie dell'Accademia in Venice* (a partnership agreement was signed for the organisation of the exhibition *A masterpiece for Venice*, which will facilitate the display of Venetian artworks in the Venetian museum on loan from other museums); *Pinacoteca di Brera* in Milan; *Palazzo Strozzi* in Florence; and *Museo Archeologico Nazionale in Naples* (contribution to the publication of the catalogue *Myth and society* edited by the University of Milan, dedicated to the Apulian vases in the MANN).

Support was also provided to the exhibitions: *Ulisse. L'arte e il mito (Ulysses. Art and legend)* (Forlì, Musei di San Domenico, exhibition by Fondazione Cassa dei Risparmi di Forlì), loan of 2 vases from the Intesa Sanpaolo collection of Attic and Magna Graecia ceramics; *La riscoperta di un capolavoro. Il Polittico Griffoni (Rediscovery of a masterpiece. The Griffoni Polyptych)* (Bologna, Palazzo Fava; exhibition by Fondazione Cassa di Risparmio di Bologna, Genus Bononiae-Musei nella Città); *Sfida al Barocco. Roma Torino Parigi 1680-1750 (Challenge to baroque. Rome Turin Paris 1680-1750)* (Reggia di Venaria Reale; exhibition by Fondazione Compagnia di San Paolo, Fondazione 1563 per l'Arte e la Cultura and Consorzio delle Residenze Reali Sabaude), also featuring 2 artworks restored as part of the ongoing *Restituzioni*; *China Goes Urban* (Turin, MAO-Museo d'Arte Orientale; exhibition by Fondazione Torino Musei); the photographic exhibition *Transmissions people-to-people* (Turin, Museo Nazionale del Risorgimento Italiano); *Sulle tracce di Raffaello nelle collezioni sabaude (In the footsteps of Raphael in the Savoy collections)* (Turin, Musei Reali, Gallerie Sabaude; as part of the celebrations for the 500th anniversary of the master's death), also on display was the *Madonna della Tenda* restored by the Fondazione CCR with the help of Intesa Sanpaolo; in conjunction with this last exhibition we supported a project for the study and cataloguing of a collection of Renaissance drawings related to Raphael and his school conserved in the Biblioteca Reale in Turin.

The collaborations with international museums also continued. In keeping with the Group's European and international vocation, Progetto Cultura has partnerships with prestigious museums around the world: *The State Hermitage Museum, St. Petersburg* - the three-year agreement (2018-2020) includes support for the exhibition *After Raphael 1520-2020* hosted by the Russian museum, organised to mark the 500th anniversary of Raphael's death; and *The National Gallery, London* - a special collaboration for the organisation of a major exhibition project dedicated to Artemisia Gentileschi, the first stage of which was the *Artemisia* exhibition held at the National Gallery (the 35 artworks on display included the *San Gennaro* from Pozzuoli Cathedral, restored with the Bank's support). The Gallerie d'Italia in Naples will host a second exhibition on the painter in 2022, accompanying the London exhibition.

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## Publishing and musical initiatives

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The publishing projects carried out in 2020 in collaboration with Skira consolidated the objectives of disseminating and promoting the Group's and Italy's cultural heritage, in line with Progetto Cultura's guidelines: *Tosca* by G. Puccini, Teatro alla Scala, conducted by Riccardo Chailly and directed by David Livermore, 17th edition of the important *Vox Imago* publishing and music series, presented in an innovative digital edition; *In missione con... Giambattista Tiepolo (On mission with... Giambattista Tiepolo)*, a children's book inspired by the *Tiepolo* exhibition at the Gallerie d'Italia; *Palazzo Nervi-Scattolin, Venice*, part of the series dedicated to the Group's buildings; *Architecture of work. Cities and landscapes of industrial heritage*, published by Forma Edizioni, a photographic book on the architecture of company towns (research sources also included documentary material from our Historical Archive).

Worthy of special mention is *Collezionisti e valore dell'arte in Italia (Collectors and the value of art in Italy)*, the first in a series of studies devoted to collecting and the art market in Italy, promoted by Intesa Sanpaolo Private Banking in collaboration with the Art, Culture and Historical Heritage Department, the Research Department and Miart.

In the field of music, in addition to organising concert programmes (*Filarmonica Teatro Regio* - Turin, *Associazione Alessandro Scarlatti* - Naples, *Società del Quartetto* - Milan, *Palazzo Marino in Musica* - Milan, *Stresa Festival, International Piano Festival of Brescia and Bergamo, Milano Musica*), collaborations with prestigious Italian musical organisations led to the creation of training programmes for young musicians (such as *Esperienza Orchestra* of the *Filarmonica Teatro Regio*) or for young people from deprived backgrounds (such as the projects of *Associazione A. Scarlatti* for young people from disadvantaged neighbourhoods in Naples). Due to the pandemic, the concerts were rescheduled to digital or closed programmes, allowing almost all the events scheduled to be completed.

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## Officina delle idee

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Officina delle Idee's projects offer young people creative, educational and professional opportunities. The activities – scholarships, research projects, training courses – are carried out in cooperation with leading public and private institutions.

*Progetto Euploos. Gabinetto dei Disegni e delle Stampe, Gallerie degli Uffizi, Florence.* An innovative project that involves a working group (young art historians, photographers and computer technicians) in the creation of a digital catalogue (Euploos website) dedicated to the artworks of the Gabinetto dei Disegni e delle Stampe of the Uffizi Gallery. Around 5,000 documents were catalogued in 2020 (including catalogue records and photographic reproductions).

*Fondazione CCR - Centro Conservazione e Restauro "La Venaria Reale".* Items entrusted to the Foundation from the Intesa Sanpaolo 1900s collections (around 50 in 2020) and from the Publifoto Archive (900 Publifoto plates and 541 photographic prints from the former IMI archives in 2020), used for teaching purposes by the laboratory for the restoration of paper and photography, initiated with the support of the Bank at the CCR in 2015, as part of the Degree Course in Conservation and



Restoration of Cultural Assets at the University of Turin. An artwork by Giulio Turcato from the Intesa Sanpaolo collections was made available as an object of study and work for a master's thesis.

*Careers in Art*. A project by Gallerie d'Italia in collaboration with the Next Level association of Turin, aimed at secondary school students as part of the school-work exchange, to introduce them to the art professions. In 2020, the project involved 250 students for a total of 500 hours of activities, of which 70% delivered through distance learning.

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### Executive Course in “Management of Art and Cultural Assets and Corporate Collections”

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This Executive Course was launched for the development of specific skills in the management of art assets, as part of the focus on training and young people. One of a kind in Italy, the project has been created with Fondazione Compagnia di San Paolo and Fondazione Cariplo, in collaboration with Intesa Sanpaolo Formazione and Fondazione 1563 per l'Arte e la Cultura, and designed with the scientific contribution of Fondazione Scuola dei Beni e delle Attività Culturali. Enrolments opened in December and the course, which is backed by the Ministry for Culture and Tourism, will start in February 2021. The initiative is the first stage of the larger “Gallerie d'Italia Academy” project. The social media campaign on the launch of the course (30 November) attracted over 14 million views with around 6,000 clicks to the Intesa Sanpaolo Formazione page. The display and Google search campaign generated around 3.5 million impressions and 34,000 clicks to the Intesa Sanpaolo Formazione website.

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### Digital promotion of our art collections and exhibitions

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The lockdown prompted reflection on the importance and role of digital initiatives as an increasingly essential channel for the public to access and engage in cultural heritage, with strong potential in terms of inclusion. As a result, the production of online content on the Gallerie d'Italia's website and social media channels was intensified in 2020, also with relaunches from the Group's platforms.

The following exhibitions were promoted on the websites and social media channels:

- *Canova | Thorvaldsen. Virtual tour*. The immersive virtual tour of the exhibition, with commentary in sign language, was launched (18 May) on the International Museum Day promoted by the ICOM on the theme “Museums for Equality” (the social media campaign attracted 8 million views and 462,951 interactions);
- *Ma noi ricostruiremo (We will rebuild). Inauguration in live streaming*. The live broadcast of the presentation press conference (Intesa Sanpaolo website and ANSA) reached around 400,000 people, with over 250,000 views and 19,000 interactions;
- *Tiepolo. Inauguration in live streaming*. The live broadcast of the inaugural presentation (Intesa Sanpaolo website and ANSA), reached over 561,000 people, with 318,000 views and 13,000 interactions;
- *Tiepolo. Immersive experience*. An innovative virtual experience was launched (30 October), with immersive 3D audio technology and a dedicated mini-site (22,000 views with an average dwell time of 5.50 minutes);
- *Tiepolo. Virtual tour*. A virtual tour was launched (18 December) enabling an interactive visit to the exhibition, accompanied by 8 explanatory videos on a selection of artworks and a captivating audio experience (9,700 views of the virtual tour page, with an average dwell time of 4.10 minutes); the promotion of digital content dedicated to *Tiepolo* on the Bank's websites generated 80,000 page views;
- promotional activities were also carried out for the exhibitions: *Ma noi ricostruiremo* (41,000 views on the Bank's websites; the social media campaign attracted 6 million views), *Napoli Liberty* (15,000 views on the Bank's websites; the social media campaign attracted 6 million views and 510,000 video views), *Futuro* (8,000 views on the Bank's websites and 809,000 video views);
- *Christmas video*. A video of Christmas greetings was launched (22 December) promoting the exhibitions organised at the Gallerie d'Italia, with the participation of Civita staff working in our museums (the campaign on the Gallerie d'Italia social media channels generated 20 million views and the content received 1.8 million views).

The following collections were also promoted on our social media channels:

- *#iorestoacasa*. From 9 March, the Bank took part in the campaign promoted by the Ministry of Culture and Tourism, providing contributions dedicated to the Intesa Sanpaolo collections, which have attracted growing interest;
- *Publifoto on social media* (from 9 April). Weekly feature on the Publifoto Archive and the world of photography (over 310,000 views);
- *In viaggio con Hector (Travelling with Hector)* (22 April to 2 July). A project designed and developed for families, and for children in particular, with interactive videos, quizzes and creative activities to discover the buildings and collections of the Gallerie d'Italia (9 sessions, 131,672 views, of which 105,916 unique);
- *A day at the museum* (24 April to 6 July). The artworks on display in the Milan Gallerie were promoted through video clips with the participation of Luca Massimo Barbero, associate curator of the Intesa Sanpaolo collections of modern and contemporary art, in dialogue with the public, in collaboration with Sky Arte HD and Good Days Film (20 shows, 169,647 views of which 129,017 unique, and 4,370 interactions);
- *Social media campaign for the reopening of the Gallerie d'Italia in Vicenza* (June 2020). A social media campaign was launched to mark the reopening of the Vicenza museum, targeted at 14-18 year olds, geolocated in the Veneto region and several provinces in northern Italy (11 million views and 137,000 interactions);
- Participation in *Milan MuseoCity 2020* (31 July to 2 August). A virtual visit of the collections of the Milan Gallerie d'Italia with a focus on female figures, as part of the programme promoted by the City of Milan (12,613 views, of which 11,624 unique);

- Participation in *Milan ArtWeek 2020* (7 to 13 September). During the week of the digital version of the event promoted by the City of Milan in collaboration with Miart, 7 videos were created and broadcast on the masterpieces of the *Cantiere del '900* (49,649 views, of which 38,921 unique);
- Participation in *Invitation to the Palazzo* (3 to 10 October). The Gallerie d'Italia took part in the digital edition of the event promoted by the Italian banking association dedicated to historic bank buildings (52,600 views);
- *Feature on masterpieces* (from 17 November). Focus on a selection of major artworks from the Intesa Sanpaolo collections (6 sessions, 40,000 views);
- *Internal communications. Online initiatives*. Initiatives aimed at engaging the Bank's staff: updates via the corporate intranet on our cultural activities (65 news items; 3 news items on the UBI intranet); on Mosaico and Mosaico International, the *Stories of Rebirth (Storie di rinascita)* format that uses material from the Intesa Sanpaolo Historical Archive (10 April to 26 May) and features exploring the Group's historical-artistic assets, particularly around the themes of custody, conservation and promotion (from June): 40 articles and 16 video clips produced as at 31 December.

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#### Digital conference *Let's start again from arts and culture. Our heritage to rebuild*

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Intesa Sanpaolo and the daily newspaper "Il Foglio" organised a live streaming conference (17 December) at the Gallerie d'Italia in Milan, as an occasion to reflect on how culture and the arts can play a fundamental role in the revival of a country devastated by the pandemic. After the official greetings by the Bank's Chairman Giovanni Bazoli, the event featured the director of "Il Foglio" Claudio Cerasa and leading figures from the world of Italian culture. The live streaming of the conference (Intesa Sanpaolo website, ANSA and Il Foglio) reached 1.7 million people with over 1.2 million views of the video and over 15,000 interactions on the social media channels.

### Main risks and uncertainties

This section outlines the main risks and uncertainties that the Intesa Sanpaolo Group is exposed to, also taking into account the situation generated by the COVID-19 epidemic. Further details are provided in this Report on operations and in the Notes to the financial statements.

More specifically, additional information about the risks connected to the situation generated by the COVID-19 epidemic is provided in Part A and Part E of the Notes to the financial statements, as required by the Bank of Italy Communication of 15 December 2020 regarding the impacts of COVID-19 and the measures in support of the economy.

In addition, as usual, the risks associated with the trends in the global economy and financial markets are discussed in the introduction to the Report on operations, in the chapter on the macroeconomic scenario and in the following chapter on the outlook of operations. The assumptions on which our valuations and forecasts are based with regard to the verification of the values of intangible assets and goodwill are described in Part B of the Notes to the consolidated financial statements, in the section on impairment tests. With regard to deferred tax assets, a description is also provided in Part B of the analysis conducted to verify the forecasts of future earnings sufficient to ensure the recovery of those deferred tax assets and thus justify recognising and continuing to carrying them (the probability test).

With regard to capital strength, in addition to this Report on Operations, details are provided in Part F of the Notes to the consolidated financial statements and in the Basel 3 Pillar 3 Disclosure.

Information on risks at a general level, and in particular on financial risks (credit risks and market risks), operational risks and the risks of insurance companies are detailed in Part E of the Notes to the consolidated financial statements.

With regard to the going concern assumption, the Directors of Intesa Sanpaolo re-affirm that they have a reasonable certainty that the company will continue in operational existence in the foreseeable future and consequently have prepared the financial statements for 2020 on a going concern basis. The Directors have not detected any uncertainties in the balance sheet and financial structure or in the performance of operations that question the going concern assumption.

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# The macroeconomic context and the banking system

## The macroeconomic context

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### The economy and the financial and currency markets

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From January 2020, the COVID-19 pandemic disrupted the global economy. The containment measures adopted triggered a recession of unprecedented severity and speed in the first half, followed by a major rebound and then another slowdown in the fourth quarter. After the first wave of the pandemic in particular, the economic performance of individual countries was affected by the varying ability of governments to control the spread of the virus in its early stages without resorting to production stoppages or periods of general confinement of the population. China already recovered to pre-crisis levels of activity during the year, but many advanced countries are still a long way from full recovery. Some production segments, particularly in the tertiary sector, continue to be heavily penalised by the pandemic. The negative repercussions of the crisis were mitigated by government transfers to the household and business sector, while the risk of the tightening of financial conditions was countered by the central banks through the enhancement of the financial asset purchase programmes and refinancing operations for the banking system, supported by the supervisory authorities which used the flexibility allowed by the regulations to temporarily ease several prudential constraints to support lending to the economy.

In the US, the year ended with GDP down by 3.5%. Despite the 4.4 point increase in the unemployment rate, growth in household disposable income was supported by large transfers from the public sector.

In the euro area, the reduction in gross domestic product averaged 6.6 percentage points over the year. The fall in the second quarter was followed by a partial recovery in the third quarter, and then another fall in the fourth quarter, although smaller than during the first wave of the pandemic. Unlike in the US, the various forms of labour market support resulted more in a decrease in the number of hours worked than in an increase in unemployment. Nevertheless, in December the unemployment rate was more than one percentage point higher than pre-crisis levels.

Fiscal measures to counteract the economic effects of the pandemic were reflected in an increase in the aggregate public sector deficit of more than 8 percentage points. These measures included the deferral of tax payments, provision of guarantees for bank credit, subsidies to households, strengthening of social security mechanisms and, in some countries, subsidies to business that suffered reductions in revenue in 2020. The European Union has also launched several financial support measures: an ESM (European Stability Mechanism) credit line called PCS (Pandemic Crisis Support), which can reach up to 2% of each member state's GDP; a fund (SURE) for the refinancing of employment support programmes; and a guarantee fund for loans granted by the European Investment Bank. In addition, agreement has been reached on the launch of a new recovery plan, Next Generation EU, which from 2021 will finance reforms and projects, aligned to the EU's priorities for action, through grants or soft loans.

The European Central Bank has supported the fiscal effort by implementing an extraordinary expansion of the securities purchasing programmes, including the launch of a specific temporary programme (PEPP, Pandemic Emergency Purchase Programme), relaxing conditions on long-term refinancing programmes, extending the range of assets eligible as collateral, and allowing a temporary easing of supervisory rules. All measures that were introduced to prevent a pro-cyclical rationing of bank credit. The quantitative limit of the PEPP, initially 750 billion euro, was subsequently increased to 1,350 billion euro in June and to 1,850 billion euro in December. Its expiry, initially scheduled for the end of 2020, was extended until March 2022. The increase in excess liquidity kept the €STR (euro short-term rate) below the official rate on deposits with the Eurosystem (-0.50%), while swap rates fell significantly compared to December 2019 (-21 basis points on the 2-year maturity and -29 basis points on the 5-year maturity).

The Italian economy also contracted sharply in 2020, by 8.9 percentage points. The rebound in the third quarter partially reversed the fall in the first half of the year, however, in the fourth quarter, GDP was still 6.6% lower than a year earlier. The second wave of the pandemic necessitated the introduction of new restrictive measures from November onwards, with a negative impact on economic activity. In December, jobs were 426,000 below pre-crisis levels. This decline was reflected more in higher numbers of inactive workers than people actually unemployed. The sector performances were very uneven: at the end of the third quarter, construction had more than recovered its pre-crisis levels, while manufacturing and services had respectively made up 85% and 65% of the loss in added value in the first half of the year.

The need to counteract the negative economic and social effects of the pandemic and the measures to contain the spread of the virus drove the government borrowing requirement up to 159 billion euro in 2020, an increase of 117 billion euro on 2019. The corresponding increase in public debt was not reflected in pressure on risk premiums, because it was indirectly but almost fully covered by the increase in the Eurosystem's portfolio of Italian government bonds. The BTP-Bund 10-year spread fell from 155 basis points in December 2019 to 122 basis points on average in December 2020.

2020 was a year characterised by very different stock market phases. In the first two months of the year, the main markets (except for China) generally performed well, peaking shortly after mid-February.

The sudden onset of the health emergency in the Western countries, first in Italy, then in the rest of Europe and the United States, led to a rapid and severe deterioration in macroeconomic forecasts and expected company earnings, triggering a sharp adjustment in the stock indices, with period lows around mid-March.

The prompt announcement of major economic support plans by national governments and the European Union, and the highly expansionary measures implemented by central banks, helped alleviate investor concerns and reduce risk premiums, supporting a prolonged period of recovery in the stock markets.

In the second half of the year, investors turned their attention to the prospects for economic recovery in 2021, despite the still limited visibility available. The Q3 company earnings season turned out better than expected, with many companies starting to issue positive guidance again, signalling that the worst of the recession had passed.

The positive news about the faster-than-expected availability of vaccines led to a sharp upturn in the stock indices from November onwards, which then continued until the end of the year.

The Euro Stoxx index closed 2020 down slightly (-1.6%) while the Dax 30 outperformed (+3.5%). The CAC 40 closed with a fall (-7.1%) and the IBEX 35 recorded the biggest drop (-15.4%). Outside the Eurozone, the Swiss market index SMI closed the year unchanged (+0.8%), while the United Kingdom's FTSE 100 index ended the year down 14.3%.

In the US equity market, the S&P 500 index closed the year up (+16.3%), while the Nasdaq Composite technology stocks index outperformed significantly, with an increase of 43.6%. The overall performance of the main Asian stock markets was positive: the Nikkei 225 index ended the year with the rise +16%, while the Chinese SSE A-Share benchmark index ended the period up 13.9%.

The Italian stock market closed 2020 with a fall, but with a recovery from the lows of mid-March: the FTSE MIB index was down 5.4%, in line with the performance of the FTSE Italia All Share index (-5.6%). Mid-cap stocks outperformed: the FTSE Italia STAR index ended the year up 14.1%.

The European corporate bond markets closed 2020 with risk premiums (measured as asset swap spread - ASW) up on the beginning of the year, but with a significant improvement on the end of March. 2020 was a year characterised by high volatility, with central bank measures offsetting the negative impact of the COVID-19 health crisis.

After a positive start to the year, the outbreak of the pandemic triggered a sharp adjustment. The period of downturn, during the month of March, continued until investor concerns were alleviated by the intervention of national and supra-national institutions, through the measures announced to support the economy. Specifically, bond markets benefited significantly from the actions of the European Central Bank, particularly the new PEPP purchase programme. The period of recovery that began in April almost entirely cancelled out the negative impact of the pandemic. The primary market steadily improved during the year, after an initial slowdown in issuances.

Investors and issuers continued to show strong interest in Environmental, Social and Governance (ESG) topics. According to the Bloomberg data, at global level, bond issuances related to this sector grew by around 40% compared to 2019. The health crisis and its economic impacts have given a major boost to social bonds in particular, the proceeds of which are used to support significant social-impact initiatives. Social bonds issued globally in 2020 amounted to approximately 160 billion USD, a sharp increase on 18 billion USD issued in 2019. In this area, the European Union issued 39.5 billion euro under its SURE (Support to mitigate Unemployment Risks in an Emergency) programme.

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## The emerging economies and markets

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The COVID-19 pandemic and the ensuing restrictive measures on social distancing and the free movement of people had a dramatic effect on economic performance, also in the emerging economies, causing a fall in GDP estimated by the IMF at over 3%. Excluding China, whose economy is estimated to grow in the same year by around 2%, the reduction in GDP among the emerging economies exceeds 2%.

The hardest hit economies were in Latin America and the MENA region, including Central Asia, which were also affected by the sharp drop in energy commodity prices and production, with GDP falling by more than 7% and around 3%, respectively, according to the IMF estimates. The estimated fall in GDP was more moderate in the sub-Saharan region of Africa (around -3%), which benefited from the strong performance of agricultural production, and in emerging Asia (around -1%), thanks to the performance of the Chinese economy.

In the regions with Intesa Sanpaolo subsidiaries, considering the figures for the fourth quarter, which, however, are available for only a few countries, a decrease in GDP is estimated of more than 4% in Central and South-Eastern Europe (CEE/SEE), and around 4.5% in Eastern Europe (EE), with performance at individual country level ranging from -0.9% in Serbia to -8.4% in Croatia, in the first region, and from -4.4% in Russia to -6.5% in Moldova, in the second region. The economic contraction was particularly severe in the second quarter (more than 10% year-on-year in the CEE/SEE area and 8% in the EE area), when the first wave of the virus hit, due to the very strict countermeasures. This was followed by a strong rebound in the third quarter, as a result of the easing of the restrictive measures. In contrast to the European regions, growth in Egypt remained positive overall in the first three quarters of 2020 (+0.9%), although with a significant gap compared to the pre-COVID-19 growth estimates (5.9% in the IMF forecasts).

In 2020, the contraction in domestic demand and the fall in energy commodity prices led to a year-on-year decline in inflation, although not across the board, with much sharper falls in the areas most affected by the crisis. In the regions with Intesa Sanpaolo subsidiaries, consumer price growth (in 2020) decreased on average to around 2.7% from 3.1% for the full year 2019 in the CEE/SEE area (with figures ranging from -1.0% in Bosnia H. to above 3.5% in Hungary and Poland) and to 3.3% from 4.8% in the EE area. In Egypt, where price growth has been slowing since 2017, inflation in 2020 was 5.1% from 9.4% in 2019. In all the countries, inflation rates were well within the central bank target ranges and at the lower end in a good few cases.



To contain the economic effects of the pandemic (and the associated restrictive measures) and support the gradual economic recovery, the monetary and fiscal authorities of the emerging countries also implemented expansionary economic policies, although with varying degrees of intensity.

In the countries with Intesa Sanpaolo subsidiaries, the fall in domestic demand for investment and consumption was counteracted on the whole by both monetary policy action – through aggressive interest rate cuts, massive injections of liquidity into the markets, moratoria and other credit support measures – and fiscal policy action – through financial support measures for households and businesses, government loan guarantee schemes, and the launch of public investment programmes.

Monetary policy rates, already at historical lows, were cut again by 175 basis points to 0.25% in the Czech Republic, by 125 basis points to 1% in Serbia and by 100 basis points to 1.5% in Romania. Outside the CEE/SEE area, key interest rates were cut by 200 basis points to 4.25% in Russia, by as much as 750 basis points to 6% in Ukraine, by 285 basis points to 2.65% in Moldova and by 400 basis points to 9.25% in Egypt. On the fiscal front, the IMF estimates that, as a result of higher spending and lower revenues, public finance as a percentage of GDP increased by 4.5 percentage points in the CEE/SEE area, by 2.4 percentage points in Russia and by 1.6 percentage points in Egypt.

The emerging financial markets, supported by monetary policies and expectations of overcoming the pandemic crisis through vaccinations, recovered after a strong negative reaction upon the outbreak of the pandemic. For the full year 2020, the MSCI emerging markets equity index gained 16.6%, followed by the S&P 500 with a rise of 16.3%. In the major markets, very strong gains were recorded in Asia (Shanghai +14%).

In the CEE/SEE area countries with Intesa Sanpaolo subsidiaries, whose leading manufacturing sectors, such as the automotive sector, were hit hard by the crisis triggered by the pandemic, share prices, despite recovering after the slump in the second quarter, still fell on average by around 7.0%, with double-digit falls in some countries such as Croatia and Serbia (-13.8% and -12.8% respectively). Outside the CEE/SEE region, the stock indices fell by 10.4% in Russia, penalised by the fall in hydrocarbon prices, and 22.3% in Egypt.

In the currency markets, the Other Important Trading Partners (OITP) Dollar Index, which indicates the performance of the US dollar against a basket of emerging currencies, appreciated by around 9% in the first half of the year, after which it declined over the next six months back down to the levels at the beginning of the year. Some currencies depreciated significantly, especially the Argentine dollar (-28.8%) and the Turkish lira (-19.9%).

In the EE area countries with Intesa Sanpaolo subsidiaries, both the Russian rouble (-16.2%) and the Ukraine hryvnia (-16.0) depreciated against the US dollar. In the non-Eurozone CEE and SEE countries, depreciation against the euro was registered for the Hungarian forint (around 9%), the Polish zloty (6.5%) and the Czech koruna (3%). The Croatian koruna remained broadly stable, at around central parity in the European Exchange Rate Mechanism (ERM II).

The exceptional injection of liquidity into the markets prompted a fairly widespread decline in long-term yields internationally and in emerging markets as a whole. In the countries with Intesa Sanpaolo subsidiaries, the fall in the yield on 10-year bonds averaged around 40 basis points in the CEE/SEE area and around 30 basis points in Russia.

## The Italian banking system

### Interest rates and spreads

Bank interest rates also fell in 2020, although only by a small amount. The average rate on new loans to businesses decreased, particularly in the first half of the year, reaching new all-time lows in March and April. However, this decline halted in the second half of the year. Interest rates on mortgage loans to households also reached new lows, especially on fixed-rate mortgages, which even fell below floating rates from April. But, in the second half of the year, the average interest rate on home purchase loans stabilised at its lowest level. The average rate on outstanding loans, which reflected the changes in interest rates on new loans to households and businesses, fell by 21 basis points compared to the end of 2019.

Deposit rates decreased slightly, with minor haircuts for current accounts, due to the low levels reached. Rates on new time deposits seesawed: after an initial phase of significant increases up to March, rates on time deposits declined in the summer months, only to rise again moderately in the autumn months. The average annual decrease with respect to 2019 was minimal. The overall cost of customer deposits continued its steady and gradual decline. The spread between lending and funding rates narrowed further, by an annual average of 10 basis points.

As in the previous eight years, the mark-down on sight deposits remained negative in 2020, falling even further from mid-year, due to the changes in monetary rates and the stickiness of on-demand deposit rates, anchored at above zero. The mark-up on short-term interest rates also fell.

### Loans

The pandemic and the subsequent policy measures have had a significant impact on the bank credit market. Unlike other crises, there has not been a supply shock, thanks to the ECB's measures to support liquidity and longer-term funding, the moratoria and public guaranteed loans, as well as initiatives by supervisory and regulatory authorities to enable banks to support credit and deal with the risks associated with the crisis. Supply conditions remained favourable overall, despite increased prudence on the part of banks in response to perceived risks and the foreseeable deterioration in credit quality, temporarily mitigated by the support policies put in place. The demand shock had contrasting effects, negative for loans to households, which slowed down significantly from March, and positive for loans to businesses, whose trend reversed, to climb back up again.

Loans to businesses were buoyed by liquidity needs and exceptional credit support measures through public guarantees. The result was a return of considerable demand for credit from businesses. After having overcome the initial difficulties in starting up the public guaranteed loans, the huge volume of applications boosted lending, reaching almost 100 billion euro at the



year-end for SMEs and 20 billion euro for large-sized companies, backed by SACE guarantees. The stock of loans was also supported by the moratoria, with 2.7 million applications from businesses and households for a stock of loans amounting to around 300 billion euro. As a result, the growth in loans to non-financial companies gradually strengthened, reaching +8.5% year-on-year in December. After an initial and temporary rebound in short-term loans to businesses, linked to immediate liquidity needs resulting from the lockdown measures, the gradual implementation of public guarantee transactions generated a recovery in medium/long-term lending.

In contrast, the strong growth in loans to households slowed down from March, particularly for consumer credit due to the steep decline in spending on durable goods. After the double-digit growth in the final part of 2019 and the first two months of 2020, disbursements of mortgage loans declined in March and April and then rose again in May, mainly due to renegotiations. In the autumn months, renegotiations declined again, dragging down gross loan flows, while new home purchase mortgages remained on the rise. Overall, the growth in the stock of loans to consumer households for home purchases held up well, slowing from 2.5% year-on-year in February to 1.9% in August, but recovering towards the end of the year, to +2.2% in November.

With regard to credit quality, Italian banks continued their process of derisking, which accelerated towards the end of the year with significant sales and securitisations. The stock of net bad loans as a percentage of total loans decreased to 1.2%, down 3.7 percentage points compared to the highs of 2015-16. In the third quarter of 2020, the default rate in terms of annualised quarterly flow of non-performing loans in relation to total performing loans fell to new all-time lows, at 0.9% for the entire economy. This trend continues to reflect the government measures to support access to credit (moratoria and guarantees on new loans), as well as the use of the flexibility allowed in the loan classification rules, in accordance with the guidance from the supervisory authorities.

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### Direct deposits

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For customer deposits the effects of the pandemic strengthened the trends underway prior to the onset of the crisis. In particular, current accounts, which had already been very lively for around seven years, gained even more momentum, growing by more than 10% from September and reaching a high of +14.2% in December. The strong performance of the on-demand component led to a significant increase in overall deposits and total funding from customers, despite the sharp decline in the bond component from March onwards. The latter primarily reflected the lower needs for medium/long-term funding, which benefited from the substantial liquidity made available by the ECB. Total funding, including ECB refinancing and non-resident deposits, accelerated up to a growth rate of 9% year-on-year in the autumn months and 12.2% at year-end. The increase in deposits was driven by several factors: on the one hand, the climate of uncertainty and risk aversion, which resulted in a strong preference for liquidity, combined with lower consumption levels and higher propensity to save. On the other hand, balances on company accounts were partly fuelled by the increase in bank debts resulting from access to temporary liquidity and credit support measures. In fact, strong growth continued in deposits from non-financial companies, which saw a record inflow of 88 billion euro from January to December, with double-digit growth from May onwards, closing 2020 with a change of +28.7% yoy.

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### Indirect deposits and asset management

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For assets under administration, the decline in debt securities held in custody by banks on behalf of households continued in 2020. The persistence of the trend reflected the ongoing fall in bank bonds held by retail customers. In contrast, there was an increase in debt securities held by non-financial companies from April, which, although relatively small, appears to be consistent with the aggregate cash inflow into the current accounts for this segment.

The mutual fund industry saw significant net outflows in the first quarter of 2020 which intensified suddenly in March, following the collapse of the stock market indices triggered by the negative impact of the pandemic on the world economy. However, in the following quarters, mutual funds received strong inflows, particularly into equity and bond funds, allowing the industry to close the year on a positive note. Portfolio management schemes also proved to be very resilient. In contrast, life insurance recorded a decline in total new business compared to 2019, due to the sharp fall in premiums of Class I and Class V policies, while unit-linked policies saw a much smaller decline, in keeping with the resilience of the mutual fund flows.

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# Economic results

## General aspects

A condensed reclassified consolidated income statement has been prepared to give a more immediate understanding of results. To enable consistent comparison, the figures for previous periods are normally restated, where necessary and material, also to account for changes in the scope of consolidation.

The consolidated interim income statement for the year includes, with effect from the acquisition date and thus for the August-December period, the economic effects of the acquisition of UBI Banca and its subsidiaries. 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 refer to the income components net of the UBI Group's data, in order to ensure a consistent comparison. However, in order to improve the reader's understanding, the main amounts referring to the Group acquired and the consolidated figure including said amounts are highlighted in the tables. The detailed quarterly performance tables only show - for the third quarter of 2020 - the consolidated figure net of the UBI Group for a uniform comparison of the performance of the values.

Given the above, the restatement on a like-for-like basis of the comparative income statement figures with effect from the first quarter of 2019 involved:

- the line-by-line income statement results of RBM Assicurazione Salute, which entered the line-by-line scope of consolidation due to the finalisation of the acquisition of the majority shareholding of the company in the second quarter of 2020;
- the inclusion in the caption Income (Loss) from discontinued operations of the income components attributable to the acquiring business unit contributed to Nexi at the end of the first half of 2020;
- the inclusion among Operating costs of effect of the fees to be paid to Prelios under the servicing agreement for unlikely-to-pay loans, which entered into effect at the end of 2019, assuming that this agreement had entered into effect from 1 January 2019, since it will have an ongoing impact on future income statements.

Breakdowns of restatements and reclassifications made in accordance with the layout established in Bank of Italy Circular 262 are provided in separate tables included in the attachments, as also required by Consob in its Communication 6064293 of 28 July 2006.

In summary, the reclassifications and aggregations of the consolidated income statement are as follows:

- dividends relating to shares or units in portfolio and dividends collected or paid within the framework of securities lending, which have been reallocated to the caption Profits (losses) on financial assets and liabilities designated at fair value;
- Profits (losses) on financial assets and liabilities pertaining to insurance companies (measured pursuant to IAS 39, by virtue of the Group's exercise of the option to defer application of IFRS 9), which include the shares of Net interest income, Dividends and Income from financial assets and liabilities relating to insurance business, have been reclassified, along with net premiums and the balance of income and expenses from insurance business, to the specific caption Income from insurance business, to which the effect of the adjustment of the technical reserve has also been attributed, in respect of the component borne by the insured parties, relating to the impairment of the securities held in the portfolios of the Group's insurance companies;
- differentials on derivatives, classified to the trading book and contracted to hedge transactions in foreign currencies, have been allocated among Net interest income owing to the close correlation;
- Profits (losses) on trading, fair value adjustments in hedge accounting, profits (losses) on financial assets and liabilities measured at fair value through profit or loss, profits (losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income and on sale or repurchase of financial liabilities, which have been reallocated to the single caption Profits (losses) on financial assets and liabilities designated at fair value;
- the share of the premium on the issue of the certificates paid to the networks for their placement, which is reclassified from Profits (Losses) on assets and liabilities designated at fair value to Net fee and commission income;
- the return components of the insurance policies taken out to cover contractual indemnities and retention plans for financial advisors, which are deducted directly from Profits (Losses) on financial assets and liabilities designated at fair value, in accordance with the valuation effect of the assets in question, rather than being presented – as attributable to the advisors – among Other net provisions and net impairment losses on other assets (for valuation effects) or among Net fee and commission income or Other operating income (expenses), depending on the type of insurance policy used (for effects from realisation);
- the operating income of Risanamento and its subsidiaries, reallocated to Other operating income (expenses), in view of the fact that the entities concerned are not subject to management and coordination within the framework of the Group and operate in sectors entirely distinct from banking and finance;
- the recoveries of expenses, taxes and duties have been subtracted from Other administrative expenses, instead of being included among Other income;
- profits and losses on disposal or repurchase of financial assets measured at amortised cost (loans and debt securities representing loans), which have been allocated to Net adjustments to loans;
- Net adjustments/recoveries for credit risk associated with financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, the effects on the income statement of the changes in contracts and the net provisions for risks and charges for credit risk relating to commitments and guarantees given, attributed to the single item Net adjustments to loans;
- the reversal in the time value of Employee termination indemnities and Allowances for risks and charges, which was included among Net interest income, as a phenomenon deriving directly from the application of the amortised cost

criterion, in the absence of changes in projected future cash flows, in keeping with the treatment of the time value of financial assets measured at amortised cost;

- Net losses for credit risk associated with financial assets measured at amortised cost other than loans and net impairment losses on equity investments, as well as property and equipment and intangible assets (including property and other assets, such as those resulting from the enforcement of guarantees or purchase at auction and intended for sale on the market in the near future), which have been reclassified to Other net provisions and net impairment losses on other assets, which consequently include – in addition to the provisions for risks and charges other than those relating to commitments and guarantees – the valuation effects of the assets other than loans, with the sole exception of impairment losses on intangible assets that have been reclassified to Impairment (net of tax) of goodwill and other intangible assets;
- realised profits (losses) on financial assets measured at amortised cost other than loans, on equity investments and on other investments have been reallocated to Other income (expenses). Accordingly, in addition to the income and expenses not strictly related to operations, this caption represents the summary of the effects from the realisation of assets other than loans. Profits (Losses) realised on debt securities in correlation with trading activity represent an exception; they are classified to Profits (Losses) on financial assets and liabilities designated at fair value;
- Charges (net of tax) for integration and exit incentives, which are reclassified from Personnel expenses, Other administrative expenses and other captions of the income statement to a separate caption;
- the Effects of purchase price allocation, net of the tax effect, are indicated in a specific caption. They normally represent adjustments to and any impairment losses on financial assets and liabilities and property, equipment and intangible assets which were measured at fair value as provided for by IFRS 3. In the 2020 income statement, this caption includes the positive effect of the recognition of the negative goodwill relating to the acquisition of UBI Banca (for additional details, refer to the specific disclosure regarding the acquisition in the initial chapter of this report);
- levies and other charges aimed at maintaining the stability of the banking industry, which are reclassified, after tax, to the specific caption;
- Goodwill impairment and impairment losses on other intangible assets, which – where present – are shown, as stated above, net of tax.

## Reclassified income statement

	2020		2019		(millions of euro) Changes	
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)
Net interest income	7,783	713	7,070	7,005	65	0.9
Net fee and commission income	8,303	721	7,582	7,962	-380	-4.8
Income from insurance business	1,353	10	1,343	1,268	75	5.9
Profits (Losses) on financial assets and liabilities designated at fair value	1,572	131	1,441	1,928	-487	-25.3
Other operating income (expenses)	12	39	-27	4	-31	
<b>Operating income</b>	<b>19,023</b>	<b>1,614</b>	<b>17,409</b>	<b>18,167</b>	<b>-758</b>	<b>-4.2</b>
Personnel expenses	-6,139	-608	-5,531	-5,748	-217	-3.8
Other administrative expenses	-2,679	-219	-2,460	-2,601	-141	-5.4
Adjustments to property, equipment and intangible assets	-1,153	-58	-1,095	-1,058	37	3.5
<b>Operating costs</b>	<b>-9,971</b>	<b>-885</b>	<b>-9,086</b>	<b>-9,407</b>	<b>-321</b>	<b>-3.4</b>
<b>Operating margin</b>	<b>9,052</b>	<b>729</b>	<b>8,323</b>	<b>8,760</b>	<b>-437</b>	<b>-5.0</b>
Net adjustments to loans	-4,214	-54	-4,160	-2,089	2,071	99.1
Other net provisions and net impairment losses on other assets	-346	-8	-338	-254	84	33.1
Other income (expenses)	64	-	64	55	9	16.4
Income (Loss) from discontinued operations	1,163	-	1,163	88	1,075	
<b>Gross income (loss)</b>	<b>5,719</b>	<b>667</b>	<b>5,052</b>	<b>6,560</b>	<b>-1,508</b>	<b>-23.0</b>
Taxes on income	-1,360	-170	-1,190	-1,825	-635	-34.8
Charges (net of tax) for integration and exit incentives	-1,561	-1,387	-174	-106	68	64.2
Effect of purchase price allocation (net of tax)	1,960	2,062	-102	-117	-15	-12.8
Levies and other charges concerning the banking industry (net of tax)	-512	-47	-465	-360	105	29.2
Impairment (net of tax) of goodwill and other intangible assets	-912	-	-912	-	912	-
Minority interests	-57	-19	-38	30	-68	
<b>Net income (loss)</b>	<b>3,277</b>	<b>1,106</b>	<b>2,171</b>	<b>4,182</b>	<b>-2,011</b>	<b>-48.1</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.

## Quarterly development of the reclassified income statement

(millions of euro)

	2020						2019					
	Fourth quarter			Third quarter			Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)						
Net interest income	2,187	432	1,755	2,099	281	1,818	1,750	1,747	1,747	1,741	1,761	1,756
Net fee and commission income	2,582	449	2,133	2,133	272	1,861	1,744	1,844	2,166	1,966	1,965	1,865
Income from insurance business	319	7	312	298	3	295	367	369	320	321	304	323
Profits (Losses) on financial assets and liabilities designated at fair value	189	126	63	126	5	121	263	994	356	480	634	458
Other operating income (expenses)	13	25	-12	2	14	-12	12	-15	-10	5	10	-1
<b>Operating income</b>	<b>5,290</b>	<b>1,039</b>	<b>4,251</b>	<b>4,658</b>	<b>575</b>	<b>4,083</b>	<b>4,136</b>	<b>4,939</b>	<b>4,579</b>	<b>4,513</b>	<b>4,674</b>	<b>4,401</b>
Personnel expenses	-1,808	-371	-1,437	-1,595	-237	-1,358	-1,380	-1,356	-1,519	-1,422	-1,419	-1,388
Other administrative expenses	-885	-131	-754	-658	-88	-570	-583	-553	-752	-637	-625	-587
Adjustments to property, equipment and intangible assets	-319	-23	-296	-303	-35	-268	-267	-264	-285	-261	-252	-260
<b>Operating costs</b>	<b>-3,012</b>	<b>-525</b>	<b>-2,487</b>	<b>-2,556</b>	<b>-360</b>	<b>-2,196</b>	<b>-2,230</b>	<b>-2,173</b>	<b>-2,556</b>	<b>-2,320</b>	<b>-2,296</b>	<b>-2,235</b>
<b>Operating margin</b>	<b>2,278</b>	<b>514</b>	<b>1,764</b>	<b>2,102</b>	<b>215</b>	<b>1,887</b>	<b>1,906</b>	<b>2,766</b>	<b>2,023</b>	<b>2,193</b>	<b>2,378</b>	<b>2,166</b>
Net adjustments to loans	-1,475	31	-1,506	-938	-85	-853	-1,398	-403	-693	-473	-554	-369
Other net provisions and net impairment losses on other assets	-122	-1	-121	-67	-7	-60	262	-419	-168	-19	-37	-30
Other income (expenses)	59	-	59	23	-	23	-21	3	50	-2	1	6
Income (Loss) from discontinued operations	-	-	-	-	-	-	1,134	29	25	22	22	19
<b>Gross income (loss)</b>	<b>740</b>	<b>544</b>	<b>196</b>	<b>1,120</b>	<b>123</b>	<b>997</b>	<b>1,883</b>	<b>1,976</b>	<b>1,237</b>	<b>1,721</b>	<b>1,810</b>	<b>1,792</b>
Taxes on income	-166	-139	-27	-320	-31	-289	-313	-561	-312	-532	-446	-535
Charges (net of tax) for integration and exit incentives	-1,484	-1,387	-97	-27	-	-27	-35	-15	-27	-27	-30	-22
Effect of purchase price allocation (net of tax)	-1,227	-1,202	-25	3,237	3,264	-27	-24	-26	-12	-37	-28	-40
Levies and other charges concerning the banking industry (net of tax)	-38	2	-40	-197	-49	-148	-86	-191	-22	-96	-96	-146
Impairment (net of tax) of goodwill and other intangible assets	-912	-	-912	-	-	-	-	-	-	-	-	-
Minority interests	-12	-15	3	-3	-4	1	-10	-32	8	15	6	1
<b>Net income (loss)</b>	<b>-3,099</b>	<b>-2,197</b>	<b>-902</b>	<b>3,810</b>	<b>3,303</b>	<b>507</b>	<b>1,415</b>	<b>1,151</b>	<b>872</b>	<b>1,044</b>	<b>1,216</b>	<b>1,050</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.



## Operating income

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 and net fee and commission income, only partially offset by the moderately positive performances of income from insurance business and net interest income. Overall, the resilience of revenues largely offset the adverse impacts of the persistent pandemic emergency on the income statement.

### Net interest income

	2020		2019		(millions of euro) Changes	
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)
Relations with customers	7,686	617	7,069	7,392	-323	-4.4
Securities issued	-1,698	-93	-1,605	-2,073	-468	-22.6
<b>Customer dealing</b>	<b>5,988</b>	<b>524</b>	<b>5,464</b>	<b>5,319</b>	<b>145</b>	<b>2.7</b>
Instruments measured at amortised cost which do not constitute loans	468	33	435	345	90	26.1
Other financial assets and liabilities designated at fair value through profit or loss	57	3	54	125	-71	-56.8
Other financial assets designated at fair value through other comprehensive income	768	27	741	868	-127	-14.6
<b>Financial assets and liabilities</b>	<b>1,293</b>	<b>63</b>	<b>1,230</b>	<b>1,338</b>	<b>-108</b>	<b>-8.1</b>
<b>Relations with banks</b>	<b>17</b>	<b>-3</b>	<b>20</b>	<b>79</b>	<b>-59</b>	<b>-74.7</b>
<b>Differentials on hedging derivatives</b>	<b>-712</b>	<b>-5</b>	<b>-707</b>	<b>-724</b>	<b>-17</b>	<b>-2.3</b>
<b>Non-performing assets</b>	<b>833</b>	<b>106</b>	<b>727</b>	<b>905</b>	<b>-178</b>	<b>-19.7</b>
<b>Other net interest income</b>	<b>364</b>	<b>28</b>	<b>336</b>	<b>88</b>	<b>248</b>	
<b>Net interest income</b>	<b>7,783</b>	<b>713</b>	<b>7,070</b>	<b>7,005</b>	<b>65</b>	<b>0.9</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.



Net interest income of 7,070 million euro excluding the contribution of 713 million euro by the UBI Group were up by 0.9% on a like-for-like basis compared to the previous year. In a market context characterised by interest rates that remain well within negative territory, the positive performance was due to customer dealing, up by 2.7%, driven by the decrease in the cost of funding in the form of securities issued and the increase in loan volumes, whereas financial assets, particularly those measured at fair value, declined by 8.1%. Among the other components, there were significant declines in interest on non-performing assets, due to the decrease in new NPL flows, and net interest income on relations with banks and, to a lesser degree, the contribution of hedging of core deposits, including differentials on hedging derivatives. Other net interest income increased significantly, including the positive contribution of TLTROs with the ECB.

	2020						(millions of euro)		
	Fourth quarter			Third quarter (d)	Second quarter (e)	First quarter (f)	Changes %		
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)				(c/d)	(d/e)	(e/f)
Relations with customers	2,089	365	1,724	1,729	1,785	1,831	-0.3	-3.1	-2.5
Securities issued	-398	-30	-368	-377	-405	-455	-2.4	-6.9	-11.0
<b>Customer dealing</b>	<b>1,691</b>	<b>335</b>	<b>1,356</b>	<b>1,352</b>	<b>1,380</b>	<b>1,376</b>	<b>0.3</b>	<b>-2.0</b>	<b>0.3</b>
Instruments measured at amortised cost which do not constitute loans	126	17	109	128	111	87	-14.8	15.3	27.6
Other financial assets and liabilities designated at fair value through profit or loss	-	1	-1	19	20	16		-5.0	25.0
Other financial assets designated at fair value through other comprehensive income	181	13	168	182	192	199	-7.7	-5.2	-3.5
<b>Financial assets and liabilities</b>	<b>307</b>	<b>31</b>	<b>276</b>	<b>329</b>	<b>323</b>	<b>302</b>	<b>-16.1</b>	<b>1.9</b>	<b>7.0</b>
<b>Relations with banks</b>	<b>-1</b>	<b>-2</b>	<b>1</b>	<b>17</b>	<b>-3</b>	<b>5</b>	<b>-94.1</b>		
<b>Differentials on hedging derivatives</b>	<b>-199</b>	<b>-27</b>	<b>-172</b>	<b>-175</b>	<b>-182</b>	<b>-178</b>	<b>-1.7</b>	<b>-3.8</b>	<b>2.2</b>
<b>Non-performing assets</b>	<b>253</b>	<b>79</b>	<b>174</b>	<b>176</b>	<b>187</b>	<b>190</b>	<b>-1.1</b>	<b>-5.9</b>	<b>-1.6</b>
<b>Other net interest income</b>	<b>136</b>	<b>16</b>	<b>120</b>	<b>119</b>	<b>45</b>	<b>52</b>	<b>0.8</b>		<b>-13.5</b>
<b>Net interest income</b>	<b>2,187</b>	<b>432</b>	<b>1,755</b>	<b>1,818</b>	<b>1,750</b>	<b>1,747</b>	<b>-3.5</b>	<b>3.9</b>	<b>0.2</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.

The net interest income flow recorded in the fourth quarter of 2020 is lower than in the third quarter and essentially in line with the values for the first two quarters of the year. The decline compared to the third quarter is essentially due to the financial component, which was affected by the downsizing of the securities portfolio, related to the integrated management of the former Intesa and former UBI portfolios, and the deleveraging effect.

	2020		2019		(millions of euro)	
					Changes	
					amount	%
Banca dei Territori	4,090	4,134	-44	-1.1		
IMI Corporate & Investment Banking	2,131	1,872	259	13.8		
International Subsidiary Banks	1,310	1,370	-60	-4.4		
Private Banking	196	177	19	10.7		
Asset Management	-	1	-1			
Insurance	-	-	-	-		
<b>Total business areas</b>	<b>7,727</b>	<b>7,554</b>	<b>173</b>	<b>2.3</b>		
Corporate Centre	-657	-549	108	19.7		
<b>Intesa Sanpaolo Group (net of UBI Group)</b>	<b>7,070</b>	<b>7,005</b>	<b>65</b>	<b>0.9</b>		
UBI Group	713					
<b>Intesa Sanpaolo Group</b>	<b>7,783</b>					

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents. The figures concerning UBI Group have not been restated.

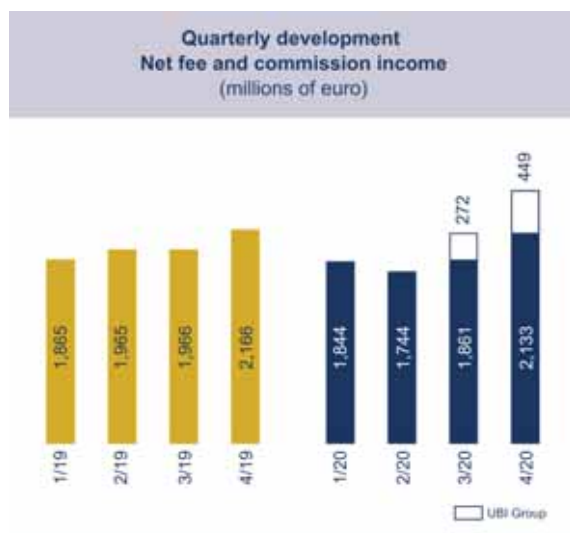
**Business areas**  
**Net interest income**


The Banca dei Territori Division, which accounts for 52.9% of operating business area results, recorded net interest income of 4,090 million euro, a level slightly below 2019 (-1.1%, or -44 million euro). The net interest income of the IMI Corporate & Investment Banking recorded an increase (+13.8%, or +259 million euro), primarily attributable to the greater contribution from loans to customers, driven by structured finance operations. By contrast, net interest income decreased for the International Subsidiary Banks (-4.4%, or -60 million euro), mostly attributable to the subsidiaries operating in Slovakia and Croatia. The Private Banking Division, which in relative terms has a lesser impact on the consolidated accounts, increased its contribution to net interest income by 19 million euro (+10.7%), primarily due to the increase in the average volumes of treasury time deposits and the containment of the average cost of funding. The increase in the net interest expense of the Corporate Centre was essentially attributable to the greater cost of excess liquidity in view of the decrease in short-term market rates, which remained in negative territory.

**Net fee and commission income**

													(millions of euro)	
	2020						2019						Changes	
	Consolidated figure (a)			Of which: UBI Group (b)			Consolidated figure net of UBI Group (c) = (a) - (b)			Consolidated figure (d)			amount (e) = (c) - (d)	% (e) / (d)
	Income	Expense	Net	Income	Expense	Net	Income	Expense	Net	Income	Expense	Net		
Guarantees given / received	380	-178	202	18	-12	6	362	-166	196	341	-112	229	-33	-14.4
Collection and payment services	649	-163	486	40	-6	34	609	-157	452	720	-213	507	-55	-10.8
Current accounts	1,371	-	1,371	181	-	181	1,190	-	1,190	1,222	-	1,222	-32	-2.6
Credit and debit cards	635	-312	323	41	-19	22	594	-293	301	631	-306	325	-24	-7.4
<b>Commercial banking activities</b>	<b>3,035</b>	<b>-653</b>	<b>2,382</b>	<b>280</b>	<b>-37</b>	<b>243</b>	<b>2,755</b>	<b>-616</b>	<b>2,139</b>	<b>2,914</b>	<b>-631</b>	<b>2,283</b>	<b>-144</b>	<b>-6.3</b>
Dealing and placement of securities	1,081	-237	844	112	-7	105	969	-230	739	960	-196	764	-25	-3.3
Currency dealing	18	-3	15	3	-	3	15	-3	12	13	-3	10	2	20.0
Portfolio management	3,345	-809	2,536	231	-2	229	3,114	-807	2,307	3,110	-739	2,371	-64	-2.7
Distribution of insurance products	1,519	-	1,519	86	-	86	1,433	-	1,433	1,441	-	1,441	-8	-0.6
Other	338	-100	238	25	-28	-3	313	-72	241	316	-52	264	-23	-8.7
<b>Management, dealing and consultancy activities</b>	<b>6,301</b>	<b>-1,149</b>	<b>5,152</b>	<b>457</b>	<b>-37</b>	<b>420</b>	<b>5,844</b>	<b>-1,112</b>	<b>4,732</b>	<b>5,840</b>	<b>-990</b>	<b>4,850</b>	<b>-118</b>	<b>-2.4</b>
<b>Other fee and commission</b>	<b>1,012</b>	<b>-243</b>	<b>769</b>	<b>84</b>	<b>-26</b>	<b>58</b>	<b>928</b>	<b>-217</b>	<b>711</b>	<b>1,068</b>	<b>-239</b>	<b>829</b>	<b>-118</b>	<b>-14.2</b>
<b>Total</b>	<b>10,348</b>	<b>-2,045</b>	<b>8,303</b>	<b>821</b>	<b>-100</b>	<b>721</b>	<b>9,527</b>	<b>-1,945</b>	<b>7,582</b>	<b>9,822</b>	<b>-1,860</b>	<b>7,962</b>	<b>-380</b>	<b>-4.8</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.



Net fee and commission income for 2020, excluding the contribution of 721 million euro attributable to the UBI Group, came to 7,582 million euro, down by 4.8% compared to 2019 on a like-for-like basis. Despite the recovery in the third and fourth quarters, the result was severely influenced by the performance in the first half of the year, marked by the lockdown and by the financial market collapse at the height of the pandemic. These phenomena were reflected in a decline in fee and commission income both on commercial banking business (-6.3%, or -144 million euro), with decreases across all components, and on management, dealing and financial consultancy business (-2.4%, or -118 million euro); in particular, there was a decrease in the contribution relating to individual and collective portfolio management schemes (-2.7%, or -64 million euro) and securities dealing and placement (-3.3%, or -25 million euro). Finally, other fee and commission income also declined (-14.2%, or -118 million euro) due to the decrease in revenues on factoring transactions and other transactions.

If the UBI Group's operations from August to December are also considered, net fee and commission income amounted to 8,303 million euro.

	2020						(millions of euro) Changes %		
	Fourth quarter			Third quarter	Second quarter	First quarter	(c/d)	(d/e)	(e/f)
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	(d)	(e)	(f)			
Guarantees given / received	53	4	49	48	49	50	2.1	-2.0	-2.0
Collection and payment services	151	22	129	106	103	114	21.7	2.9	-9.6
Current accounts	413	110	303	299	295	293	1.3	1.4	0.7
Credit and debit cards	100	13	87	83	68	63	4.8	22.1	7.9
<b>Commercial banking activities</b>	<b>717</b>	<b>149</b>	<b>568</b>	<b>536</b>	<b>515</b>	<b>520</b>	<b>6.0</b>	<b>4.1</b>	<b>-1.0</b>
Dealing and placement of securities	273	72	201	185	168	185	8.6	10.1	-9.2
Currency dealing	5	2	3	3	3	3	-	-	-
Portfolio management	839	146	693	548	516	550	26.5	6.2	-6.2
Distribution of insurance products	443	51	392	364	333	344	7.7	9.3	-3.2
Other	64	-2	66	63	50	62	4.8	26.0	-19.4
<b>Management, dealing and consultancy activities</b>	<b>1,624</b>	<b>269</b>	<b>1,355</b>	<b>1,163</b>	<b>1,070</b>	<b>1,144</b>	<b>16.5</b>	<b>8.7</b>	<b>-6.5</b>
<b>Other net fee and commission income</b>	<b>241</b>	<b>31</b>	<b>210</b>	<b>162</b>	<b>159</b>	<b>180</b>	<b>29.6</b>	<b>1.9</b>	<b>-11.7</b>
<b>Net fee and commission income</b>	<b>2,582</b>	<b>449</b>	<b>2,133</b>	<b>1,861</b>	<b>1,744</b>	<b>1,844</b>	<b>14.6</b>	<b>6.7</b>	<b>-5.4</b>

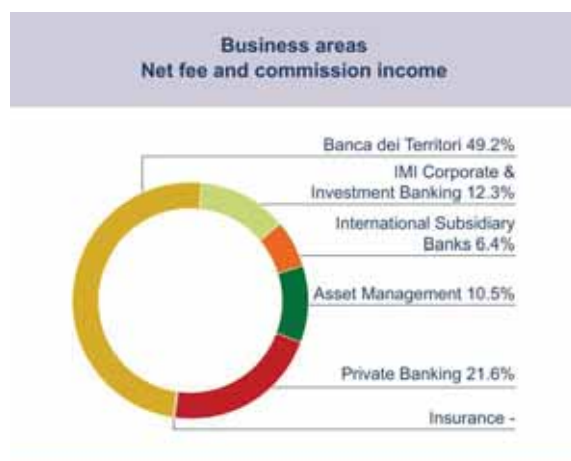
Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.

Fee and commission income for the fourth quarter recovered significantly, continuing the recovery that had begun in June, reaching the highest levels of 2020. In particular, in the fourth quarter there was an increase in the contribution of fee and commission income relating to the asset management industry (funds, portfolio management schemes and insurance products) with reference to management, dealing and financial consultancy activity, as well as those relating to collection and payment services, with reference to commercial banking activities. This therefore confirmed the efficacy of the Group's remote offerings, pursued by enhancing the digital channels in support of customers.

The lowest figure of 2020 was recorded in the second quarter, which reflected the consequences of the full impact of distancing measures designed to contain the pandemic.

	2020	2019	(millions of euro) Changes	
			amount	%
Banca dei Territori	3,910	4,179	-269	-6.4
IMI Corporate & Investment Banking	979	999	-20	-2.0
International Subsidiary Banks	505	537	-32	-6.0
Private Banking	1,714	1,747	-33	-1.9
Asset Management	835	799	36	4.5
Insurance	2	-	2	-
<b>Total business areas</b>	<b>7,945</b>	<b>8,261</b>	<b>-316</b>	<b>-3.8</b>
Corporate Centre	-363	-299	64	21.4
<b>Intesa Sanpaolo Group (net of UBI Group)</b>	<b>7,582</b>	<b>7,962</b>	<b>-380</b>	<b>-4.8</b>
UBI Group	721			
<b>Intesa Sanpaolo Group</b>	<b>8,303</b>			

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents. The figures concerning UBI Group have not been restated.



With regard to business areas, the Banca dei Territori Division, which accounts for approximately half of the fee and commission income of the business units, recorded a decrease (-6.4%, or -269 million euro) in fee and commission income, affected by the abrupt slowdown in the first six months of the year associated with containment of the COVID-19 pandemic, to be attributed to both the management, dealing and financial consultancy and commercial banking segments. Net fee and commission income also declined for IMI Corporate & Investment Banking (-2%, or -20 million euro) due to the performance of the commercial banking segment, Private Banking (-1.9%, or -33 million euro), attributable to the decrease in performance fees and the increase in fee and commission expenses for incentives for the distribution networks, and for the International Subsidiary Banks (-6%, or -32 million euro), essentially attributable to the subsidiary operating in Croatia. On the other hand, asset management fee and commission income increased by 4.5% (+36 million euro), benefiting from the strong performances of asset management

products. The increase in the net fee and commission expense of the Corporate Centre was mainly due to the increase in guarantees received on synthetic portfolio securitisations and from Sace on credit risk hedging transactions.



In application of IFRS 15, which requires a breakdown of revenues from contracts with customers (except for revenues from lease contracts, insurance contracts and financial instruments), a breakdown of fee and commission income and expense by business area is provided below.

	Banca dei Territori	IMI Corporate & Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre (a)	Total 2020 Intesa Sanpaolo Group (net of UBI Group)	UBI Group	Total 2020 Intesa Sanpaolo Group	Total 2019	(millions of euro) Changes	
												amount	%
Guarantees given	74	250	36	2	-	-	-	362	18	380	341	21	6.2
Collection and payment services	343	86	162	7	-	-	11	609	40	649	720	-111	15.4
Current accounts	1,031	28	124	7	-	-	-	1,190	181	1,371	1,222	-32	-2.6
Credit and debit cards	364	2	195	8	-	-	25	594	41	635	631	-37	-5.9
<b>Commercial banking activities</b>	<b>1,812</b>	<b>366</b>	<b>517</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>36</b>	<b>2,755</b>	<b>280</b>	<b>3,035</b>	<b>2,914</b>	<b>-159</b>	<b>-5.5</b>
Dealing and placement of securities	1,044	306	20	194	320	-	-915	969	112	1,081	960	9	0.9
Currency dealing	6	2	3	3	-	-	1	15	3	18	13	2	15.4
Portfolio management	112	10	18	1,546	1,654	-	-226	3,114	231	3,345	3,110	4	0.1
Distribution of insurance products	799	-	26	608	-	2	-2	1,433	86	1,519	1,441	-8	-0.6
Other	56	73	13	166	1	-	4	313	25	338	316	-3	-0.9
<b>Management, dealing and consultancy activities</b>	<b>2,017</b>	<b>391</b>	<b>80</b>	<b>2,517</b>	<b>1,975</b>	<b>2</b>	<b>-1,138</b>	<b>5,844</b>	<b>457</b>	<b>6,301</b>	<b>5,840</b>	<b>4</b>	<b>0.1</b>
<b>Other net fee and commission income</b>	<b>310</b>	<b>371</b>	<b>74</b>	<b>20</b>	<b>122</b>	<b>-</b>	<b>31</b>	<b>928</b>	<b>84</b>	<b>1,012</b>	<b>1,068</b>	<b>-140</b>	<b>13.1</b>
<b>Fee and commission income</b>	<b>4,139</b>	<b>1,128</b>	<b>671</b>	<b>2,561</b>	<b>2,097</b>	<b>2</b>	<b>-1,071</b>	<b>9,527</b>	<b>821</b>	<b>10,348</b>	<b>9,822</b>	<b>-295</b>	<b>-3.0</b>
<b>Fee and commission expense</b>	<b>-229</b>	<b>-149</b>	<b>-166</b>	<b>-847</b>	<b>-1,262</b>	<b>-</b>	<b>708</b>	<b>-1,945</b>	<b>-100</b>	<b>-2,045</b>	<b>1,860</b>	<b>85</b>	<b>4.6</b>
<b>Net fee and commission income</b>	<b>3,910</b>	<b>979</b>	<b>505</b>	<b>1,714</b>	<b>835</b>	<b>2</b>	<b>-363</b>	<b>7,582</b>	<b>721</b>	<b>8,303</b>	<b>7,962</b>	<b>-380</b>	<b>-4.8</b>

(a) The Corporate Centre has been attributed the intersector netting.

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents. The figures concerning UBI Group have not been restated.

## Income from insurance business

Captions (a)	2020									2019			Changes	
	Consolidated figure (a)			Of which: UBI Group (b)			Consolidated figure net of UBI Group (c) = (a) - (b)			Consolidated figure (d)			amount (e) = (c) - (d)	% (e) / (d)
	Life	Non-life	Total	Life	Non-life	Total	Life	Non-life	Total	Life	Non-life	Total	amount	%
<b>Technical margin</b>	<b>196</b>	<b>351</b>	<b>547</b>	<b>-12</b>	<b>-</b>	<b>-12</b>	<b>208</b>	<b>351</b>	<b>559</b>	<b>185</b>	<b>243</b>	<b>428</b>	<b>131</b>	<b>30.6</b>
Net insurance premiums (b)	10,056	951	11,007	96	-	96	9,960	951	10,911	9,623	965	10,588	323	3.1
Net charges for insurance claims and surrenders (c)	-8,979	-403	-9,382	-87	-	-87	-8,892	-403	-9,295	-6,544	-514	-7,058	2,237	31.7
Net charges for changes in technical reserves (d)	-2,038	-4	-2,042	-17	-	-17	-2,021	-4	-2,025	-4,497	-2	-4,499	-2,474	-55.0
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	1,277	-	1,277	-1	-	-1	1,278	-	1,278	1,751	-	1,751	-473	-27.0
Net fees on investment contracts (f)	329	-	329	-1	-	-1	330	-	330	322	1	323	7	2.2
Commission expenses on insurance contracts (g)	-460	-159	-619	-2	-	-2	-458	-159	-617	-476	-163	-639	-22	-3.4
Other technical income and expense (h)	11	-34	-23	-	-	-	11	-34	-23	6	-44	-38	-15	-39.5
<b>Net investment result</b>	<b>723</b>	<b>10</b>	<b>733</b>	<b>22</b>	<b>-</b>	<b>22</b>	<b>701</b>	<b>10</b>	<b>711</b>	<b>791</b>	<b>12</b>	<b>803</b>	<b>-92</b>	<b>-11.5</b>
Operating income from investments	4,557	10	4,567	26	-	26	4,531	10	4,541	10,084	12	10,096	-5,555	-55.0
<i>Net interest income</i>	1,620	3	1,623	22	-	22	1,598	3	1,601	1,741	3	1,744	-143	-8.2
<i>Dividends</i>	256	6	262	-	-	-	256	6	262	254	2	256	6	2.3
<i>Gains/losses on disposal</i>	69	2	71	1	-	1	68	2	70	1,815	7	1,822	-1,752	-96.2
<i>Valuation gains/losses</i>	2,698	-	2,698	6	-	6	2,692	-	2,692	6,352	-	6,352	-3,660	-57.6
<i>Portfolio management fees paid (i)</i>	-86	-1	-87	-3	-	-3	-83	-1	-84	-78	-	-78	6	7.7
Gains (losses) on investments pertaining to insured parties	-3,834	-	-3,834	-4	-	-4	-3,830	-	-3,830	-9,293	-	-9,293	-5,463	-58.8
<i>Insurance products (j)</i>	-1,354	-	-1,354	-	-	-	-1,354	-	-1,354	-1,768	-	-1,768	-414	-23.4
<i>Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)</i>	57	-	57	1	-	1	56	-	56	-19	-	-19	75	
<i>Investment products (l)</i>	-2,537	-	-2,537	-5	-	-5	-2,532	-	-2,532	-7,506	-	-7,506	-4,974	-66.3
<b>Income from insurance business gross of consolidation effects</b>	<b>919</b>	<b>361</b>	<b>1,280</b>	<b>10</b>	<b>-</b>	<b>10</b>	<b>909</b>	<b>361</b>	<b>1,270</b>	<b>976</b>	<b>255</b>	<b>1,231</b>	<b>39</b>	<b>3.2</b>
Consolidation effects	73	-	73	-	-	-	73	-	73	37	-	37	36	97.3
<b>Income from insurance business</b>	<b>992</b>	<b>361</b>	<b>1,353</b>	<b>10</b>	<b>-</b>	<b>10</b>	<b>982</b>	<b>361</b>	<b>1,343</b>	<b>1,013</b>	<b>255</b>	<b>1,268</b>	<b>75</b>	<b>5.9</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.

(a) The table illustrates the economic components of the insurance business broken down into those regarding:

- products considered to be insurance products according to IAS/IFRS, which include contracts where the risk insured is considered significant or in which the decision of the return on the contracts is not market-based but depends on the insurance company's choices;  
- investment products, which include financial products without a significant insurance risk. The latter are accounted for in the consolidated financial statements as financial movements.

(b) The caption includes premiums issued only for products considered to be insurance products according to IAS/IFRS, net of the portions ceded to reinsurers. For the non-life insurance business, the change in the premiums reserve is also included.

(c) The caption includes the amounts paid (claims, surrenders and maturities) and the change in claims reserves and reserves for amounts to be paid, net of portions ceded to reinsurers.

(d) The caption includes the change in technical reserves, net of the portions ceded to reinsurers.

(e) The caption includes the portion of the profit/loss from investments (for insurance products) pertaining to insured parties, including the impact of shadow accounting.

(f) The caption includes net fees on investment products; specifically, charges paid by customers, management fees received by the financial units and fee expenses reversed by the insurance companies to the sales network and management companies.

(g) The caption includes commission expenses on insurance products (including unit and index-linked insurance products and pension funds) paid to the sales network.

(h) Residual caption comprising fee income on insurance product management fee income (unit and index-linked insurance products and pension funds), rebates, net interest income on current accounts of the insurance company and on subordinated loans and other income and technical charges.

(i) The caption includes fees paid to management companies for the management of traditional insurance products (separate management) portfolios and pension funds. This also includes fees from consolidated funds underlying insurance units.

(j) The caption includes the portion of the profit/loss from investments (for insurance products) pertaining to insured parties, without the impact of shadow accounting.

(k) The caption includes the portion of unrealized capital gains/losses pertaining to insured parties on insurance products (shadow accounting).

(l) The caption refers to the valuation of financial liabilities designated at fair value which represent the amount payable to insured parties for investment products.



Income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, also includes the results of RBM Assicurazione Salute, following the finalisation of the acquisition of the majority shareholding of the company in May 2020. In 2020, this income amounted to 1,353 million euro; excluding the UBI Group's marginal contribution (10 million euro), growth compared to 2019 amounted to 5.9%. The performance was due to the increase in the technical margin (+30.6%, or +131 million euro), driven by the positive performance of the non-life business, which benefited from the excellent result of the non-motor component, owing to the significant decrease in claims associated with the lockdown, while premium performance remained constant. The life business technical margin increased more moderately, due to an improvement in the imbalance between net fee and commission income on investment contracts, fee and commission expense and other income. The net investment result, almost entirely attributable to the life business, was 711 million euro, down by 11.5% on 2019 on a like-for-like basis, owing to the lower profitability generated by the investments in the life portfolio.

Captions (a)	2019						Changes %		
	Fourth quarter			Third quarter (d)	Second quarter (e)	First quarter (f)	(c/d)	(d/e)	(e/f)
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)						
<b>Technical margin</b>	<b>119</b>	<b>-7</b>	<b>126</b>	<b>113</b>	<b>142</b>	<b>178</b>	<b>11.5</b>	<b>-20.4</b>	<b>-20.2</b>
Net insurance premiums (b)	3,668	59	3,609	2,676	2,028	2,598	34.9	32.0	-21.9
Net charges for insurance claims and surrenders (c)	-4,029	-59	-3,970	-2,103	-1,440	-1,782	88.8	46.0	-19.2
Net charges for changes in technical reserves (d)	19	-5	24	-742	-975	-332		-23.9	
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	538	-	538	358	603	-221	50.3	-40.6	
Net fees on investment contracts (f)	93	-1	94	81	67	88	16.0	20.9	-23.9
Commission expenses on insurance contracts (g)	-167	-1	-166	-143	-138	-170	16.1	3.6	-18.8
Other technical income and expense (h)	-3	-	-3	-14	-3	-3	-78.6		-
<b>Net investment result</b>	<b>194</b>	<b>14</b>	<b>180</b>	<b>175</b>	<b>191</b>	<b>165</b>	<b>2.9</b>	<b>-8.4</b>	<b>15.8</b>
Operating income from investments	4,091	16	4,075	1,982	5,385	-6,901		-63.2	
<i>Net interest income</i>	401	13	388	392	418	403	-1.0	-6.2	3.7
<i>Dividends</i>	72	-	72	63	73	54	14.3	-13.7	35.2
<i>Gains/losses on disposal</i>	431	1	430	304	-176	-488	41.4		-63.9
<i>Valuation gains/losses</i>	3,210	4	3,206	1,245	5,090	-6,849		-75.5	
<i>Portfolio management fees paid (i)</i>	-23	-2	-21	-22	-20	-21	-4.5	10.0	-4.8
Gains (losses) on investments pertaining to insured parties	-3,897	-2	-3,895	-1,807	-5,194	7,066		-65.2	
<i>Insurance products (j)</i>	-532	-	-532	-390	-676	244	36.4	-42.3	
<i>Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)</i>	-27	-	-27	22	43	18		-48.8	
<i>Investment products (l)</i>	-3,338	-2	-3,336	-1,439	-4,561	6,804		-68.4	
<b>Income from insurance business gross of consolidation effects</b>	<b>313</b>	<b>7</b>	<b>306</b>	<b>288</b>	<b>333</b>	<b>343</b>	<b>6.3</b>	<b>-13.5</b>	<b>-2.9</b>
Consolidation effects	6	-	6	7	34	26	-14	-79.4	30.8
<b>Income from insurance business</b>	<b>319</b>	<b>7</b>	<b>312</b>	<b>295</b>	<b>367</b>	<b>369</b>	<b>5.8</b>	<b>-19.6</b>	<b>-0.5</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.

For notes, see the previous table

Income from insurance business, including both the life and non-life/health business, was higher in the fourth quarter of 2020 than in the third, due to the improvement of the technical margin, and lower than in the first and second quarters.

(millions of euro)

Business	2020													2019
	Consolidated figure (a)				Of which: UBI Group (b)				Consolidated figure net of UBI Group (c) = (a) - (b)				Consolidated figure (d)	
	Periodic premiums	Single premiums	Total	of which new business	Periodic premiums	Single premiums	Total	of which new business	Periodic premiums	Single premiums	Total	of which new business		
<b>Life insurance business</b>	<b>306</b>	<b>9,751</b>	<b>10,057</b>	<b>9,723</b>	<b>35</b>	<b>61</b>	<b>96</b>	<b>33</b>	<b>271</b>	<b>9,690</b>	<b>9,961</b>	<b>9,690</b>	<b>9,624</b>	
Premiums issued on traditional products	177	7,259	7,436	7,232	35	60	95	33	142	7,199	7,341	7,199	7,737	
Premiums issued on unit-linked products	120	1,717	1,837	1,717	-	-	-	-	120	1,717	1,837	1,717	1,112	
Premiums issued on capitalisation products	-	1	1	-	-	1	1	-	-	-	-	-	1	
Premiums issued on pension funds	9	774	783	774	-	-	-	-	9	774	783	774	774	
<b>Non-life insurance business</b>	<b>899</b>	<b>237</b>	<b>1,136</b>	<b>337</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>899</b>	<b>237</b>	<b>1,136</b>	<b>337</b>	<b>1,126</b>	
Premiums issued	943	254	1,197	514	-	-	-	-	943	254	1,197	514	1,249	
Change in premium reserves	-44	-17	-61	-177	-	-	-	-	-44	-17	-61	-177	-123	
<b>Premiums ceded to reinsurers</b>	<b>-152</b>	<b>-34</b>	<b>-186</b>	<b>-43</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-152</b>	<b>-34</b>	<b>-186</b>	<b>-43</b>	<b>-162</b>	
<b>Net premiums from insurance products</b>	<b>1,053</b>	<b>9,954</b>	<b>11,007</b>	<b>10,017</b>	<b>35</b>	<b>61</b>	<b>96</b>	<b>33</b>	<b>1,018</b>	<b>9,893</b>	<b>10,911</b>	<b>9,984</b>	<b>10,588</b>	
Business on index-linked contracts	-	-	-	-	-	-	-	-	-	-	-	-	-	
Business on unit-linked contracts	74	6,944	7,018	6,950	-	-	-	-	74	6,944	7,018	6,950	8,314	
<b>Total business from investment contracts</b>	<b>74</b>	<b>6,944</b>	<b>7,018</b>	<b>6,950</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>74</b>	<b>6,944</b>	<b>7,018</b>	<b>6,950</b>	<b>8,314</b>	
<b>Total business</b>	<b>1,127</b>	<b>16,898</b>	<b>18,025</b>	<b>16,967</b>	<b>35</b>	<b>61</b>	<b>96</b>	<b>33</b>	<b>1,092</b>	<b>16,837</b>	<b>17,929</b>	<b>16,934</b>	<b>18,902</b>	

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.

Business in the insurance segment amounted to approximately 17.9 billion euro, less than the 18.9 billion euro recorded in 2019 on a like-for-like basis. The decline was attributable to class III products of a primarily financial nature, which fell to 7 billion euro from 8.3 billion euro in the previous year. On the positive side, in the life business there was an increase in unit-linked policies of a primarily insurance nature and a slight increase in pension policies, whereas operations in the non-life business remained stable. New business amounted to 16.9 billion euro, around the total premium inflows of the Group's insurance companies, which relate mostly to new single-premium contracts.

**Profits (Losses) on financial assets and liabilities designated at fair value**

	2020		2019		(millions of euro) changes	
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)
Interest rates	260	58	202	170	32	18.8
Equity instruments	182	26	156	357	-201	-56.3
Currencies	156	-9	165	123	42	34.1
Structured credit products	-7	-	-7	25	-32	
Credit derivatives	140	-	140	-40	180	
Commodity derivatives	18	-	18	18	-	-
<b>Income from operations on assets designated at fair value through profit or loss</b>	<b>749</b>	<b>75</b>	<b>674</b>	<b>653</b>	<b>21</b>	<b>3.2</b>
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	823	56	767	1,275	-508	-39.8
<b>Profits (Losses) on financial assets and liabilities designated at fair value</b>	<b>1,572</b>	<b>131</b>	<b>1,441</b>	<b>1,928</b>	<b>-487</b>	<b>-25.3</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.



Profits (Losses) on financial assets and liabilities designated at fair value amounted to 1,441 million euro (1,572 million euro including the contribution of the UBI Group), compared with 1,928 million euro in the previous year.

The decline was due to profits (losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities (-508 million euro), which was affected by lower capital gains on securities. On the other hand, the profits on assets designated at fair value through profit or loss increased moderately (+3.2%, or +21 million euro), primarily due to the positive contribution of certificates business, the performance of which should be viewed in conjunction with the contributions to the interest rates, equity instruments and credit derivatives component.



	2020						(millions of euro)		
	Fourth quarter			Third quarter (d)	Second quarter (e)	First quarter (f)	Changes %		
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)				(c/d)	(d/e)	(e/f)
Interest rates	-65	56	-121	-8	132	199			-33.7
Equity instruments	113	31	82	52	20	2	57.7		
Currencies	89	1	88	22	24	31		-8.3	-22.6
Structured credit products	12	-	12	7	12	-38	71.4	-41.7	
Credit derivatives	-62	-	-62	-39	-37	278	59.0	5.4	
Commodity derivatives	2	-	2	2	7	7	-	-71.4	-
<b>Income from operations on assets designated at fair value through profit or loss</b>	<b>89</b>	<b>88</b>	<b>1</b>	<b>36</b>	<b>158</b>	<b>479</b>	<b>-97.2</b>	<b>-77.2</b>	<b>-67.0</b>
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	100	38	62	85	105	515	-27.1	-19.0	-79.6
<b>Income (Losses) on financial assets and liabilities designated at fair value</b>	<b>189</b>	<b>126</b>	<b>63</b>	<b>121</b>	<b>263</b>	<b>994</b>	<b>-47.9</b>	<b>-54.0</b>	<b>-73.5</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.

At the quarterly level there was a progressive decline from the exceptionally high levels of the first quarter of the current year, due to the decline in transactions involving the securities portfolio and the significant decrease in the Debt Value Adjustment (DVA) correlated with liabilities in the form of certificates.

### Other operating income (expenses)

Other net operating expenses amounted to 27 million euro in 2020 (excluding the 39 million euro of other net operating expenses due to UBI Group) and are compared to 4 million euro of other income recognised in 2019 on a like-for-like basis. This caption includes both sundry operating income and expenses – including those of subsidiaries not subject to management and coordination operating in sectors completely distinct from banking and finance – and profits on investments carried at equity. The decline on the figure for 2019 was due almost entirely to the reduction in the latter component.

### Operating costs

	2020				2019		(millions of euro)	
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (d)	Changes			
					amount (e) = (c) - (d)	% (e) / (d)		
Wages and salaries	4,245	427	3,818	3,964	-146	-3.7		
Social security charges	1,095	111	984	1,012	-28	-2.8		
Other	799	70	729	772	-43	-5.6		
<b>Personnel expenses</b>	<b>6,139</b>	<b>608</b>	<b>5,531</b>	<b>5,748</b>	<b>-217</b>	<b>-3.8</b>		
Information technology expenses	748	68	680	678	2	0.3		
Management of real estate assets expenses	340	42	298	323	-25	-7.7		
General structure costs	373	12	361	367	-6	-1.6		
Professional and legal expenses	320	29	291	316	-25	-7.9		
Advertising and promotional expenses	132	6	126	128	-2	-1.6		
Indirect personnel costs	45	3	42	82	-40	-48.8		
Other costs	597	44	553	598	-45	-7.5		
Indirect taxes and duties	1,017	110	907	895	12	1.3		
Recovery of expenses and charges	-893	-95	-798	-786	12	1.5		
<b>Administrative expenses</b>	<b>2,679</b>	<b>219</b>	<b>2,460</b>	<b>2,601</b>	<b>-141</b>	<b>-5.4</b>		
Property and equipment	543	57	486	498	-12	-2.4		
Intangible assets	610	1	609	560	49	8.8		
<b>Adjustments</b>	<b>1,153</b>	<b>58</b>	<b>1,095</b>	<b>1,058</b>	<b>37</b>	<b>3.5</b>		
<b>Operating costs</b>	<b>9,971</b>	<b>885</b>	<b>9,086</b>	<b>9,407</b>	<b>-321</b>	<b>-3.4</b>		

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.



During the reporting period, operating costs amounted to 9,971 million euro, including the 885 million euro of operating costs attributable to the UBI Group. Excluding the latter, operating costs amounted to 9,086 million euro, a decrease of 3.4% on 2019.

Excluding the 608 million euro of costs relating to UBI personnel, personnel expenses of 5,531 million euro declined by 3.8%. The decline was driven primarily by downsizing at the level of average headcount on a like-for-like basis and the significant decline in the variable component, the overall savings from which were more than enough to offset the cost increase correlated to the effects of the renewal of the National Collective Bargaining Agreement. The downtrend was also driven by the decrease in certain expense captions affected by the health emergency and the resulting initiatives, including massive use of remote working.

Despite the higher costs associated with the health emergency, administrative expenses were limited to 2,460 million euro (excluding the 219 million euro attributable to UBI), a decline of 5.4%. There were widespread savings, in particular at the level of legal and professional fees, due to the decline in consulting costs, services rendered by third parties, property management expenses and indirect personnel costs, also influenced by the

spread of remote working, which entailed a decrease in business trips.

Depreciation and amortisation of property and equipment and intangible assets, which in accordance with IFRS 16 also include the share relating to rights of use acquired under operating leases, were higher on a like-for-like basis (+3.5%) than in 2019, particularly at the level of the intangible assets component. This performance reflects investments in the growth of information technology, with particular regard to digitalisation and IT security.

The consolidated cost/income ratio for the current year amounted to 52.4%. Excluding the UBI Group's revenues and costs for the last five months of 2020, the indicator comes to 52.2%, compared to a the slightly lower figure for 2019 (51.8%).

	2020						(millions of euro) Changes %		
	Fourth quarter			Third quarter	Second quarter	First quarter	(c/d)	(d/e)	(e/f)
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	(d)	(e)	(f)			
Wages and salaries	1,268	261	1,007	936	954	921	7.6	-1.9	3.6
Social security charges	324	67	257	241	247	239	6.6	-2.4	3.3
Other	216	43	173	181	179	196	-4.4	1.1	-8.7
<b>Personnel expenses</b>	<b>1,808</b>	<b>371</b>	<b>1,437</b>	<b>1,358</b>	<b>1,380</b>	<b>1,356</b>	<b>5.8</b>	<b>-1.6</b>	<b>1.8</b>
Information technology expenses	222	38	184	164	167	165	12.2	-1.8	1.2
Management of real estate assets expenses	106	26	80	70	77	71	14.3	-9.1	8.5
General structure costs	100	8	92	87	92	90	5.7	-5.4	2.2
Professional and legal expenses	127	16	111	66	59	55	68.2	11.9	7.3
Advertising and promotional expenses	60	4	56	22	27	21		-18.5	28.6
Indirect personnel costs	13	2	11	9	9	13	22.2	-	-30.8
Other costs	204	27	177	127	130	119	39.4	-2.3	9.2
Indirect taxes and duties	322	68	254	216	220	217	17.6	-1.8	1.4
Recovery of expenses and charges	-269	-58	-211	-191	-198	-198	10.5	-3.5	-
<b>Administrative expenses</b>	<b>885</b>	<b>131</b>	<b>754</b>	<b>570</b>	<b>583</b>	<b>553</b>	<b>32.3</b>	<b>-2.2</b>	<b>5.4</b>
Property and equipment	156	34	122	121	121	122	0.8	-	-0.8
Intangible assets	163	-11	174	147	146	142	18.4	0.7	2.8
<b>Adjustments</b>	<b>319</b>	<b>23</b>	<b>296</b>	<b>268</b>	<b>267</b>	<b>264</b>	<b>10.4</b>	<b>0.4</b>	<b>1.1</b>
<b>Operating costs</b>	<b>3,012</b>	<b>525</b>	<b>2,487</b>	<b>2,196</b>	<b>2,230</b>	<b>2,173</b>	<b>13.3</b>	<b>-1.5</b>	<b>2.6</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.

At the quarterly level, on a like-for-like basis operating costs in the fourth quarter of 2020 were higher than in the other quarters of the year due to the customary seasonal effects.

	2020	2019	(millions of euro) Changes	
			amount	%
Banca dei Territori	-5,065	-5,291	-226	-4.3
IMI Corporate & Investment Banking	-1,098	-1,148	-50	-4.4
International Subsidiary Banks	-981	-991	-10	-1.0
Private Banking	-604	-614	-10	-1.6
Asset Management	-156	-157	-1	-0.6
Insurance	-241	-224	17	7.6
<b>Total business areas</b>	<b>-8,145</b>	<b>-8,425</b>	<b>-280</b>	<b>-3.3</b>
Corporate Centre	-941	-982	-41	-4.2
<b>Intesa Sanpaolo Group (net of UBI Group)</b>	<b>-9,086</b>	<b>-9,407</b>	<b>-321</b>	<b>-3.4</b>
UBI Group	-885			
Intesa Sanpaolo Group	<b>-9,971</b>			

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents. The figures concerning UBI Group have not been restated.



At the level of operating costs, the Banca dei Territori Division, which accounts for 62.2% of all costs for the business areas, reported considerable savings compared to 2019 (-4.3%, or -226 million euro) thanks to lower personnel expenses, attributable to a reduction in the average workforce, and to administrative expenses, in spite of the greater expenses associated with the health emergency. There were also declines in IMI Corporate & Investment Banking (-4.4%, or -50 million euro), mainly due to lower administrative expenses, and in Private Banking (-1.6%, or -10 million euro), due to lower personnel and administrative expenses and International Subsidiary Banks (-1%, or -10 million euro), essentially due to savings on personnel costs. Asset management operating costs decreased slightly (-0.6%) as a result of administrative expenses. On the other hand, insurance reported an increase (+7.6%, or +17 million euro), attributable to all expense components in relation to project initiatives correlated to development of the business.

### Operating margin

The operating margin amounted to 9,052 million euro. Net of the UBI Group's contribution of 8,323 million euro, the caption equal to 8,323 million euro declined by 5% compared to 2019, owing to a decrease in revenues, partly offset by the reduction in operating costs.

## Net adjustments to loans

	2020		2019		(millions of euro) Changes	
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)
Bad loans	-1,832	-106	-1,726	-905	821	90.7
Unlikely to pay	-1,383	-15	-1,368	-1,314	54	4.1
Past due loans	-197	19	-216	-356	-140	-39.3
<b>Stage 3 loans</b>	<b>-3,412</b>	<b>-102</b>	<b>-3,310</b>	<b>-2,575</b>	<b>735</b>	<b>28.5</b>
of which debt securities	-	-	-	-	-	-
<b>Stage 2 loans</b>	<b>-762</b>	<b>22</b>	<b>-784</b>	<b>104</b>	<b>-888</b>	
of which debt securities	-3	1	-4	-16	-12	-75.0
<b>Stage 1 loans</b>	<b>-16</b>	<b>9</b>	<b>-25</b>	<b>365</b>	<b>-390</b>	
of which debt securities	3	-	3	9	-6	-66.7
<b>Net losses/recoveries on impairment of loans</b>	<b>-4,190</b>	<b>-71</b>	<b>-4,119</b>	<b>-2,106</b>	<b>2,013</b>	<b>95.6</b>
<b>Profits/losses from changes in contracts without derecognition</b>	<b>-29</b>	<b>-9</b>	<b>-20</b>	<b>-6</b>	<b>14</b>	
<b>Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given</b>	<b>5</b>	<b>26</b>	<b>-21</b>	<b>23</b>	<b>-44</b>	
<b>Net adjustments to loans</b>	<b>-4,214</b>	<b>-54</b>	<b>-4,160</b>	<b>-2,089</b>	<b>2,071</b>	<b>99.1</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.



In 2020, adjustments to loans amounted to 4,214 million euro (4,160 million euro net of the adjustments relating to the UBI Group from August to December). The comparison with the 2,089 million euro in the previous year on a like-for-like basis shows an extraordinary increase essentially due to the greater provisions required by the revision of the scenario following the epidemic event, in application of the conservative methods adopted by the Group, while taking account of the prospective vision outlined by the ECB and the Bank of Italy, with the recognition of greater adjustments of 2,164 million euro, of which approximately 1 billion euro to performing loans (Stage 1 and Stage 2) and the remainder to Stage 3 non-performing loans. Stage 3 non-performing loans increased by 735 million euro due to the growth of bad loans (+821 million euro) and unlikely-to-pay loans (+54 million euro), against a decrease in impairment losses on past-due loans (-140 million euro). In 2020 non-performing loans continued to fall as a percentage of total loans due to lower reclassifications to the NPL category and the securitisation in December of a portfolio of bad loans of approximately 4.3 billion euro gross of adjustments and approximately 1.2 billion euro net, as well as the recognition among non-current assets held for sale

and discontinued operations of portfolios classified as ready to be sold at the end of 2020 of approximately 3.2 billion euro gross of adjustments and approximately 0.5 billion euro net of adjustments. Overall, the deleveraging measures taken by Intesa Sanpaolo and UBI resulted in a reduction in gross non-performing loans, as a percentage of total loans, at 4.4% (4.9% excluding UBI).

The cost of credit, expressed as the ratio of net adjustments to net loans, of 50 basis points, rises as a result of the aforementioned provisions for the future impacts of COVID-19, to 104 basis points (91 basis points including UBI and the effects associated with the purchase price allocation) from 53 basis points at the end of 2019.

Coverage of non-performing loans was 48.6% at the end of December; excluding the impact of the UBI component, total coverage of non-performing loans amounted to 49.4%. Excluding the effect of the UBI purchase price allocation, coverage would amount to 50.2%.

In detail, on a like-for-like basis bad loans required net adjustments of 1,726 million euro, compared to 905 million euro in 2019, with a coverage ratio of 58.8%. Net impairment losses on unlikely to pay loans, totalling 1.368 million euro, were up by 4.1%, with a coverage ratio of 42.6%. Net impairment losses on past due loans amounted to 216 million euro (-39.3% compared to 2019), with a coverage ratio of 18.2%. The coverage ratio for forbore positions within the non-performing loans category was 40.9%. Finally, coverage of performing loans rose to 0.6% at the end of 2020 and incorporates the physiological risk inherent in the loan portfolio to reflect the effects of the changed scenario.

Finally, it should be noted that the UBI Group's adjustment values reflect the effects of the fair value adjustment of loan positions within the framework of the accounting treatment of the acquisition transaction through the purchase price allocation

governed by accounting standard IFRS 3. Furthermore, the reinstatement of the expected credit loss on the UBI Group's performing loans (428 million euro), the cumulated provisions for which were derecognised as part of the above process pursuant to IFRS 3, while not directly attributable to the purchase price allocation, was accounted for in the caption "Effect of purchase price allocation (net of tax)" since it was correlated to the acquisition.

	2020						(millions of euro) Changes %		
	Fourth quarter			Third quarter (d)	Second quarter (e)	First quarter (f)	(c/d)	(d/e)	(e/f)
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)						
Bad loans	-1,026	-23	-1,003	-295	-244	-184		20.9	32.6
Unlikely to pay	-239	27	-266	-518	-388	-196	-48.6	33.5	98.0
Past due loans	1	17	-16	-23	-113	-64	-30.4	-79.6	76.6
<b>Stage 3 loans</b>	<b>-1,264</b>	<b>21</b>	<b>-1,285</b>	<b>-836</b>	<b>-745</b>	<b>-444</b>	<b>53.7</b>	<b>12.2</b>	<b>67.8</b>
<i>of which debt securities</i>	-	-	-	-	-	-	-	-	-
<b>Stage 2 loans</b>	<b>-304</b>	<b>-10</b>	<b>-294</b>	<b>-29</b>	<b>-471</b>	<b>10</b>		<b>-93.8</b>	
<i>of which debt securities</i>	-11	1	-12	1	2	5	-50.0	-60.0	
<b>Stage 1 loans</b>	<b>94</b>	<b>1</b>	<b>93</b>	<b>-13</b>	<b>-136</b>	<b>31</b>		<b>-90.4</b>	
<i>of which debt securities</i>	2	-	2	1	-	-		-	-
<b>Net losses/recoveries on impairment of loans</b>	<b>-1,474</b>	<b>12</b>	<b>-1,486</b>	<b>-878</b>	<b>-1,352</b>	<b>-403</b>	<b>69.2</b>	<b>-35.1</b>	
<b>Profits/losses from changes in contracts without derecognition</b>	<b>-16</b>	<b>-6</b>	<b>-10</b>	<b>-2</b>	<b>-4</b>	<b>-4</b>		<b>-50.0</b>	<b>-</b>
<b>Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given</b>	<b>15</b>	<b>25</b>	<b>-10</b>	<b>27</b>	<b>-42</b>	<b>4</b>			
<b>Net adjustments to loans</b>	<b>-1,475</b>	<b>31</b>	<b>-1,506</b>	<b>-853</b>	<b>-1,398</b>	<b>-403</b>	<b>76.6</b>	<b>-39.0</b>	

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.

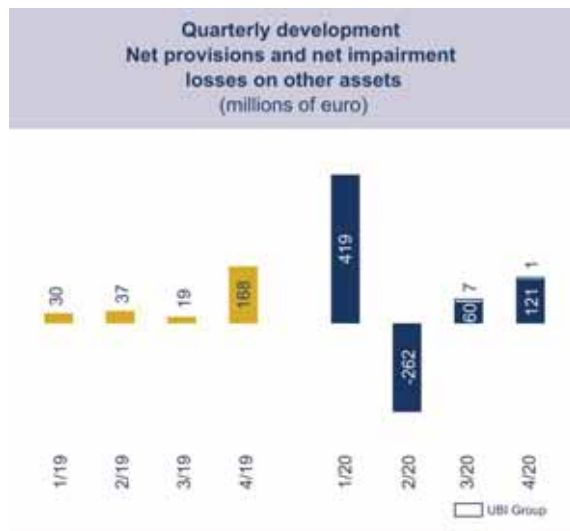
At the quarterly level, the second and fourth quarters of 2020 present significant adjustments to loans due to the extraordinary provisions recognised in response to the COVID-19 emergency.

#### Other net provisions and net impairment losses on other assets

	2020				2019		(millions of euro) Changes	
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)		
Other net provisions	-191	-3	-188	-125	63	50.4		
Net impairment losses on instruments measured at amortised cost and on instruments designated at fair value through other comprehensive income	-1	-4	3	-67	70			
Net impairment losses on other assets	-136	-	-136	-59	77			
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-18	-1	-17	-3	14			
<b>Other net provisions and net impairment losses on other assets</b>	<b>-346</b>	<b>-8</b>	<b>-338</b>	<b>-254</b>	<b>84</b>	<b>33.1</b>		

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.





Within the layout of the reclassified income statement, this caption primarily consists of other net provisions for risks and charges and net impairment losses on other assets and on securities measured at amortised cost and at fair value. In 2020, other net provisions and net impairment losses on other assets amounted to 338 million euro (346 million euro including the UBI Group), compared with the 254 million euro recognised in 2019. The increase recorded in the reporting period was mainly due to higher net provisions for legal disputes and tax disputes and adjustments to other assets.

	2020						(millions of euro) Changes %		
	Fourth quarter			Third quarter	Second quarter	First quarter	(c/d)	(d/e)	(e/f)
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	(d)	(e)	(f)			
Other net provisions	-59	4	-63	-57	274	-342	10.5		
Net impairment losses on instruments measured at amortised cost and on instruments designated at fair value through other comprehensive income	-3	-4	1	9	-	-7	-89	-	
Net impairment losses on other assets	-58	-	-58	-5	-9	-64	-44.4	-85.9	
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-2	-1	-1	-7	-3	-6	-86		-50.0
<b>Other net provisions and net impairment losses on other assets</b>	<b>-122</b>	<b>-1</b>	<b>-121</b>	<b>-60</b>	<b>262</b>	<b>-419</b>			

Figures restated, where necessary and material, considering the changes in the scope of consolidation. The figures concerning UBI Group have not been restated.

The fourth quarter presents other net provisions and net impairment losses on other assets of 121 million euro, amount exceeding the figure for the third quarter but not comparable with either the figure for the first quarter, which included the precautionary provision (312 million euro) recognised in advance against an initial estimate of the effects of the COVID-19 pandemic on performing loans, or for the second quarter of 2020, which presented a recovery due to the reversal of the above provision, inasmuch as the adjustments to loans at 30 June 2020 had included the updated assessment of the loan portfolio according to the customary methods adopted by the group and taking account of the prospective scenario prepared by the ECB and by the Bank of Italy.

#### *Other income (expenses)*

In this caption of the reclassified income statement, the “profits (losses) on financial assets measured at amortised cost other than loans, equity investments and other investments” are aggregated together with other income and expenses not strictly linked to operations.

On a like-for-like basis, other income amounted to 64 million euro, compared with the 55 million euro recorded in 2019.

#### *Income (Loss) from discontinued operations*

In 2020 this caption, which amounted to income of 1,163 million euro, relating to the income components of the acquiring business being contributed to Nexi (capital gain of 1,110 million euro, of which a day-one profit of 315 million euro correlated with the acquisition of the Nexi shares and 53 million euro of profits earned in the first six months of 2020 on the unit sold) was compared with 88 million euro reported in 2019.

**Gross income (loss)**

In 2020, income before tax from continuing operations came to 5,719 million euro, inclusive of the contribution of the UBI Group of 667 million euro. Net of this contribution, the caption amounts to 5,052 million euro, down by 23% compared to the like-for-like figure for 2019.

*Taxes on income*

Current and deferred taxes came to 1,190 million euro (net of the 170 million euro in taxes levied on UBI) for a tax rate of 23.6%.

*Charges (net of tax) for integration and exit incentives*

For a like-for-like comparison between the two years the negative effect of the UBI integration costs of 1,378 million euro and the residual 9 million euro of UBI exit incentives must be excluded from the figure recognised in this caption in 2020. Net of these components, the charges amounted to 174 million euro, compared to the 106 million euro recorded in 2019.

*Effect of purchase price allocation (net of tax)*

This caption comprises amounts attributable to the revaluation of loans, debts, real estate and the recognition of new intangible assets, in application of IFRS 3, upon recognition of acquisition of investments and/or aggregate assets. For a like-for-like comparison, the positive effect (approximately 2,062 million euro) relating to the recognition of the negative goodwill relating to the acquisition of the UBI Group must be excluded from the figure reported for 2020. Net of this extraordinary caption, in 2020 these costs amounted to 102 million euro, compared to the 117 million euro recorded in 2019.

*Levies and other charges concerning the banking industry (net of tax)*

The caption includes the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking system and consequently outside the company management. In 2020, these charges reached 512 million euro; net of the 47 million euro attributable to the UBI Group, the figure of 465 million euro is nonetheless higher than the 360 million euro recorded in 2019, due to the increase in deposit guarantee fund charges and, to a lesser extent, resolution fund charges. The charges recognised during the reporting period may be broken down as follows: -233 million euro attributable to resolution funds, -171 million euro to deposit guarantee funds and -42 million euro to charges recognised by international subsidiary banks and -19 million euro to the Atlante Fund.

*Impairment (net of tax) of goodwill and other intangible assets*

In 2020, the caption was measured in the fourth quarter at 912 million euro, an adjustment that fully offsets the goodwill attributable to the Banca dei Territori Division, also related to the increase in the accounting value of the Division following the integration with UBI Banca.

*Minority interests*

The minority interest share of net income of companies within the scope of line-by-line consolidation (mainly attributable to the insurance company acquired, RBM Assicurazione Salute) amounted to 38 million euro (net of the 19 million euro attributable to the UBI Group) for the reporting period, compared with net losses of 30 million euro attributable to minority interests in 2019.

**Net income (loss)**

In relation to the foregoing trends, 2020 ended with a consolidated net income of 3,277 million euro, which includes the contribution of the UBI Group from August to December and the effect of the PPA (purchase price allocation) procedure through the exact calculation, as at the date of acquisition, of the fair value of identifiable assets acquired and liabilities assumed of the UBI Group, as well as the write-off of the goodwill of the Banca dei Territory Division associated with the integration of UBI Banca. Net of these contributions, the net income was 3,083 million euro, compared with a like-for-like figure of 4,182 million in 2019; this result confirms the Group's solidity and the continuity of its positive performances, despite the decline attributable to the changed scenario, which required a considerable increase in adjustments to loans, and to the systemic decline of revenues induced by the COVID-19 crisis. Finally, excluding provisions for future impacts of the pandemic, the net income was approximately 4.5 billion euro.

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# Balance sheet aggregates

## General aspects

A reclassified condensed balance sheet has been prepared to permit a more immediate understanding of the Group's assets and liabilities.

The format adopted includes not only the figures for the reporting period, but also the comparative figures as at 1 January 2019 aimed at providing an account of the effects of the first-time adoption of IFRS 16 and thus at permitting a consistent comparison for the captions affected by the new financial reporting standard. In addition, the reclassified balance sheet also includes the changes in the comparative figures made in application of the accounting standard IFRS 3 to take account of the final allocation of the cost of acquiring Autostrade Lombarde.

In the interest of consistent comparison, the figures for previous periods are also restated, where necessary and material, to account for changes in the scope of consolidation. The restated financial statements are obtained by making appropriate adjustments to historical data to reflect the significant effects of such changes retroactively.

Certain aggregations and reclassifications have been made with respect to the model provided in Circular 262/05 of the Bank of Italy. Breakdowns of restatements, aggregations and reclassifications are provided in separate tables included in the attachments to the consolidated financial statements, as also required by Consob in its Communication 6064293 of 28 July 2006.

Aggregations and reclassifications of captions refer to:

- the inclusion of Cash and cash equivalents in the residual caption Other assets;
- the separate presentation of financial assets constituting Due from banks and Loans to customers, regardless of the accounting portfolios to which they have been allocated;
- the separate presentation of financial assets not constituting loans, divided into financial assets measured at amortised cost, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, net of the amounts reclassified to Due from banks and Loans to customers;
- the separate presentation of financial assets and liabilities pertaining to the insurance business, measured pursuant to IAS 39, in application of the deferral approach, by the Group's insurance companies;
- the aggregation in one single caption of Property and equipment and Intangible assets, broken down into the sub-captions Assets owned and Rights of use acquired under lease;
- the inclusion of Hedging derivatives and Fair value changes of financial assets/liabilities in hedged portfolios under Other assets/liabilities;
- the inclusion of the technical insurance reserves reassured with third parties under Other assets;
- the consolidation, within Other assets, of the financial and intangible components of the motorway concession held by Autostrade Lombarde (through its subsidiary Brebemi), in view of the close management correlation between the two components – considering that the value of the motorway concession is represented by the sum of the two – and the difference between the business conducted by the Autostrade Lombarde Group and that of the companies operating within the Intesa Sanpaolo Group;
- the separate presentation of Due to banks at amortised cost;
- the aggregation of Due to customers at amortised cost and Securities issued into one caption;
- the aggregation into one caption (Allowances for risks and charges) of allowances for specific purposes (Employee termination indemnities, Allowances for risks and charges, Allowances for commitments and financial guarantees given);
- the reclassification of Lease payables to a specific sub-caption of Other liabilities;
- the presentation of Reserves as an aggregate and net of any treasury shares.

## Reclassified balance sheet

Assets	31.12.2020			31.12.2019			Changes	
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)	(millions of euro)	
Due from banks	108,040	19,936	88,104	47,170	40,934	86.8		
Loans to customers	461,572	59,748	401,824	395,229	6,595	1.7		
<i>Loans to customers measured at amortised cost</i>	460,143	59,509	400,634	394,093	6,541	1.7		
<i>Loans to customers designated at fair value through other comprehensive income and through profit or loss</i>	1,429	239	1,190	1,136	54	4.8		
Financial assets measured at amortised cost which do not constitute loans	47,102	9,367	37,735	25,888	11,847	45.8		
Financial assets at fair value through profit or loss	57,065	2,580	54,485	48,636	5,849	12.0		
Financial assets at fair value through other comprehensive income	57,585	3,389	54,196	72,046	-17,850	-24.8		
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	177,170	2,764	174,406	168,233	6,173	3.7		
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,211	1	1,210	649	561	86.4		
Investments in associates and companies subject to joint control	1,996	613	1,383	1,240	143	11.5		
Property, equipment and intangible assets	19,044	2,693	16,351	17,157	-806	-4.7		
<i>Assets owned</i>	17,238	2,369	14,869	15,659	-790	-5.0		
<i>Rights of use acquired under leases</i>	1,806	324	1,482	1,498	-16	-1.1		
Tax assets	19,503	4,310	15,193	15,476	-283	-1.8		
Non-current assets held for sale and discontinued operations	28,702	25,620	3,082	494	2,588			
Other assets	23,624	1,421	22,203	24,352	-2,149	-8.8		
<b>Total Assets</b>	<b>1,002,614</b>	<b>132,442</b>	<b>870,172</b>	<b>816,570</b>	<b>53,602</b>	<b>6.6</b>		
Liabilities	31.12.2020			31.12.2019			Changes	
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)	(millions of euro)	
Due to banks at amortised cost	115,943	17,093	98,850	103,316	-4,466	-4.3		
Due to customers at amortised cost and securities issued	512,463	67,719	444,744	414,578	30,166	7.3		
Financial liabilities held for trading	59,033	959	58,074	45,226	12,848	28.4		
Financial liabilities designated at fair value	3,032	223	2,809	4	2,805			
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,928	-	1,928	818	1,110			
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	77,207	270	76,937	75,935	1,002	1.3		
Tax liabilities	3,029	802	2,227	2,322	-95	-4.1		
Liabilities associated with non-current assets held for sale and discontinued operations	35,676	32,015	3,661	41	3,620			
Other liabilities	24,007	8,330	15,677	23,433	-7,756	-33.1		
<i>of which lease payables</i>	1,747	304	1,443	1,496	-53	-3.5		
Technical reserves	96,811	2,403	94,408	89,243	5,165	5.8		
Allowances for risks and charges	7,164	1,009	6,155	5,132	1,023	19.9		
<i>of which allowances for commitments and financial guarantees given</i>	626	123	503	482	21	4.4		
Share capital	10,084	-	10,084	9,086	998	11.0		
Reserves	44,775	-	44,775	38,250	6,525	17.1		
Valuation reserves	-515	25	-540	-157	383			
Valuation reserves pertaining to insurance companies	809	3	806	504	302	59.9		
Equity instruments	7,441	388	7,053	4,103	2,950	71.9		
Minority interests	450	97	353	554	-201	-36.3		
Net income (loss)	3,277	1,106	2,171	4,182	-2,011	-48.1		
<b>Total liabilities and shareholders' equity</b>	<b>1,002,614</b>	<b>132,442</b>	<b>870,172</b>	<b>816,570</b>	<b>53,602</b>	<b>6.6</b>		

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

Quarterly development of the reclassified balance sheet

Assets	(millions of euro)											
	31.12.2020			30.09.2020			2020		2019			
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	30/6	31/3	31/12	30/9	30/6	31/3
Due from banks	108,040	19,936	88,104	85,307	15,133	70,174	61,649	67,440	47,170	71,958	77,141	85,515
Loans to customers	461,572	59,748	401,824	489,148	85,247	403,901	403,337	404,900	395,229	395,193	394,253	395,595
Loans to customers measured at amortised cost	460,143	59,509	400,634	487,629	84,996	402,633	402,075	403,626	394,093	394,289	393,243	394,990
Loans to customers designated at fair value through other comprehensive income and through profit or loss	1,429	239	1,190	1,519	251	1,268	1,262	1,274	1,136	904	1,010	605
Financial assets measured at amortised cost which do not constitute loans	47,102	9,367	37,735	43,453	7,913	35,540	33,937	29,353	25,888	24,104	20,396	19,995
Financial assets at fair value through profit or loss	57,065	2,580	54,485	61,317	2,192	59,125	59,943	55,431	48,636	54,542	52,693	47,626
Financial assets at fair value through other comprehensive income	57,585	3,389	54,196	80,621	10,306	70,315	73,403	71,865	72,046	75,052	65,996	66,406
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	177,170	2,764	174,406	170,471	2,693	167,778	165,342	158,687	168,233	167,083	159,220	155,289
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,211	1	1,210	1,050	1	1,049	735	604	649	603	615	738
Investments in associates and companies subject to joint control	1,996	613	1,383	1,766	294	1,472	1,462	1,273	1,240	1,113	1,071	1,075
Property, equipment and intangible assets	19,044	2,693	16,351	20,096	3,085	17,011	17,057	16,970	17,157	16,957	16,963	16,967
Assets owned	17,238	2,369	14,869	18,248	2,639	15,609	15,626	15,505	15,659	15,415	15,393	15,385
Rights of use acquired under leases	1,806	324	1,482	1,848	446	1,402	1,431	1,465	1,498	1,542	1,570	1,582
Tax assets	19,503	4,310	15,193	19,256	3,860	15,396	15,805	15,992	15,476	15,575	16,139	16,870
Non-current assets held for sale and discontinued operations	28,702	25,620	3,082	2,601	6	2,595	2,593	765	494	2,554	803	1,236
Other assets	23,624	1,421	22,203	21,762	2,677	19,085	23,385	25,141	24,352	24,501	23,586	22,444
<b>Total Assets</b>	<b>1,002,614</b>	<b>132,442</b>	<b>870,172</b>	<b>996,848</b>	<b>133,407</b>	<b>863,441</b>	<b>858,648</b>	<b>848,421</b>	<b>816,570</b>	<b>849,235</b>	<b>828,876</b>	<b>829,756</b>

Liabilities	(millions of euro)											
	31.12.2020			30.09.2020			2020		2019			
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	30/6	31/3	31/12	30/9	30/6	31/3
Due to banks at amortised cost	115,943	17,093	98,850	118,554	16,566	101,988	108,601	120,110	103,316	119,509	120,232	123,326
Due to customers at amortised cost and securities issued	512,463	67,719	444,744	535,391	98,091	437,300	426,533	424,533	414,578	415,128	411,588	416,505
Financial liabilities held for trading	59,033	959	58,074	57,022	850	56,172	55,132	54,376	45,226	53,938	51,187	48,433
Financial liabilities designated at fair value	3,032	223	2,809	2,978	230	2,748	2,060	762	4	4	4	4
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,928	-	1,928	1,857	-	1,857	1,771	818	818	879	847	846
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	77,207	270	76,937	73,960	252	73,708	72,860	68,822	75,935	74,405	72,027	70,955
Tax liabilities	3,029	802	2,227	2,584	274	2,310	2,204	2,581	2,322	2,520	2,015	2,634
Liabilities associated with non-current assets held for sale and discontinued operations	35,676	32,015	3,661	2,380	-	2,380	2,381	50	41	256	254	260
Other liabilities	24,007	8,330	15,677	32,335	9,030	23,305	33,789	27,078	23,433	32,298	26,573	22,710
of which lease payables	1,747	304	1,443	1,817	404	1,413	1,439	1,469	1,496	1,523	1,547	1,553
Technical reserves	96,811	2,403	94,408	94,536	2,339	92,197	89,950	87,060	89,243	89,337	84,807	82,648
Allowances for risks and charges	7,164	1,009	6,155	6,610	1,991	4,619	4,564	5,139	5,132	5,169	5,265	5,698
of which allowances for commitments and financial guarantees given	626	123	503	565	73	492	517	477	482	423	450	449
Share capital	10,084	-	10,084	10,076	-	10,076	9,086	9,086	9,086	9,086	9,086	9,085
Reserves	44,775	-	44,775	44,787	-	44,787	42,419	42,380	38,250	38,197	38,232	41,704
Valuation reserves	-515	25	-540	-894	26	-920	-1,441	-1,833	-157	-194	-474	-877
Valuation reserves pertaining to insurance companies	809	3	806	596	1	595	403	182	504	727	322	137
Equity instruments	7,441	388	7,053	7,423	398	7,025	5,549	5,550	4,103	4,103	4,103	4,103
Minority interests	450	97	353	277	56	221	221	576	554	563	542	535
Net income (loss)	3,277	1,106	2,171	6,376	3,303	3,073	2,566	1,151	4,182	3,310	2,266	1,050
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,002,614</b>	<b>132,442</b>	<b>870,172</b>	<b>996,848</b>	<b>133,407</b>	<b>863,441</b>	<b>858,648</b>	<b>848,421</b>	<b>816,570</b>	<b>849,235</b>	<b>828,876</b>	<b>829,756</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.



## BANKING BUSINESS

## Loans to customers

## Loans to customers: breakdown

	31.12.2020				31.12.2019		(millions of euro) Changes	
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	% breakdown	Consolidated figure (d)	% breakdown	amount (e) = (c) - (d)	% (e) / (d)
Current accounts	20,948	2,879	18,069	4.5	20,455	5.1	-2,386	-11.7
Mortgages	248,327	39,630	208,697	51.9	176,640	44.7	32,057	18.1
Advances and other loans	157,496	15,798	141,698	35.3	148,540	37.6	-6,842	-4.6
<b>Commercial banking loans</b>	<b>426,771</b>	<b>58,307</b>	<b>368,464</b>	<b>91.7</b>	<b>345,635</b>	<b>87.4</b>	<b>22,829</b>	<b>6.6</b>
Repurchase agreements	16,864	157	16,707	4.1	29,531	7.5	-12,824	-43.4
Loans represented by securities	7,194	883	6,311	1.6	5,841	1.5	470	8.0
Non-performing loans	10,743	401	10,342	2.6	14,222	3.6	-3,880	-27.3
<b>Loans to customers</b>	<b>461,572</b>	<b>59,748</b>	<b>401,824</b>	<b>100.0</b>	<b>395,229</b>	<b>100.0</b>	<b>6,595</b>	<b>1.7</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.



The Group's loans to customers exceeded 461 billion euro as at 31 December 2020; excluding the UBI Group's contribution, already net of loans held for sale, they amounted to 402 billion euro, marking an annual increase of 6.6 billion euro, or +1.7%. The growth of the aggregate on a like-for-like basis was due to commercial banking loans (+22.8 billion euro, or +6.6%), and in particular to the expansion of mortgages and other medium-/long-term loans to corporate and individual customers (+32.1 billion euro, or +18.1%), which reflect the Group's support to the Italian economy, including in relation to the extraordinary measures taken by the government. Medium/long-term loans largely offset the decline in short-term loans in the form of overdraft facilities (-2.4 billion euro, or -11.7%), and in advances and loans (-6.8 billion euro, or -4.6%). In addition, the favourable performance of commercial banking loans offset the significant decline in repurchase agreements (-12.8 billion euro) and the decrease in non-performing loans (-3.9 billion euro).

In the domestic medium/long-term loan market, disbursements to households in 2020 (including the small business accounts having similar needs to family businesses) amounted to 22.4 billion euro, while disbursements to businesses under the Banca dei Territori

scope (including customers with turnover of up to 350 million euro) came to 25.2 billion euro. During the year, medium/long-term disbursements to customers of the IMI Corporate & Investment Banking Division amounted to 29 billion euro. Disbursements within Italy, inclusive of loans to the non-profit sector and disbursements through third networks, amounted to 77.4 billion euro. If the activities of the international subsidiary banks are included, the Group's medium/long-term disbursements (excluding the UBI Group's transactions in the August to December period) reached 87.4 billion euro.

As at 31 December 2020, the Intesa Sanpaolo Group's share of the Italian domestic market, without considering the UBI Group, was estimated at 17.4% for total loans. This estimate was based on the sample deriving from the ten-day report of the Bank of Italy as the global banking system figures for the end of December are not yet available. The UBI Group's additional contribution is estimated at 4.8% in its current configuration. Net of the volumes of the branches that will be sold in accordance with the decisions of the Italian Antitrust Authority, the total share of loans to customers amounts to 20.6%.

	31.12.2020	31.12.2019	(millions of euro)	
			Changes amount	%
Banca dei Territori	207,533	194,358	13,175	6.8
IMI Corporate & Investment Banking	135,004	131,884	3,120	2.4
International Subsidiary Banks	36,079	34,038	2,041	6.0
Private Banking	9,853	9,329	524	5.6
Asset Management	452	435	17	3.9
Insurance	-	-	-	-
<b>Total business areas</b>	<b>388,921</b>	<b>370,044</b>	<b>18,877</b>	<b>5.1</b>
Corporate Centre	12,903	25,185	-12,282	-48.8
<b>Intesa Sanpaolo Group (net of UBI Group)</b>	<b>401,824</b>	<b>395,229</b>	<b>6,595</b>	<b>1.7</b>
UBI Group	<b>59,748</b>			
<b>Intesa Sanpaolo Group</b>	<b>461,572</b>			

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning UBI Group have not been restated.



In the analysis by business area, the Banca dei Territori Division, which accounts for over one-half of the aggregate of the Group's business areas, recorded a significant increase year-to-date (+12.9 billion euro, or +6.6%), due to medium/long-term loans to SMEs and retail businesses, which reflect the Group's support to the Italian economy, including in light of the extraordinary measures taken by the government. The IMI Corporate & Investment Banking Division reported growth of 3.1 billion euro (+2.4%), attributable to medium/long-term loans for structured finance transactions. The loans of the International Subsidiary Banks Division grew (+2 billion euro, or +6%) specifically due to the increase in the loans issued by the subsidiaries operating in Slovakia, Serbia, Croatia and Egypt. Turning to the other divisions, whose loans are of relatively modest amounts in light of their specific businesses, there were gains by both the loans of the Private Banking Division (+5.6%), primarily short-term loans, and those of the Asset Management Division (+3.9%).

The decline at the level of the Corporate Centre is attributable to repurchase agreements with institutional counterparties.

## Loans to customers: credit quality

	31.12.2020				31.12.2019		(millions of euro)
	Net exposure			% breakdown	Net exposure Consolidated figure (d)	% breakdown	Change Net exposure (e) = (c) - (d)
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)				
Bad loans	4,003	91	3,912	1.0	6,740	1.7	-2,828
Unlikely to pay	6,223	278	5,945	1.5	6,738	1.7	-793
Past due loans	517	32	485	0.1	744	0.2	-259
<b>Non-Performing Loans</b>	<b>10,743</b>	<b>401</b>	<b>10,342</b>	<b>2.6</b>	<b>14,222</b>	<b>3.6</b>	<b>-3,880</b>
<i>Non-performing loans in Stage 3 (subject to impairment)</i>	10,686	399	10,287	2.6	14,195	3.6	-3,908
<i>Non-performing loans designated at fair value through profit or loss</i>	57	2	55	-	27	-	28
<b>Performing loans</b>	<b>443,613</b>	<b>58,464</b>	<b>385,149</b>	<b>95.9</b>	<b>375,142</b>	<b>94.9</b>	<b>10,007</b>
<i>Stage 2</i>	69,023	11,295	57,728	14.4	40,078	10.1	17,650
<i>Stage 1</i>	373,512	46,932	326,580	81.3	334,344	84.6	-7,764
<i>Performing loans designated at fair value through profit or loss</i>	1,078	237	841	0.2	720	0.2	121
<b>Performing loans represented by securities</b>	<b>7,194</b>	<b>883</b>	<b>6,311</b>	<b>1.5</b>	<b>5,841</b>	<b>1.5</b>	<b>470</b>
<i>Stage 2</i>	3,060	42	3,018	0.8	2,942	0.8	76
<i>Stage 1</i>	4,134	841	3,293	0.7	2,899	0.7	394
<b>Loans held for trading</b>	<b>22</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>24</b>	<b>-</b>	<b>-2</b>
<b>Total loans to customers</b>	<b>461,572</b>	<b>59,748</b>	<b>401,824</b>	<b>100.0</b>	<b>395,229</b>	<b>100.0</b>	<b>6,595</b>
<i>of which forbore performing</i>	5,256	836	4,420		5,663		-1,243
<i>of which forbore non-performing</i>	3,542	157	3,385		4,038		-653
<b>Loans to customers classified as discontinued operations (*)</b>	<b>26,140</b>	<b>24,252</b>	<b>1,888</b>		<b>382</b>		<b>1,506</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

(\*) As at 31 December 2020, this caption included the portfolio of bad/unlikely to pay loans (net exposure of 1,189 million euro, of which 742 million euro pertaining to the UBI Group), together with the non-performing and performing loans included in the going concerns to be sold to BPER and BPPB (net exposure of 24,951 million euro, of which 23,510 million euro pertaining to the UBI Group).

As at 31 December 2020, the Group's net non-performing loans, excluding the stock of 401 million euro deriving from the UBI Group, already net of the component held for sale, amounted to 10.3 billion euro, which is a record low since 2008. The 27.3% reduction from the beginning of the year confirms the virtuous trend already recorded during the 2019 financial year. Non-performing assets also decreased as a percentage of total net loans to customers, down to 2.6%, in line with the de-risking strategy set out in the Business Plan, while the coverage ratio for non-performing loans was 49.4% (48.6% including UBI and 50.2% not taking account of the effects of the UBI purchase price allocation).

In further detail, at the end of December 2020, bad loans came to 3.9 billion euro net of adjustments and excluding the UBI component of 91 billion euro (-2.8 billion euro on the beginning of the year, or -42%), and represented 1% of total loans. During the same period, the coverage ratio stood at 58.8%. Loans included in the unlikely-to-pay category amounted to 5.9 billion euro (excluding the contribution of 278 million euro from the UBI Group), down by 11.8%, accounting for 1.5% of total loans to customers, with a coverage ratio of 42.6%. Past due loans, excluding the contribution of 32 million euro from the UBI Group, amounted to 485 million euro (-34.8%), with a coverage ratio of 18.2%. Within the non-performing loan category, forbore exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 3.4 billion euro, with a coverage ratio of 40.9% (net of the UBI component of 157 million euro), while forbore exposures in the performing loans category amounted to 4.4 billion euro (excluding 836 million euro from the UBI Group).

The coverage ratio for performing loans rose to 0.6% and includes approximately 1 billion euro of prudential provisions due to the revision of the scenario. These were in addition to approximately 1.2 billion euro of adjustments to non-performing loans, bringing the total provisions due to the revision of the scenario following the COVID-19 pandemic to approximately 2.2 billion euro.

Loans to customers classified as non-current assets held for sale mainly regard performing and non-performing loans included in the going concerns to be sold to BPER and to Banca Popolare di Puglia e Basilicata, for a net exposure of almost 25 billion euro, mainly referring to the UBI Group (23.5 billion euro). The caption also includes portfolios of bad loans and unlikely-to-pay exposures soon to be sold, for a net exposure of around 1.2 billion euro.

## Report on operations – Balance sheet aggregates

(millions of euro)

Captions	31.12.2020									31.12.2019					
	Gross exposure			Total adjustments			Net exposure			Gross exposure	Total adjustments	Net exposure	Change net exposure		
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure	Consolidated figure	Consolidated figure	Consolidated figure	Of which: UBI Group	Consolidated figure net of UBI Group
Bad loans	9,594	93	9,501	-5,591	-2	-5,589	4,003	91	3,912	19,418	-12,678	6,740	-2,737	91	-2,828
Unlikely to pay	10,678	317	10,361	-4,455	-39	-4,416	6,223	278	5,945	10,995	-4,257	6,738	-515	278	-793
Past due loans	627	34	593	-110	-2	-108	517	32	485	886	-142	744	-227	32	-259
<b>Non-Performing Loans</b>	<b>20,899</b>	<b>444</b>	<b>20,455</b>	<b>-10,156</b>	<b>-43</b>	<b>-10,113</b>	<b>10,743</b>	<b>401</b>	<b>10,342</b>	<b>31,299</b>	<b>-17,077</b>	<b>14,222</b>	<b>-3,479</b>	<b>401</b>	<b>-3,880</b>
<i>Non-performing loans in Stage 3 (subject to impairment)</i>	20,818	441	20,377	-10,132	-42	-10,090	10,686	399	10,287	31,257	-17,062	14,195	-3,509	399	-3,908
<i>Non-performing loans designated at fair value through profit or loss</i>	81	3	78	-24	-1	-23	57	2	55	42	-15	27	30	2	28
<b>Performing loans</b>	<b>446,420</b>	<b>58,887</b>	<b>387,533</b>	<b>-2,807</b>	<b>-423</b>	<b>-2,384</b>	<b>443,613</b>	<b>58,464</b>	<b>385,149</b>	<b>376,839</b>	<b>-1,697</b>	<b>375,142</b>	<b>68,471</b>	<b>58,464</b>	<b>10,007</b>
Stage 2	71,037	11,601	59,436	-2,014	-306	-1,708	69,023	11,295	57,728	41,146	-1,068	40,078	28,945	11,295	17,650
Stage 1	374,305	47,049	327,256	-793	-117	-676	373,512	46,932	326,580	334,973	-629	334,344	39,168	46,932	-7,764
<i>Performing loans designated at fair value through profit or loss</i>	1,078	237	841	-	-	-	1,078	237	841	720	-	720	358	237	121
<b>Performing loans represented by securities</b>	<b>7,231</b>	<b>885</b>	<b>6,346</b>	<b>-37</b>	<b>-2</b>	<b>-35</b>	<b>7,194</b>	<b>883</b>	<b>6,311</b>	<b>5,875</b>	<b>-34</b>	<b>5,841</b>	<b>1,353</b>	<b>883</b>	<b>470</b>
Stage 2	3,090	43	3,047	-30	-1	-29	3,060	42	3,018	2,972	-30	2,942	118	42	76
Stage 1	4,141	842	3,299	-7	-1	-6	4,134	841	3,293	2,903	-4	2,899	1,235	841	394
<b>Loans held for trading</b>	<b>22</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>22</b>	<b>24</b>	<b>-</b>	<b>24</b>	<b>-2</b>	<b>-</b>	<b>-2</b>
<b>Total loans to customers</b>	<b>474,572</b>	<b>60,216</b>	<b>414,356</b>	<b>-13,000</b>	<b>-468</b>	<b>-12,532</b>	<b>461,572</b>	<b>59,748</b>	<b>401,824</b>	<b>414,037</b>	<b>-18,808</b>	<b>395,229</b>	<b>66,343</b>	<b>59,748</b>	<b>6,595</b>
<i>of which forborne performing</i>	5,560	889	4,671	-304	-53	-251	5,256	836	4,420	5,918	-255	5,663	-407	836	-1,243
<i>of which forborne non-performing</i>	5,902	174	5,728	-2,360	-17	-2,343	3,542	157	3,385	7,157	-3,119	4,038	-496	157	-653
<b>Loans to customers classified as discontinued operations (*)</b>	<b>29,602</b>	<b>24,997</b>	<b>4,605</b>	<b>-3,462</b>	<b>-745</b>	<b>-2,717</b>	<b>26,140</b>	<b>24,252</b>	<b>1,888</b>	<b>475</b>	<b>-93</b>	<b>382</b>	<b>25,758</b>	<b>24,252</b>	<b>1,506</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

(\*) As at 31 December 2020, this caption included the portfolio of bad/unlikely to pay loans (gross exposure of 3,956 million euro, adjustments of 2,767 million euro and net exposure of 1,189 million euro; of which gross exposure of 801 million euro, adjustments of 59 million euro and net exposure of 742 million euro pertaining to the UBI Group), together with the non-performing and performing loans included in the going concerns to be sold to BPER and BPPB (gross exposure of 25,646 million euro, adjustments of 695 million euro and net exposure of 24,951 million euro; of which gross exposure of 24,196 million euro, adjustments of 686 million euro and net exposure of 23,510 million euro pertaining to the UBI Group).

## Other banking business financial assets and liabilities: breakdown

(millions of euro)

Type of financial instruments	Other financial assets designated at fair value through profit or loss	Other financial assets designated at fair value through other comprehensive income	Instruments measured at amortised cost which do not constitute loans	TOTAL financial assets	Financial liabilities held for trading (*)
<b>Debt securities issued by Governments</b>					
31.12.2020	19,553	42,574	30,732	<b>92,859</b>	
31.12.2020 (Excluding UBI Group)	17,713	39,626	23,318	<b>80,657</b>	X
31.12.2019	12,510	57,750	12,249	<b>82,509</b>	X
Changes amount (**)	5,203	-18,124	11,069	<b>-1,852</b>	
Changes % (**)	41.6	-31.4	90.4	<b>-2.2</b>	
<b>Other debt securities</b>					
31.12.2020	3,368	11,311	16,370		
31.12.2020 (Excluding UBI Group)	3,353	11,072	14,417	<b>28,842</b>	X
31.12.2019	5,739	11,237	13,639	<b>30,615</b>	X
Changes amount (**)	-2,386	-165	778	<b>-1,773</b>	
Changes % (**)	-41.6	-1.5	5.7	<b>-5.8</b>	
<b>Equities</b>					
31.12.2020	1,058	3,700	X	<b>4,758</b>	X
31.12.2020 (Excluding UBI Group)	977	3,498	X	<b>4,475</b>	X
31.12.2019	989	3,059	X	<b>4,048</b>	X
Changes amount (**)	-12	439	X	<b>427</b>	
Changes % (**)	-1.2	14.4	X	<b>10.5</b>	
<b>Quotas of UCI</b>					
31.12.2020	3,187	X	X	<b>3,187</b>	X
31.12.2020 (Excluding UBI Group)	2,922	X	X	<b>2,922</b>	X
31.12.2019	2,996	X	X	<b>2,996</b>	X
Changes amount (**)	-74	X	X	<b>-74</b>	
Changes % (**)	-2.5	X	X	<b>-2.5</b>	
<b>Due to banks and to customers</b>					
31.12.2020	X	X	X	X	-15,945
31.12.2020 (Excluding UBI Group)	X	X	X	X	-15,586
31.12.2019	X	X	X	X	-7,068
Changes amount (**)	X	X	X	X	8,518
Changes % (**)	X	X	X	X	
<b>Financial derivatives</b>					
31.12.2020	28,283	X	X	<b>28,283</b>	-31,839
31.12.2020 (Excluding UBI Group)	27,904	X	X	<b>27,904</b>	-31,328
31.12.2019	25,475	X	X	<b>25,475</b>	-26,161
Changes amount (**)	2,429	X	X	<b>2,429</b>	5,167
Changes % (**)	9.5	X	X	<b>9.5</b>	19.8
<b>Credit derivatives</b>					
31.12.2020	1,616	X	X	<b>1,616</b>	-1,745
31.12.2020 (Excluding UBI Group)	1,616	X	X	<b>1,616</b>	-1,744
31.12.2019	927	X	X	<b>927</b>	-1,067
Changes amount (**)	689	X	X	<b>689</b>	677
Changes % (**)	74.3	X	X	<b>74.3</b>	63.4
<b>TOTAL 31.12.2020</b>	<b>57,065</b>	<b>57,585</b>	<b>47,102</b>	<b>161,752</b>	<b>-49,529</b>
<b>TOTAL 31.12.2020 (Excluding UBI Group)</b>	<b>54,485</b>	<b>54,196</b>	<b>37,735</b>	<b>146,416</b>	<b>-48,658</b>
<b>TOTAL 31.12.2019</b>	<b>48,636</b>	<b>72,046</b>	<b>25,888</b>	<b>146,570</b>	<b>-34,296</b>
<b>Changes amount (**)</b>	<b>5,849</b>	<b>-17,850</b>	<b>11,847</b>	<b>-154</b>	<b>14,362</b>
<b>Changes % (**)</b>	<b>12.0</b>	<b>-24.8</b>	<b>45.8</b>	<b>-0.1</b>	<b>41.9</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

(\*) The amount of the item does not include certificates which are included in the direct deposits from banking business table.

(\*\*) The change expresses the ratio between 31.12.2020 and 31.12.2019 (excluding UBI Group).



The table above shows the breakdown of other financial assets and liabilities, excluding insurance companies. Financial liabilities held for trading do not include certificates, which are included in the direct deposits from banking business aggregates.

The Intesa Sanpaolo Group's other financial assets, excluding those of the insurance companies, amounted to 162 billion euro; excluding the component deriving from the UBI Group, they amounted to 146 billion euro, essentially stable compared with the end of 2019, whereas financial liabilities held for trading came to 50 billion euro, of which 49 billion euro net of the UBI Group, up by 41.9% on a like-for-like basis.

The stability of total financial assets was due to a decline in government debt securities (-1.9 billion euro) and other debt securities (-1.8 billion euro) and an increase in financial and credit derivatives with positive values (+3.1 billion euro) and equities (+0.4 billion euro). Among financial liabilities held for trading, financial and credit derivatives increased by 5.8 billion euro.

Financial assets measured at fair value through profit or loss amounted to 54 billion euro, marking an increase (+5.8 billion euro, or +12%) largely due to government debt securities (+5.2 billion euro) and financial and credit derivatives (+3.1 billion euro), which more than offset the decline in other debt securities (-2.4 billion euro).

Financial assets at fair value through other comprehensive income amounted to around 54 billion euro, down significantly by 24.8% year-to-date due to the reduction in exposures to government bonds. HTCS (Hold to Collect and Sell) debt securities have been classified almost exclusively to Stage 1 (97%).

On the other hand, instruments measured at amortised cost which do not constitute loans amounted to 38 billion euro, up by 45.8% due to the new investments in government bonds. HTC debt securities have primarily been classified to Stage 1 (88%).

#### Debt securities: stage allocation

(millions of euro)			
Debt securities: stage allocation	Other financial assets designated at fair value through other comprehensive income	Instruments measured at amortised cost which do not constitute loans	TOTAL
<b>Stage 1</b>			
31.12.2020	52,586	42,516	95,102
31.12.2020 (Excluding UBI Group)	49,410	33,179	82,589
31.12.2019	66,400	21,472	87,872
Changes amount (*)	-16,990	11,707	7,230
Changes % (*)	-25.6	54.5	8.2
<b>Stage 2</b>			
31.12.2020	1,299	4,573	5,872
31.12.2020 (Excluding UBI Group)	1,288	4,543	5,831
31.12.2019	2,587	4,403	6,990
Changes amount (*)	-1,299	140	-1,118
Changes % (*)	-50.2	3.2	-16.0
<b>Stage 3</b>			
31.12.2020	-	13	13
31.12.2020 (Excluding UBI Group)	-	13	13
31.12.2019	-	13	13
Changes amount (*)	-	-	-
Changes % (*)	-	-	-
<b>TOTAL 31.12.2019</b>	<b>53,885</b>	<b>47,102</b>	<b>100,987</b>
<b>TOTAL 31.12.2020 (Excluding UBI Group)</b>	<b>50,698</b>	<b>37,735</b>	<b>88,433</b>
<b>TOTAL 01.01.2019</b>	<b>68,987</b>	<b>25,888</b>	<b>94,875</b>
<b>Changes amount (*)</b>	<b>-18,289</b>	<b>11,847</b>	<b>6,112</b>
<b>Changes % (*)</b>	<b>-26.5</b>	<b>45.8</b>	<b>6.4</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

(\*) The change expresses the ratio between 31.12.2020 and 31.12.2019 (excluding UBI Group).

## Customer financial assets

	31.12.2020				31.12.2019		(millions of euro) Changes	
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	% breakdown	Consolidated figure (d)	% breakdown	amount (e) = (c) - (d)	% (e) / (d)
Direct deposits from banking business	524,999	68,030	456,969	45.3	425,512	44.3	31,457	7.4
Direct deposits from insurance business and technical reserves	175,279	2,673	172,606	17.1	165,945	17.3	6,661	4.0
Indirect customer deposits	641,072	89,231	551,841	54.6	534,456	55.6	17,385	3.3
Netting (a)	-173,960	-2,673	-171,287	-17.0	-165,129	-17.2	6,158	3.7
<b>Customer financial assets</b>	<b>1,167,390</b>	<b>157,261</b>	<b>1,010,129</b>	<b>100.0</b>	<b>960,784</b>	<b>100.0</b>	<b>49,345</b>	<b>5.1</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

(a) Netting refers to components of indirect deposits which are also included in direct customer deposits (financial liabilities of the insurance business designated at fair value, technical reserves).

Customer financial assets amounted to 1,167 billion euro as at 31 December 2020. Excluding the over 157 billion euro contributed by the UBI Group, the aggregate amounted to 1,010 billion euro and presents a significant expansion over the year (+5.1%, or +49.3 billion euro), due to direct deposits from banking business (+7.4%, or +31.5 billion euro), indirect customer deposits (+3.3%, or +17.4 billion euro) and direct deposits from insurance business (+4%, or +6.7 billion euro).

*Direct deposits from banking business*

The table below sets out amounts due to customers, securities issued, including those designated at fair value and certificates, which represent an alternative form of funding to bonds.

	31.12.2020				31.12.2019		(millions of euro) Changes	
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	% breakdown	Consolidated figure (d)	% breakdown	amount (e) = (c) - (d)	% (e) / (d)
Current accounts and deposits	407,832	45,822	362,010	79.2	316,810	74.4	45,200	14.3
Repurchase agreements and securities lending	944	44	900	0.2	4,505	1.1	-3,605	-80.0
Bonds	70,060	17,813	52,247	11.4	65,485	15.4	-13,238	-20.2
Certificates of deposit	3,976	22	3,954	0.9	4,574	1.1	-620	-13.6
Subordinated liabilities	11,786	2,130	9,656	2.1	9,308	2.2	348	3.7
Other deposits	30,401	2,199	28,202	6.2	24,830	5.8	3,372	13.6
<i>of which designated at fair value (*)</i>	<i>12,536</i>	<i>311</i>	<i>12,225</i>	<i>2.7</i>	<i>10,934</i>	<i>2.6</i>	<i>1,291</i>	<i>11.8</i>
<b>Direct deposits from banking business</b>	<b>524,999</b>	<b>68,030</b>	<b>456,969</b>	<b>100.0</b>	<b>425,512</b>	<b>100.0</b>	<b>31,457</b>	<b>7.4</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

(\*) Figures included in the Balance sheet under Financial liabilities held for trading and Financial liabilities designated at fair value.



The Group's direct deposits from banking business came to 525 billion euro; excluding the deposits contributed by the UBI Group, net of the component held for sale of 68 billion euro, they amounted to 457 billion euro, up by 7.4% on the beginning of the year.

The positive performance was essentially due to the growth of current accounts and deposits (+45.2 billion euro), which represent a considerable reserve for funding the asset management industry. This component offset the downtrend in bonds (-13.2 billion euro), repurchase agreements and securities lending (-3.6 billion euro), largely attributable to institutional counterparties. Other funding also increased (+3.4 billion euro), inclusive of certificates and commercial papers.

As at 31 December 2020, the Intesa Sanpaolo Group's direct deposits in the form of deposits and bonds represented an estimated share of the domestic market of 18.8%. As described above with reference to loans, this estimate does not consider the UBI Group's contribution and is based on the sample deriving from the ten-day report produced by the Bank of Italy. The UBI Group's contribution as at that same date is estimated at 4.9% in its current configuration. Net of the volumes of the branches that will be sold

in accordance with the decisions of the Italian Antitrust Authority, the total share of customer deposits amounts to around 22%.

	31.12.2020	31.12.2019	(millions of euro) Changes	
			amount	%
Banca dei Territori	229,677	199,256	30,421	15.3
IMI Corporate & Investment Banking	88,183	86,850	1,333	1.5
International Subsidiary Banks	46,308	43,420	2,888	6.7
Private Banking	41,145	39,537	1,608	4.1
Asset Management	14	10	4	40.0
Insurance	-	-	-	-
<b>Total business areas</b>	<b>405,327</b>	<b>369,073</b>	<b>36,254</b>	<b>9.8</b>
Corporate Centre	51,642	56,439	-4,797	-8.5
<b>Intesa Sanpaolo Group (net of UBI Group)</b>	<b>456,969</b>	<b>425,512</b>	<b>31,457</b>	<b>7.4</b>
UBI Group	68,030			
<b>Intesa Sanpaolo Group</b>	<b>524,999</b>			

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning UBI Group have not been restated.



In the analysis of funding by business segments, the Banca dei Territori Division, which accounts for 57% of the aggregate of the Group's business areas, increased sharply (by +30.4 billion euro or +15.3%), in the amounts due to customers component, owing to the greater liquidity accumulated in deposits by SMEs and retail customers as they await a more favourable scenario. The IMI Corporate & Investment Banking Division recorded growth of 1.3 billion euro (+1.5%) due mainly to the increase in amounts due to global corporate customers, only partly offset by the decline in the securities issued of the Luxembourg subsidiary and of the Irish subsidiary within the International Department. There were also increases by the International Subsidiary Banks Division (+2.9 billion euro, or +6.7%) attributable to the funding performance of the subsidiaries operating in Slovakia, Croatia, Hungary and Serbia, and the Private Banking Division (+1.6 billion euro, or +4.1%), due to the development of time deposits.

Corporate Centre funding declined by 4.8 billion euro due to a decrease in repurchase agreements with central counterparties and in the securities issued of the subsidiaries.

## Indirect customer deposits

	31.12.2020				31.12.2019		(millions of euro) Changes	
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	% breakdown	Consolidated figure (d)	% breakdown	amount (e) = (c) - (d)	% (e) / (d)
Mutual funds <sup>(a)</sup>	165,242	39,843	125,399	22.8	122,998	23.0	2,401	2.0
Open-ended pension funds and individual pension plans	10,555	-	10,555	1.9	10,327	1.9	228	2.2
Portfolio management <sup>(b)</sup>	66,701	5,798	60,903	11.0	56,484	10.6	4,419	7.8
Technical reserves and financial liabilities of the insurance business	182,935	27,176	155,759	28.2	152,097	28.5	3,662	2.4
Relations with institutional customers	16,896	-	16,896	3.1	16,199	3.0	697	4.3
<b>Assets under management</b>	<b>442,329</b>	<b>72,817</b>	<b>369,512</b>	<b>67.0</b>	<b>358,105</b>	<b>67.0</b>	<b>11,407</b>	<b>3.2</b>
<b>Assets under administration and in custody</b>	<b>198,743</b>	<b>16,414</b>	<b>182,329</b>	<b>33.0</b>	<b>176,351</b>	<b>33.0</b>	<b>5,978</b>	<b>3.4</b>
<b>Indirect customer deposits</b>	<b>641,072</b>	<b>89,231</b>	<b>551,841</b>	<b>100.0</b>	<b>534,456</b>	<b>100.0</b>	<b>17,385</b>	<b>3.3</b>

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

(a) The caption includes mutual funds established and managed by Eurizon Capital, Banca Fideuram - Intesa Sanpaolo Private Banking and several international companies. The caption does not include funds held by Group insurance companies and managed by Eurizon Capital, whose values are included in technical reserves, and the contribution of funds established by third parties and managed by Banca Fideuram - Intesa Sanpaolo Private Banking, whose value is included in assets under administration and in custody.

(b) The entry does not include stocks of unit-linked policies of Intesa Sanpaolo Vita, the value of which is included in the technical reserves and financial insurance liabilities.



As at 31 December 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 both components.

Assets under management, which at over 369 billion euro account for two-thirds of the total aggregate, increased by 11.4 billion euro (+3.2%), mainly driven by asset management (+4.4 billion euro), technical reserves and insurance financial liabilities (+3.7 billion euro) and mutual funds (+2.4 billion euro). Relations with institutional customers and pension funds also grew. In the year, the new life business of the insurance companies of the Intesa Sanpaolo Group, including pension products, amounted to 16.6 billion euro. Assets under administration, like assets under management, also increased (+3.4%, or +6 billion euro), concentrated in securities and third-party products in custody.

## Net interbank position

The net interbank position as at 31 December 2020 stood at net debt of over 8 billion euro (11 billion euro excluding the interbank position attributable to the UBI Group). On a like-for-like basis, there was a significant decline compared to the net debt recorded at the beginning of the year of 56 billion euro due to the increase in loans to banks. Amounts due to banks, equal to 99 billion euro, include a 71-billion-euro exposure to the ECB. Including the UBI Group's business, the figures increase to 116 billion euro for loans to banking counterparties and to 83 billion euro for the exposure to the European Central Bank.

**INSURANCE BUSINESS**
**Financial assets and liabilities pertaining to insurance companies pursuant to IAS 39 (1/2)**

(millions of euro)

Type of financial instruments	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39			Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	TOTAL Financial assets pertaining to insurance companies measured pursuant to IAS 39	Financial liabilities pertaining to insurance companies measured pursuant to IAS 39 (*)
	Financial assets held for trading and hedging derivatives	Financial assets designated at fair value	Financial assets available for sale			
<b>Debt securities issued by Governments</b>						
31.12.2020	128	3,295	62,350	-	65,773	X
31.12.2020 (Excluding UBI Group)	128	3,289	60,350	-	63,767	X
31.12.2019	120	4,107	58,012	-	62,239	X
Changes amount (****)	8	-818	2,338	-	1,528	
Changes % (****)	6.7	-19.9	4.0	-	2.5	
<b>Other debt securities</b>						
31.12.2020	25	1,019	12,578	-	13,622	X
31.12.2020 (Excluding UBI Group)	25	1,019	12,106	-	13,150	X
31.12.2019	25	707	12,099	-	12,831	X
Changes amount (****)	-	312	7	-	319	
Changes % (****)	-	44.1	0.1	-	2.5	
<b>Equities</b>						
31.12.2020	-	2,750	1,756	-	4,506	X
31.12.2020 (Excluding UBI Group)	-	2,749	1,756	-	4,505	X
31.12.2019	-	2,315	1,480	-	3,795	X
Changes amount (****)	-	434	276	-	710	
Changes % (****)	-	18.7	18.6	-	18.7	
<b>Quotas of UCI</b>						
31.12.2020	166	79,538	12,429	-	92,133	X
31.12.2020 (Excluding UBI Group)	166	79,286	12,397	-	91,849	X
31.12.2019	165	76,620	11,819	-	88,604	X
Changes amount (****)	1	2,666	578	-	3,245	
Changes % (****)	0.6	3.5	4.9	-	3.7	



## Financial assets and liabilities pertaining to insurance companies pursuant to IAS 39 (2/2)

(millions of euro)

Type of financial instruments	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39			Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	TOTAL Financial assets pertaining to insurance companies measured pursuant to IAS 39	Financial liabilities pertaining to insurance companies measured pursuant to IAS 39 (*)
	Financial assets held for trading and hedging derivatives	Financial assets designated at fair value	Financial assets available for sale			
<b>Due from banks and loans to customers</b>						
31.12.2020	-	605	-	1,211	1,816	X
31.12.2020 (Excluding UBI Group)	-	604	-	1,210	1,814	X
31.12.2019	-	516	-	649	1,165	X
Changes amount (****)	-	88	-	561	649	
Changes % (****)	-	17.1	-	86.4	55.7	
<b>Due to banks</b>						
31.12.2020	X	X	X	X	X	-609 (**)
31.12.2020 (Excluding UBI Group)	X	X	X	X	X	-609 (**)
31.12.2019	X	X	X	X	X	-2 (**)
Changes amount (****)						607
Changes % (****)						
<b>Financial derivatives</b>						
31.12.2020	531	-	-	-	531	-58 (***)
31.12.2020 (Excluding UBI Group)	531	-	-	-	531	-58 (***)
31.12.2019	248	-	-	-	248	-49 (***)
Changes amount (****)	283	-	-	-	283	9
Changes % (****)						18.4
<b>Credit derivatives</b>						
31.12.2020	-	-	-	-	-	- (***)
31.12.2020 (Excluding UBI Group)	-	-	-	-	-	- (***)
31.12.2019	-	-	-	-	-	- (***)
Changes amount (****)	-	-	-	-	-	-
Changes % (****)	-	-	-	-	-	-
<b>TOTAL 31.12.2019</b>	<b>850</b>	<b>87,207</b>	<b>89,113</b>	<b>1,211</b>	<b>178,381</b>	<b>-667</b>
<b>TOTAL 31.12.2020 (Excluding UBI Group)</b>	<b>850</b>	<b>86,947</b>	<b>86,609</b>	<b>1,210</b>	<b>175,616</b>	<b>-667</b>
<b>TOTAL 31.12.2019</b>	<b>558</b>	<b>84,265</b>	<b>83,410</b>	<b>649</b>	<b>168,882</b>	<b>-51</b>
<b>Changes amount (****)</b>	<b>292</b>	<b>2,682</b>	<b>3,199</b>	<b>561</b>	<b>6,734</b>	<b>616</b>
<b>Changes % (****)</b>	<b>52.3</b>	<b>3.2</b>	<b>3.8</b>	<b>86.4</b>	<b>4.0</b>	

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

(\*) This amount does not include "Financial liabilities of the insurance business designated at fair value" included in the table on direct deposits from insurance business.

(\*\*) Value included in the Balance Sheet under "Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39".

(\*\*\*) Value included in the Balance Sheet under "Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39".

(\*\*\*\*) The change expresses the ratio between 31.12.2020 and 31.12.2019 (excluding UBI Group).

Financial assets and liabilities pertaining to insurance companies pursuant to IAS 39, summarised in the table above, amounted to 176 billion euro and 667 million euro, respectively, net of the UBI Group's contribution. The increase in assets was mainly due to the portfolios of financial assets available for sale (+3.8%) and designated at fair value (+3.2%).

## Direct deposits from insurance business and technical reserves

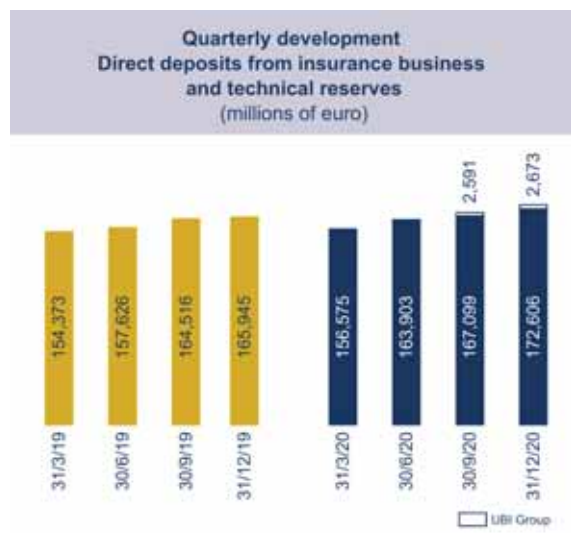
	31.12.2020				31.12.2019				(millions of euro) Changes	
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	% breakdown	Consolidated figure (d)	% breakdown	amount (e) = (c) - (d)	% (e) / (d)		
<b>Financial liabilities of the insurance business designated at fair value IAS39 (*)</b>	<b>77,149</b>	<b>270</b>	<b>76,879</b>	<b>44.5</b>	<b>75,886</b>	<b>45.7</b>	<b>993</b>	<b>1.3</b>		
<i>Index-linked products</i>	-	-	-	-	-	-	-	-		
<i>Unit-linked products</i>	77,149	270	76,879	44.5	75,886	45.7	993	1.3		
<b>Technical reserves</b>	<b>96,811</b>	<b>2,403</b>	<b>94,408</b>	<b>54.7</b>	<b>89,243</b>	<b>53.8</b>	<b>5,165</b>	<b>5.8</b>		
Life business	95,597	2,403	93,194	54.0	88,169	53.2	5,025	5.7		
<i>Mathematical reserves</i>	79,890	2,074	77,816	45.1	75,092	45.3	2,724	3.6		
<i>Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds</i>	6,812	-	6,812	3.9	6,960	4.2	-148	-2.1		
<i>Other reserves</i>	8,895	329	8,566	5.0	6,117	3.7	2,449	40.0		
Non-life business	1,214	-	1,214	0.7	1,074	0.6	140	13.0		
<b>Other insurance deposits (***)</b>	<b>1,319</b>	<b>-</b>	<b>1,319</b>	<b>0.8</b>	<b>816</b>	<b>0.5</b>	<b>503</b>	<b>61.6</b>		
<b>Direct deposits from insurance business and technical reserves</b>	<b>175,279</b>	<b>2,673</b>	<b>172,606</b>	<b>100.0</b>	<b>165,945</b>	<b>100.0</b>	<b>6,661</b>	<b>4.0</b>		

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

(\*) Values included in the Balance Sheet under Financial liabilities pertaining to insurance companies measured at fair value to IAS 39.

(\*\*) This caption includes unit- and index-linked policies with significant insurance risk.

(\*\*\*) Values included in the Balance Sheet under Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39. The caption includes subordinated liabilities.



Direct deposits from insurance business amounted to 175 billion euro as at 31 December 2020, of which 173 billion euro net of the component attributable to the UBI Group, up (+4%, or +6.7 billion euro) on an annual basis. Technical reserves, which constitute the amounts owed to customers taking out traditional policies or policies with significant insurance risk, recorded an increase of 5.2 billion euro (+5.8%), essentially attributable to the life business, which accounts for almost all reserves. Financial liabilities measured at fair value, consisting of unit-linked products, increased by 1 billion euro (+1.3%).

## NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES

This caption contains assets and related liabilities which no longer refer to continuing operations as they are being disposed of. At 31 December 2020, assets held for sale amounted to 28.7 billion euro and the associated liabilities to 35.7 billion euro. These amounts refer primarily to the operations of the going concern of the UBI Group set to be disposed of, amounting to 25.6 billion euro and 32 billion euro, respectively.

In particular, the aggregate includes the values of the going concern consisting of a pool of branches set to be disposed of, amounting to loans of 24.9 billion euro (23.5 billion euro attributable to UBI and 1.4 billion euro to ISP) and funding of 32.7 billion euro (30.2 billion euro attributable to UBI and 2.5 billion euro to ISP).

Net non-performing loans of 1.2 billion euro are added to these, whose sale was decided as part of the Group's derisking strategy, after aligning their carrying amount to their estimated realisable price upon sale, also based on specific fairness opinions, which, for the loans deriving from the UBI Group, correspond to the fair values determined during the PPA. In particular, these include 0.5 billion euro attributable to the ISP scope (3.2 billion euro gross of adjustments) and 0.7 billion euro to the UBI scope (2.7 billion euro gross of adjustments).

## SHAREHOLDERS' EQUITY

As at 31 December 2020, the Group's shareholders' equity, including the net income for the year, came to 65,871 million euro, of which 64,349 net of the UBI Group's contribution, compared to the 55,968 million euro at the beginning of the year. The increase is to be attributed not only to the capital increase in service of the public purchase and exchange offer tendered by Intesa Sanpaolo for all ordinary shares of UBI Banca (3,363 million euro), but also to the contribution of the net income earned during the year (3,277 million euro, of which 1,106 million euro attributable to the acquisition of the UBI Group), the equity instruments issued (+2.9 billion euro, net of UBI) and retained earnings reserves in relation to the allocation of net income for 2019. As previously reported, in compliance with the European Central Bank communication of 27 March 2020 concerning the dividend policy in the aftermath of the COVID-19 epidemic, the Bank has decided to suspend the proposed cash distribution to shareholders of around 3.4 billion euro and assigned the net income for 2019 to reserves, after attributing 12.5 million euro to the Allowance for charitable, social and cultural contributions.

## Valuation reserves

	Reserve 31.12.2019	Change of the period	Reserve 31.12.2020 (millions of euro)
Financial assets designated at fair value through other comprehensive income (debt instruments)	57	105	162
Financial assets designated at fair value through other comprehensive income (equities)	172	-285	-113
Property and equipment	1,526	43	1,569
Cash flow hedges	-882	101	-781
Foreign exchange differences	-956	-228	-1,184
Non-current assets held for sale and discontinued operations	-	-	-
Financial liabilities designated at fair value through profit or loss (change in its creditworthiness)	-	-99	-99
Actuarial profits (losses) on defined benefit pension plans	-410	-1	-411
Portion of the valuation reserves connected with investments carried at equity	28	-19	9
Legally-required revaluations	308	-	308
<b>Valuation reserves (excluding valuation reserves pertaining to insurance companies)</b>	<b>-157</b>	<b>-383</b>	<b>-540</b>
<b>Valuation reserves pertaining to insurance companies</b>	<b>504</b>	<b>302</b>	<b>806</b>

Banking valuation reserves were negative (-540 million euro, net of +25 million euro of the UBI Group), widening compared to 31 December 2019, mainly due to the effect of reserves on equities (-285 million euro) and foreign exchange differences (-228 million euro); reserves on liabilities designated at fair value (-99 million euro) relating to certificates issued with capital protection were also recognised during the year. These effects were only partly offset by the positive performance of the spread on government debt securities, which entailed an increase in the value of the assets in portfolio, and by the improvement in cash flow hedging. The valuation reserves of the insurance companies amounted to 806 million euro (net of +3 million euro of the UBI Group), compared with 504 million euro at the end of 2019.

## Reconciliation of the Parent Company's shareholders' equity and net income (loss) with consolidated shareholders' equity and net income (loss)

	(millions of euro)	
	Shareholders' equity	Net income (loss) of which as at 31.12.2020
<b>Parent Company's balances as at 31 December 2020</b>	<b>54,114</b>	<b>679</b>
Effect of consolidation of subsidiaries subject to control	5,714	5,158
Effect of valuation at equity of companies subject to joint control and other significant equity investments	-194	46
Elimination of adjustments to equity investments and recognition of impairment of goodwill	6,211	435
Dividends collected during the period	-	-3,043
Other	26	2
<b>Consolidated balances as at 31 December 2020</b>	<b>65,871</b>	<b>3,277</b>

## OWN FUNDS AND CAPITAL RATIOS

Own funds and capital ratios	(millions of euro)		
	31.12.2020		31.12.2019
	IFRS9 "Fully loaded"	IFRS9 "Transitional"	IFRS9 "Transitional"
<b>Own funds</b>			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	48,941	51,070	41,542
Additional Tier 1 capital (AT1) net of regulatory adjustments	7,486	7,486	4,096
<b>TIER 1 CAPITAL</b>	<b>56,427</b>	<b>58,556</b>	<b>45,638</b>
Tier 2 capital net of regulatory adjustments	10,346	9,377	7,057
<b>TOTAL OWN FUNDS</b>	<b>66,773</b>	<b>67,933</b>	<b>52,695</b>
<b>Risk-weighted assets</b>			
Credit and counterparty risks	301,011	299,564	258,187
Market and settlement risk	19,521	19,521	18,829
Operational risks	27,559	27,559	21,212
Other specific risks (a)	428	428	296
<b>RISK-WEIGHTED ASSETS</b>	<b>348,519</b>	<b>347,072</b>	<b>298,524</b>
<b>% Capital ratios</b>			
Common Equity Tier 1 capital ratio	14.0%	14.7%	13.9%
Tier 1 capital ratio	16.2%	16.9%	15.3%
Total capital ratio	19.2%	19.6%	17.7%

(a) The caption includes all other elements not contemplated in the foregoing captions that are considered when calculating total capital requirements.

The figures as at 31 December 2020 include assets and liabilities in relation to the UBI Group.

Own Funds, risk-weighted assets and the capital ratios as at 31 December 2020 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 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 31 December 2020, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds amounted to 67,933 million euro; as at that same date, considering the full inclusion of the impact of IFRS 9, Own Funds stood at 66,773 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 30% 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 December 2020, account was taken of the net income for 2020, net of the related dividend (and other foreseeable expenses) calculated on the basis of the approach dictated by the European Central Bank, which, following the previous guidance in this regard, on 15 December 2020 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. In particular, the European Central Bank generally recommends that distributions by banks should not exceed the lower of: i) 15% of their accumulated profit for the financial years 2019 and 2020; and ii) 20 basis points in terms of the Common Equity Tier 1 ratio. In view of the above and considering our Bank's sound capital base, the distribution from the 2020 net income of a dividend of approximately 694 million euro was considered, equal to 20 basis points in terms of the Common Equity Tier 1 ratio at consolidated level, an amount that represents the lower of the two parameters indicated above and enables full compliance with the Recommendation of the European Central Bank.

Own funds as at 31 December 2019 had been calculated considering the income for 2019 net of the component that the Issuer's Board of Directors, during its session of 25 February 2020, had proposed be allocated to dividends for a total of 3,362 million euro; following the ECB's Recommendation of 27 March 2020 regarding dividend policies in the situation resulting from the Covid-19 epidemic, on 31 March 2020 Intesa Sanpaolo's Board of Directors amended the proposal to the Shareholders' Meeting for the allocation of the net income reported in the Financial Statements as at 31 December 2019, adopting the European Central Bank's Recommendation not to distribute dividends in view of the economic environment created by the epidemic, and instead proposing that the share of the net income allocated to dividends in the previous resolution dated 25 February 2020 be assigned to reserves. On 27 April 2020, the Shareholders' Meeting approved the assignment of the net income for 2019 to reserves. Accordingly, Common Equity Tier 1 capital as at 31 December 2020 includes, among reserves, the entire net income for 2019, less the foreseeable other charges (accrued coupon on Additional Tier 1 instruments and charitable giving). In its communication of 27 July 2020, the European Central Bank then extended its recommendation that dividends not be distributed until 1 January 2021, from the previous date of 1 October 2020 indicated in the recommendation dated 27 March 2020. This period was then further extended until 30 September 2021 in the aforementioned Recommendation of 15 December 2020, in which the European Central Bank encourages banks not to distribute dividends or to distribute them to a limited extent.

Own funds include the effects of the consolidation of the UBI Group, the impacts of which are primarily attributable to the capital increase in service of the Public Purchase and Exchange Offer, the calculation of the negative goodwill that emerged from the purchase price allocation process for the acquisition cost under IFRS 3 and the recognition of the costs associated with the integration of the two Groups in the income statement.

Finally, the impairment recognised in 2020 on the goodwill allocated to the Banca dei Territori CGU did not have any impact on own funds and thus on the solvency ratios indicated below, since, pursuant to Regulation (EU) 575/2013 (CRR), this goodwill was already deducted from Common Equity Tier 1 capital.

#### *Risk-weighted assets*

As at 31 December 2020, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, risk-weighted assets came to 347,072 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 348,519 million euro.

Common Equity Tier 1 Capital and risk-weighted assets as at 31 December 2020 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.

It should be noted that risk-weighted assets take account of the consolidation of the UBI Group's weighted assets, including the contribution attributable to the branches that will be sold to BPER in 2021, although the estimated capital loss on the sale of these branches has already been recognised during the period ended 31 December 2020.



**Solvency ratios**

On the basis of the foregoing, solvency ratios as at 31 December 2020, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity ratio of 14.7%, a Tier 1 ratio of 16.9% and a total capital ratio of 19.6%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 31 December 2020 were as follows: a Common Equity ratio of 14.0%, a Tier 1 ratio of 16.2% and a Total capital ratio of 19.2%.

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 8.44% under the transitional arrangements for 2020 and 8.63% on a fully loaded basis.

**Reconciliation of Shareholders' equity and Common Equity Tier 1 capital**

Captions	(millions of euro)	
	31.12.2020	31.12.2019
Group Shareholders' equity	65,871	55,968
Minority interests	450	554
<b>Shareholders' equity as per the Balance Sheet</b>	<b>66,321</b>	<b>56,522</b>
<b>Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period</b>		
- Other equity instruments eligible for inclusion in AT1	-7,480	-4,091
- Minority interests eligible for inclusion in AT1	-6	-5
- Minority interests eligible for inclusion in T2	-5	-3
- Ineligible minority interests on full phase-in	-408	-511
- Ineligible net income for the period (a)	-821	-3,451
- Treasury shares included under regulatory adjustments	263	230
- Other ineligible components on full phase-in	-147	-171
<b>Common Equity Tier 1 capital (CET1) before regulatory adjustments</b>	<b>57,717</b>	<b>48,520</b>
<b>Regulatory adjustments (including transitional adjustments) (b)</b>	<b>-6,647</b>	<b>-6,978</b>
<b>Common Equity Tier 1 capital (CET1) net of regulatory adjustments</b>	<b>51,070</b>	<b>41,542</b>

(a) Common Equity Tier 1 capital as at 31 December 2020 includes the net income for 2020, less the related dividend (and foreseeable charges), calculated in accordance with Recommendation (ECB/2020/62) of 15 December 2020.

(b) Adjustments for the transitional period as at 31 December 2020 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (70% in 2020) set to decrease progressively until 2022.

The figures as at 31 December 2020 include assets and liabilities in relation to the UBI Group.

## Performance of risk-weighted assets

(millions of euro)

<b>Risk-weighted assets as at 31.12.2019</b>	<b>298,524</b>
Credit and counterparty risk	41,377
Market and settlement risk	692
Operational risks	6,347
Other specific risks	132
<b>Risk-weighted assets as at 31.12.2020</b>	<b>347,072</b>

The figures as at 31 December 2020 include assets in relation to the UBI Group.

In 2020, credit risk increased by approximately 41 billion euro in terms of risk-weighted assets. That increase, mainly attributable to the inclusion of UBI's exposures in the Group and, to a lesser extent, to the increase in investments in associates and companies subject to joint control, was only partially offset by the effect of several regulatory and methodology adjustments<sup>12</sup> and phenomena linked to risk mitigation and shifts in portfolios.

The increase in market risk-weighted assets is attributable to the volatility of the markets recorded as a result of the COVID-19 crisis. The increase was reduced due to the contribution of the portfolio derisking activities, the integration process of Banca IMI and the reduction of the prudential multiplier.

The increase in operational risk-weighted assets (+6.3 billion euro) is mainly due to the addition of the UBI Group's operational risk requirements.

The increase relating to the caption "Other specific risks" (+0.13 billion euro) is mainly due to the increase in the weight of contributions to the guarantee fund by a central counterparty.

<sup>12</sup> Application of the new securitisation framework, new prudential treatment of the caption "fair value change of financial assets in hedged portfolios", early application of the Supporting Factor for exposures to SMEs (the quick fix to the Capital Requirements Regulation – CRR in response to the COVID-19 pandemic), changes made to the AIRB models in relation to the updating of the time series, extension of the scope of private equity exposures authorised by the Supervisory Authorities, with positive impacts on capital absorption and new prudential criteria for weighing software.

## Breakdown of consolidated results by business area and geographical area

The Intesa Sanpaolo Group organisational structure is based on six Business Units. In addition, there is the Corporate Centre, which is charged with providing guidance, coordination and control for the entire Group and - albeit temporarily - the contribution of the UBI Group.



The Intesa Sanpaolo Group's segment reporting is based on the elements that management uses to make its own operating decisions (the "management approach") and is therefore consistent with the disclosure requirements of IFRS 8. In addition to reflecting the operating responsibilities assigned in accordance with the Group's organisational structure, the business areas are an aggregation of business lines similar in the type of products and services they sell.

The table below shows the main data summarising the trend of the business areas of the Intesa Sanpaolo Group in 2020. The following itemised analysis of the business areas contains a description of the products and services offered, the type of customers served and the initiatives carried out in the year; it also illustrates income statement figures and the main balance sheet aggregates. Finally, for each business area, the capital absorbed based on Risk Weighted Assets (RWAs) was also calculated. RWAs were determined in accordance with the provisions in force (Circular 285) issued by the Bank of Italy following the implementation of Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013, amended by Regulation (EU) 2019/876 of 20 May 2019, known as CRR II, in force since 30 June 2019, and already in part applicable, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws. Absorbed capital also takes account of the regulatory changes introduced by the ECB with effect from 12 March 2020, allowing the Pillar 2 requirement to be met partially using equity instruments not classified as Common Equity Tier 1. For asset management and private banking, business risk was also taken into consideration, and for the insurance segment reference was made to the capital absorbed by insurance risk.

The UBI Group's income statement and balance sheet figures - which as previously reported are subject to consolidation in these financial statements - are temporarily represented as a separate business unit and will be assigned to Divisions at a later date, as integration of the processes moves ahead. As stated above in the comments on the consolidated economic results and balance sheet aggregates, given the particular case in question, no adjustments have been made to the historic reclassified data in order to retroactively reflect the effects of the acquisition. Accordingly, in this chapter there are no comparative figures for the UBI Group's data. With regard to the balance sheet aggregates, it should be noted that the figures as at 31 December 2020 are presented net of assets and liabilities set to be disposed of, which have been classified to the specific captions disposal groups and associated liabilities.

Division figures for the comparative periods have been restated to reflect the changes in scope of the Business Units, where necessary and if they are material, with the exception of the figures relating to the UBI Group, which as indicated have not been restated.

In particular, the restatement concerned:

- inclusion in the Insurance Division, of the income statement and balance sheet results of RBM Assicurazione Salute, which entered the line-by-line scope of consolidation due to the finalisation of the acquisition of the majority shareholding of the company in the second quarter of 2020;

- the line-by-line deconsolidation by Banca dei Territori and reallocation to the income/loss from discontinued operations of the Corporate Centre of the economic results of the acquiring business unit within the framework of payment services, contributed to Nexi per the agreement signed in December 2019 and finalised at the end of the first half of 2020;
- the reallocation between the Banca dei Territori Division and IMI Corporate & Investment Banking Division (formerly the Corporate and Investment Banking Division) of the economic results and balance sheet aggregates of Mediocredito Italiano, previously fully included within Banca dei Territori, following its merger by incorporation into the Parent Company in November 2019;
- the reallocation to the Divisions of some operating costs and income statement and balance sheet components relating to bad loans, previously attributed to the NPE Department (former Capital Light Bank) within the Corporate Centre, following the operational reorganisation of the Chief Lending Officer Governance Area;
- the inclusion among the operating costs of the Banca dei Territori Division and the IMI Corporate & Investment Banking Division (formerly the Corporate and Investment Banking Division) for 2019 of the effects of the fees to be paid to Prelios under the servicing agreement for the management of unlikely-to-pay loans, which entered into effect at the end of 2019, assuming that this agreement had entered into effect from 1 January 2019, since it will have an ongoing impact on future income statements;
- the revision of the internal transfer rate applied in 2020 in view of market interest rate dynamics.

## Report on operations - Breakdown of consolidated results by business area and geographical area

	(millions of euro)									
	Banca dei Territori	IMI Corporate & Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre	Total Intesa Sanpaolo Group (net of UBI Group)	UBI Group	Total Intesa Sanpaolo Group
<b>Operating income</b>										
2020	8,083	4,325	1,908	1,944	867	1,257	-975	17,409	1,614	19,023
2019	8,392	4,105	1,998	1,971	840	1,216	-355	18,167		18,167
% change	-3.7	5.4	-4.5	-1.4	3.2	3.4		-4.2		
<b>Operating costs</b>										
2020	-5,065	-1,098	-981	-604	-156	-241	-941	-9,086	-885	-9,971
2019	-5,291	-1,148	-991	-614	-157	-224	-982	-9,407		-9,407
% change	-4.3	-4.4	-1.0	-1.6	-0.6	7.6	-4.2	-3.4		
<b>Operating margin</b>										
2020	3,018	3,227	927	1,340	711	1,016	-1,916	8,323	729	9,052
2019	3,101	2,957	1,007	1,357	683	992	-1,337	8,760		8,760
% change	-2.7	9.1	-7.9	-1.3	4.1	2.4	43.3	-5.0		
<b>Net income (loss)</b>										
2020	-677	1,875	473	873	519	686	-1,578	2,171	1,106	3,277
2019	1,000	1,830	723	918	518	661	-1,468	4,182		4,182
% change		2.5	-34.6	-4.9	0.2	3.8	7.5	-48.1		
<b>Loans to customers</b>										
31.12.2020	207,533	135,004	36,079	9,853	452	-	12,903	401,824	59,748	461,572
31.12.2019	194,358	131,884	34,038	9,329	435	-	25,185	395,229		395,229
% change	6.8	2.4	6.0	5.6	3.9	-	-48.8	1.7		
<b>Direct deposits from banking business</b>										
31.12.2020	229,677	88,183	46,308	41,145	14	-	51,642	456,969	68,030	524,999
31.12.2019	199,256	86,850	43,420	39,537	10	-	56,439	425,512		425,512
% change	15.3	1.5	6.7	4.1	40.0	-	-8.5	7.4		
<b>Risk-weighted assets</b>										
31.12.2020	77,668	97,976	32,886	9,549	1,354	-	67,446	286,879	60,193	347,072
31.12.2019	86,829	99,810	32,916	9,184	1,446	-	68,339	298,524		298,524
% change	-10.6	-1.8	-0.1	4.0	-6.4	-	-1.3	-3.9		
<b>Absorbed capital</b>										
31.12.2020	6,672	8,419	3,459	866	159	4,064	3,809	27,448	5,386	32,834
31.12.2019	7,459	8,578	3,467	798	146	3,804	4,028	28,280		28,280
% change	-10.6	-1.9	-0.2	8.5	8.9	6.8	-5.4	-2.9		

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning UBI Group have not been restated.



## BUSINESS AREAS

### Banca dei Territori

Income statement	2020	2019	(millions of euro)	
			changes amount	%
Net interest income	4,090	4,134	-44	-1.1
Net fee and commission income	3,910	4,179	-269	-6.4
Income from insurance business	-	2	-2	
Profits (Losses) on financial assets and liabilities designated at fair value	93	80	13	16.3
Other operating income (expenses)	-10	-3	7	
<b>Operating income</b>	<b>8,083</b>	<b>8,392</b>	<b>-309</b>	<b>-3.7</b>
Personnel expenses	-2,955	-3,131	-176	-5.6
Other administrative expenses	-2,106	-2,152	-46	-2.1
Adjustments to property, equipment and intangible assets	-4	-8	-4	-50.0
<b>Operating costs</b>	<b>-5,065</b>	<b>-5,291</b>	<b>-226</b>	<b>-4.3</b>
<b>Operating margin</b>	<b>3,018</b>	<b>3,101</b>	<b>-83</b>	<b>-2.7</b>
Net adjustments to loans	-2,588	-1,510	1,078	71.4
Other net provisions and net impairment losses on other assets	-75	-112	-37	-33.0
Other income (expenses)	30	111	-81	-73.0
Income (Loss) from discontinued operations	-	-	-	-
<b>Gross income (loss)</b>	<b>385</b>	<b>1,590</b>	<b>-1,205</b>	<b>-75.8</b>
Taxes on income	-127	-566	-439	-77.6
Charges (net of tax) for integration and exit incentives	-16	-23	-7	-30.4
Effect of purchase price allocation (net of tax)	-7	-1	6	
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-912	-	912	-
Minority interests	-	-	-	-
<b>Net income (loss)</b>	<b>-677</b>	<b>1,000</b>	<b>-1,677</b>	

	31.12.2020	31.12.2019	(millions of euro)	
			changes amount	%
Loans to customers	207,533	194,358	13,175	6.8
Direct deposits from banking business	229,677	199,256	30,421	15.3
Risk-weighted assets	77,668	86,829	-9,161	-10.6
Absorbed capital	6,672	7,459	-787	-10.6

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

Faced with the significant impacts of the pandemic emergency, which continued throughout 2020, the revenues of **Banca dei Territori**, amounting to 8,083 million euro and accounting for approximately one-half of the Group's consolidated revenues, proved resilient, limiting the decline on 2019 to 3.7%, due to the efficacy of the sales network and the reinforcement of remote sales through digital channels in support of customers.

In detail, there was a decrease (-6.4%) in net fee and commission income, affected by the abrupt slowdown in the first half of the year associated with containment of the COVID-19 pandemic, to be attributed to both the management, dealing and financial consultancy and commercial banking segments. Net interest income declined slightly, amounting to levels slightly below those of the previous year (-1.1%). Among the other components of the Division's operating income, marginal in amount, positive developments included profits on financial assets and liabilities designated at fair value (+13 million euro), whereas negative developments included other net operating costs (+7 million euro). Operating costs, equal to 5,065 million euro, were down by 4.3%, mainly thanks to the savings in personnel expenses, attributable to the reduction in the average workforce, and the decrease in administrative expenses, despite higher costs (particularly relating to IT) connected with the health emergency, mainly due to savings on service costs in the real estate and operations sectors and lower expenditure on structure costs and services rendered by third parties. As a result of the changes described above, the operating margin amounted to 3,018 million euro, down 2.7% on 2019. Gross income, equal to 385 million euro, was harshly impacted by the recognition of significant adjustments to loans mainly correlated with the revision of the scenario following the pandemic. After

allocation to the Division of taxes of 127 million euro, charges for integration of 16 million euro and the effects of purchase price allocation for 7 million euro, net income came to 235 million euro, compared to 1,000 million euro in 2019. Including the adjustment that fully offsets the goodwill also attributable to the increase in the book value of the Division following the integration with UBI Banca of 912 million euro, net loss was 677 million euro.

In quarterly terms, there was a decrease in the operating margin in the fourth quarter compared with the third attributable to the natural increase in operating costs typical of year-end, which more than offset the increase in operating income correlated to the recovery of fee and commission income. The net loss was strongly conditioned by the recognition in the fourth quarter of significant adjustments to loans and the aforementioned offsetting of goodwill.

The balance sheet figures at the end of December 2020 showed significant growth in total intermediated volumes of loans and deposits on an annual basis (+11.1%). In detail, loans to customers, equal to 207,533 million euro, recorded an increase of 13.2 billion euro (+6.8%), due to medium-/long-term loans to SMEs and retail companies, which reflect the Group's support to the Italian economy, also in relation to the extraordinary measures taken by the government. Direct deposits from banking business, amounting to 229,677 million euro, were up sharply (+30.4 billion euro, or +15.3%) in the amounts due to customers component, due to the higher liquidity accumulated on deposits held by businesses and individuals awaiting a more favourable scenario.

<b>Business</b>	Traditional lending and deposit collection operations in Italy and associated financial services.
<b>Mission</b>	<p>To serve Retail, Exclusive, and Small and Medium Enterprise customers, creating value through:</p> <ul style="list-style-type: none"><li>- widespread local coverage;</li><li>- focus on the characteristics of local markets, and the needs of customer segments serviced;</li><li>- development of service levels to customers using different channels in order to improve the efficiency of the commercial offering;</li></ul> <p>- development and management of products and services for the target customers, as well as of leasing, factoring and subsidised finance products for the Group in Italy;</p> <p>- the centrality of the roles of the officers responsible for the Regional Governance Centres, Area Governance Centres and branches as points of reference for the Group at local level;</p>
<b>Organisational structure</b>	
Individuals and Retail Companies Sales & Marketing, SME Sales & Marketing	Overseeing the Retail sector, which consists of the segments Individuals, Affluent and Retail Companies, the Exclusive sector (retail customers with high asset and wealth standing and complex financial needs) and the SME area (small businesses, businesses and top businesses with high complexity and potential for growth).
Banca 5	A "proximity bank", operating throughout the country in non-captive points of sale, focused on instant banking and targeting categories of customers who rarely use banking products and services.
Impact Department	Aimed at developing the initiatives of Impact Bank and serving non-profit organisations.
<b>Distribution structure</b>	Approximately 3,300 branches, including Retail and Business branches, distributed broadly throughout Italy, and Impact branches dedicated to the non-profit sector. The territorial structure is divided into 8 Regional Governance Centres, in each of which there are (to favour the commercial focus and guarantee a better control of the service level) three Commercial Managers, specialized for "commercial territory" (Retail, Exclusive and SME), that coordinate around 400 commercial areas.

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The strategic agreement signed by Intesa Sanpaolo and Nexi on 19 December 2019 governing payment systems, which provides for the transfer to Nexi of the Intesa Sanpaolo business line consisting of the acquiring activities carried out for over 380,000 points of sale, became operational on 1 July 2020. Intesa Sanpaolo will retain the sale force dedicated to acquiring new customers. Through the long-term partnership, Nexi will become the sole partner of Intesa Sanpaolo in the acquiring activities and the latter will distribute the acquiring services provided by Nexi while maintaining the relationship with its customers.

## Individuals and Retail Companies Sales &amp; Marketing, SME Sales &amp; Marketing

## Investment and Pension Funds

During the year, the advanced advisory service, “Valore Insieme”, was expanded with the Exclusive package, featuring a “fee-only” pricing model and dedicated products. The diversification of customer portfolios continued according to the need-based approach (spending, reserves, investment and pension) and the new Recommended Portfolios. The range of investment products was expanded to include new solutions designed to meet customers’ needs such as investing liquidity, gradually investing in equities, diversification by currency, protection of invested capital and new products with an ESG and megatrend focus. The new line of Luxembourg funds “Eurizon Next” leverages and simplifies advisory with an asset allocation that benefits from the asset management company’s finest expertise. The placement of the “Eurizon Progetto Italia” Individual Savings Plans was reopened and a new Individual Savings Plan with 95% protection of capital at maturity was launched. Lastly, the multimanager line of funds of funds reserved to “Valore Insieme Exclusive” was extended to the entire network and the offer dedicated to legal persons was expanded. In the area of bancassurance, the unit-linked policies “Prospettiva Sostenibile”, with ESG features, and “Valore Pro Insurance”, dedicated solely to customers of Valore Insieme, were launched, along with the new tranches of the class I policy “Obiettivo Sicurezza<sub>Insurance</sub>”, subject to a ceiling. The Intesa Sanpaolo Mobile app includes “Smart Save”, Intesa Sanpaolo’s first digital investment service, which makes it possible to make periodic or unplanned contributions of 5 euro or more by smartphone to four Eurizon funds, offered in relation to the investor’s financial profile.

## New service model

The evolved service model of Banca dei Territori became operational in mid-January 2020. This model changes the approach to segmenting individual customers, concentrating on the present value of customers and on the potential that they express, maintaining the centrality of the relationship and reorganising the commercial chains to offer customers the service methods and intensity that match their needs. The guiding criterion in defining the segments and portfolios is no longer just assets, but also the estimated income and spending capacity, age, the core of the relationship and the use of digital channels. Increasing the focus on high value and high potential customers, identified both based on their assets and by analysing their current account transactions, and managing retail customers in a personalised manner, based on their needs, are the key approaches of this change.

## Transactional products and digital payments

During the COVID-19 emergency, extraordinary measures have been implemented to meet the needs of customers, including measures to support individuals that needed to open a current account at Intesa Sanpaolo and to speed up the opening of new accounts for companies and businesses, sending payment cards to customers’ homes while extending the possibility of using them to one month after expiry, emergency management of the disbursement of the extraordinary redundancy fund, with a fully online process for applying for crediting of those amounts, and the elimination of fees for sending money through the Money Transfer service. In support of the spread of digital cards and payments, existing products continued to be updated and new services developed, with the offering of new payment solutions such as Swatch Pay, Samsung Pay for PagoBancomat cards and the completion of the Bancomat Pay offerings on the e-commerce channel and physical POS terminals. In addition, open banking solutions were developed, such as the app parking payment service and the Smart Cities agreement with the Municipality of Milan to obtain certification of registry information for mortgage applications.

## Loans

“PerTe Prestito Diretto” further developed its range of goods and services offered, with zero APR and Annual Effective Global Rate due to the contribution of the merchant, offering an innovative, “green” range focused on issues of innovation, sustainable mobility and the environment, in addition to the situation of the health emergency, taking into consideration aspects such as safety and social distancing. Thanks to Fund for Impact, a tool envisaged in the 2018-2021 Business Plan that makes it possible to promote credit inclusion projects, three new initiatives were implemented: *mamma@work*, subsidised financing designed to reconcile motherhood and work; *XME Studio Station*, a zero-interest-rate loan designed to ensure continuous access to remote education by enabling families to meet the costs of purchasing hardware, software and an Internet subscription; and “Obiettivo Pensione”, a bridge-loan that allows unemployed individuals who are between six months and three years short of the old age or early pension threshold to reach these contribution requirements.

## Mortgages

“Green - Mutuo Domus”, a mortgage loan dedicated to purchasing or building a residential property in Italy with a high energy class (equal to or higher than B) or restructuring and redevelopment of owned property, improving by at least one energy class, seeks to facilitate the renovation of Italian real estate and the spread of high-energy efficiency homes, in synergy with the criteria of the European EeMap Consortium, an initiative in which the Bank is participating. To stimulate the contracting of new green loans, the range of which was completed with a number of services provided by selected partners, the “Diamo Una Casa Alle Api” initiative was launched in partnership with the WWF, which entails the payment of 30 euro for each mortgage and 10 euro for each personal loan. During the emergency phase linked to COVID-19, the offering of mortgages was modified, implementing a contingency process that permits the phases of offering and application to be executed through a telephone interview with the customers and the exchange of documents via email. As envisaged by the “Cura Italia” Decree, the rules for the Solidarity Fund for mortgages on primary residences were revised, setting up in an initial phase a remote process to collect applications, which led to the creation of a dedicated internal task force to analyse the applications received and forward them to Consap for the assessment regarding approval. The Bank quickly took action to implement the legislative changes, through, for example, the preventive activation of suspension and the subsequent cancellation thereof where the rejection was received from Consap within 20 days from sending the application.

## Protection

To meet the needs arising due to the health emergency, extensions of the health coverage offered have been made to subscribers of Proteggi Salute and XME Protezione Interventi Chirurgici for 12 months, in the event of contracting the Coronavirus, for the same amount as the premium paid at no additional cost. The “Mobilità Protetta” project offers custom insurance solutions in support of mobility needs tied to commuting, managing family commitments or leisure activities, when walking, riding a bike or electric scooter or using shared vehicles. The insurance offering dedicated to the business world was enriched with the Polizza Collettiva Infortuni, which allows SMEs and retail companies to insure employees and contract workers against the risk of injury. The flexibility of the Tutela Business line was also increased with a broader choice of insurable sums and limits of liability.

## Young people

The “per Merito” loan, to enable students with high school diplomas to continue their studies, accessing the loan based on their educational merit, without collateral, with zero entry costs and disbursement of the loan on their current accounts at subsidised rates, was also extended to secondary school students. In addition, starting in academic year 2020/2021, for university students living in southern Italy or enrolled in universities located in southern Italy, the “per Merito” loan is available alongside the initiative StudioSi, the Intelligent Specialisation Fund of Italy’s Ministry of Education, Universities and Research, co-financed by the European Social Fund, management of which is entrusted to the European Investment Bank, which allows Intesa Sanpaolo, as financial partner, to provide interest-free loans of up to 50,000 euro to be repaid in a maximum of 20 years, without any guarantees, in order to cover study costs. Up to the time of the lockdown imposed by COVID-19, the following projects continued: “Z Lab”, a three-year programme of learning, trial experience and orientation for high school students, held at the offices of the Group and aimed at developing transversal skills, a sense of cooperation, teamwork and creativity, and the “Giovani e Lavoro” project, to favour the employment of young people aged 18 to 29, overcoming the skills gap between demand and supply, offering targeted training, free of charge, both for young people and for the participating businesses, for professional positions the businesses need to fill and for which there is low supply on the labour market.

## Multichannel Project

The development of multi-channel and digital banking continued, reaching 10.3 million multi-channel customers (87.7% of total customers) and 6.5 million active users on the App at the end of 2020. Almost all the products in the retail catalogue, including current accounts, payment cards, personal loans and non-banking products as well, such as smartphones, tablets and PCs, can be purchased via internet banking and/or the mobile app. During the year the multi-channel development of new customer journeys continued, alongside constant optimisation of the customer experience, improving the remote usability of the services offered by the digital channel, for example with: the launch of the Insurance app, the inclusion in the mobile app of the Parking service and the new spending analysis reports and mutual fund management in the Investo app. The new innovative service “XME Banks”, a financial aggregator available free of charge for retail customers holding My Key contracts, allows customers to view, using the App and the website, also the current accounts and cards they hold with 87 other banks and credit transfers to be made from linked accounts with 41 institutions. For retail business and SME customers the new NDCE Business platform (the new internet banking site for legal persons and ISP Mobile Business App) was launched through signing of the My Key Business contract. Digitalisation also extended to loans to small and medium enterprises, with Circolante Impresa Smart, the first digital short-term loan, which can be subscribed remotely in self-service mode, without the need to visit a branch. For business customers, a new digital experience was designed thanks to simplification of contract management and the sale process was launched for new commercial credit and debit cards, which can be subscribed remotely on Inbiz, along with the new digital process of managing the breakdown of short-term credit facilities.

Online Branch, which interacts with customers offering comprehensive services and support, continued to grow. Due in part to the COVID-19 emergency, there was a significant increase in the use of remote channels and requests for support from Online Branch, which with its 1,070 online managers spread across 18 branches ensured business continuity, facilitating the customer-bank relationship. In addition, the 161 remote managers also continued to offer personalised remote advisory services, available during extended hours, to the over 57,000 customers acquired, in synergy with the physical branches and the Online Branch.

## Agreements

Through specific agreements with the European Investment Bank and European Investment Fund, Intesa Sanpaolo prepared multiple lines of action which will allow it to provide the end beneficiaries with new loans of over 2.8 billion euro, primarily intended for the Italian economy, with the goal of financing Italian small and medium enterprises and mid-caps, for new investments, including, in particular, investments in innovative research and investment projects and permanent working capital and liquidity needs to overcome the COVID-19 emergency. In 2020, agreements were reached with the main Italian category associations (Confcommercio, Confartigianato Imprese, Confapi - Confederazione italiana della piccola e media industria privata, Federalberghi, Federturismo, Confindustria Alberghi and Federterme, ANCE - Associazione Nazionale Costruttori Edili, Federlegno Arredo, Anima - Federazione delle Associazioni Nazionali dell’Industria Meccanica Varia e Affine, Confindustria Intellect, Assopellettieri - Associazione Italiana Pellettieri, CDO – Compagnia delle Opere, FINCO - Federazione Industria Prodotti Impianti e Servizi ed Opere Specialistiche per le Costruzioni e la Manutenzione), fundamentally concerning the same issues: support for company liquidity and working capital, with short-, medium- and long-term loans, including with public guarantees from the Central Fund and SACE, extraordinary moratoria, supply chain development and support for internationalisation; innovation and sustainability, with a particular focus on ESG issues, circular economy and innovative start-ups; solutions designed for individuals to meet their needs, to support remote working and to ensure insurance and health protection and cover; innovative solutions that allow companies to take full advantage of the opportunities afforded by the 110% Superbonus and the other tax incentives introduced by the “Relaunch” Decree.

Loans

As a result of the COVID-19 emergency, to provide the utmost support to Italian businesses and enable them to overcome the contingent difficulties, and restart as soon as possible, also to protect employment, even before the government took action, Intesa Sanpaolo activated the option to suspend instalments of mortgages and loans and allocated a ceiling of 50 billion euro for new credit lines with a duration of 18 months (less one day) for customers and non-customers who do not have available credit lines, with favourable conditions, and 10 billion euro dedicated to Intesa Sanpaolo customers, who benefit from previously approved large credit lines, made available for wider, more flexible purposes, such as managing urgent payments. The offering was enriched with the loans guaranteed by the Guarantee Fund in line with the Decree no. 23/2020 (so-called "Liquidity Decree"), converted into Law 40/2020. Specifically, as a result, SMEs, artisans, freelance professionals and all those that operate their own business were able to apply for a loan up to the maximum amount of 30.000 euro, with a maximum duration of 120 months, with a grace period of up to 36 months, fully guaranteed by the Guarantee Fund, through a remote process, from the Bank's showcase website. In implementing the measures set out in the Liquidity Decree, to ensure quick responses to the needs of businesses and speed up the time frames for accessing credit through the intervention of the Guarantee Fund, Intesa Sanpaolo distributed the funds before the response of the Guarantee Fund, expanded the Specialist Hubs and simplified procedures. Intesa Sanpaolo was also the first Italian bank to sign the cooperation protocol with SACE to offer loans to SMEs and businesses, to support personnel expenses, investments or working capital exclusively for production facilities and businesses located in Italy, with the value of the SACE guarantee with consideration varying from 70% to 90% of the amount financed.

Companies in the agriculture sector also benefited from the suspension of instalments of mortgages and loans due to the emergency connected with COVID-19, confirming Intesa Sanpaolo's significant focus on Italian agribusiness companies. Support to the segment was also obtained through access to loans guaranteed by ISMEA (the public entity that supplies financial, insurance and IT services to agricultural businesses), in line with the abovementioned Liquidity Decree 23/2020, which enabled SMEs in the agricultural sector to apply for loans to cover liquidity, investments and debt renegotiation.

The new ESG-linked "S-Loan" supports companies with the process of growth and industrial reconversion in pursuit of sustainability, making it possible to finance investments benefiting from a rate discount upon achieving the improvement objectives set and certified in the ESG arena. "Energia Impresa", a medium/long-term loan intended to support companies in carrying out their investment programmes in the energy sector, divided into four areas of intervention, renewable energy, biogas, biomethane and energy efficiency, and which makes it possible to take advantage of the incentive measure opportunities offered by the legislation, became available in December.

For energy-efficiency and earthquake-risk reduction interventions, Intesa Sanpaolo implemented an offer dedicated to the 110% Superbonus and other building tax relief, such as the Ecobonus and Sismabonus, which provides a modular solution based on purchasing tax credits at a fixed price set at the outset as a function of the type of the tax credit, an optional bridge-loan to start the work, without having to wait for offsetting against tax liabilities in 5 or 10 years, with an undertaking to repay this advance by transferring the tax credit to the Bank and the option of benefiting from free advisory service offered by Deloitte in identifying and gathering the technical and administrative documentation required to issue the approval, where applicable.

To favour access to sources other than bank borrowing, the Bond product continued to be offered to Italian SMEs. Bond issuance enables companies to improve their reputations in the eyes of the banking and financial system and to position themselves as innovative users of new forms of financing, while also benefiting from the capital made available by institutional market participants that is not otherwise accessible.

The Bank launched suspension initiatives to support customers in difficulty as a result of the pandemic. For mortgage loans and loans to families, it also participated in the Italian Banking Association/Consumer Associations Agreement of April 2020 (extended in December). Applications may also be submitted using a remote process by e-mail with the branch manager.

Sviluppo Filiere

The "Programma Filiere", an innovative form of credit launched by Intesa Sanpaolo to favour access to credit for suppliers by taking advantage of their role in the production chain, reached over 760 participating lead companies, of which approximately 420 participating in Confirming, a tool that can be used to finance receivables claimed by suppliers from lead companies, with a potential of 18,400 suppliers. New agreements were signed involving the two levels of direct and indirect suppliers, and even the downstream chain, that of resellers.

Intesa Sanpaolo  
Rent Foryou

To complement the traditional banking range, Intesa Sanpaolo Rent Foryou offers operating rental solutions to manufacturers, distributors and their client firms, supporting the renewal of the equipment required for their businesses, allowing them access to the latest technology on the market in short order, reducing the risk of obsolescence and providing cost certainty, with fully deductible payments.

Leveraging  
of the Branch Network

The innovative service "In Vetrina", with its non-financial content, complements the Bank's core offerings, with the goal of supporting development and serving as a touchstone for companies and client firms. The set up of areas at branches for the promotion and sale of products and services, together with communication initiatives to selected targets of customers, provides commercial partners with an exceptional showcase and opportunity for contact with customers.



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## Banca 5

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Banca 5 (formerly Banca ITB), is the first online bank in Italy to operate in the payment system sector and dedicated exclusively to a non-captive network of points of sale. It is authorised for the deposit-taking activity and to exercise lending activities in their various forms, for all the financial and banking operations and services permitted.

At the end of 2019, the agreement between Banca 5 and SisalPay was finalised to set up a newco, which in November 2020 was named Mooney, with the objective of offering banking products and payment and transactional services at over 40,000 merchants located throughout the entire country. The new network, which has been fully operational since the beginning of 2020, adds to the offering of products and services of Banca 5 and SisalPay.

As at 31 December, around 42,000 non-captive points of sale were authorised to offer Banca 5 services. Moreover, during the second half of 2020 the merchants in the former SisalPay network began to provide certain services of Banca 5, including withdrawals and bank transfers (reserved to customers of Intesa Sanpaolo). To strengthen Mooney's sales network, the "Smart POS" offer ensures that authorised merchants can even more widely distribute the range of products and services of Banca 5: at year-end there were 1,043 non-captive points of sale participating in the "Smart POS" offer. There are also around 71,000 retail customers using the Banca 5 app, with 41,500 cards sold and 3,000 active payment accounts.

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## Impact Department

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The Impact Department is dedicated to managing non-profit customers and coordinating the activation and management of Social Impact Funds. In January 2020 the network was expanded to 90 branches, and the organisational structure was revised, establishing the Non-Profit Sector Commercial Department to oversee the network. The acquisition of non-profit customers from other commercial areas of the Banca dei Territori Division, with dedicated welcome initiatives, was completed. At the end of 2020, the number of customers came to over 90,000, financial assets amounted to 7.3 billion euro, of which 5.5 billion euro in direct deposits, while lending operations presented an approved amount of 3.3 billion euro (of which 2.3 billion euro had been used).

Based on the business plan, initiatives were realised to develop the relationship with non-profit organisations and better meet their needs. In March two new agreements were activated in response to the COVID-19 emergency, one with ACRI and the other with Fondazione ONC. Both involved setting up guarantee funds to support the liquidity needs of non-profit sector entities in response to the healthcare crisis period and a mechanism for partial rebates of financial charges. In addition, the entire sales network sought to facilitate access to government credit measures. It is also important to note the decision to provide financial support to a Social Housing initiative promoted by Redo SGR – Fondo Immobiliare Lombardia Comparto Uno, a Benefit Company 66%-owned by Fondazione Cariplo. Fondo Immobiliare Lombardia Comparto Uno, along with CDP – Fondo Investimenti per L'Abitare, with 68% of the units, aims to optimise the use of public and private resources for the purpose of Social Housing measures as a driver of urban regeneration. The investment strategy is based on three areas of long-term sustainability, i.e. social, environmental and economic/financial. The development plan, presented to the Impact Department of Intesa Sanpaolo, provides for over 900 million euro in investments planned over the next 20 years, creating a significant driver of development of Social Housing through public-private partnerships with institutional investors with roots in Lombardy.

**IMI Corporate & Investment Banking**

Income statement	2020	2019	(millions of euro)	
			changes amount	%
Net interest income	2,131	1,872	259	13.8
Net fee and commission income	979	999	-20	-2.0
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	1,207	1,232	-25	-2.0
Other operating income (expenses)	8	2	6	
<b>Operating income</b>	<b>4,325</b>	<b>4,105</b>	<b>220</b>	<b>5.4</b>
Personnel expenses	-423	-432	-9	-2.1
Other administrative expenses	-654	-693	-39	-5.6
Adjustments to property, equipment and intangible assets	-21	-23	-2	-8.7
<b>Operating costs</b>	<b>-1,098</b>	<b>-1,148</b>	<b>-50</b>	<b>-4.4</b>
<b>Operating margin</b>	<b>3,227</b>	<b>2,957</b>	<b>270</b>	<b>9.1</b>
Net adjustments to loans	-470	-221	249	
Other net provisions and net impairment losses on other assets	-40	-41	-1	-2.4
Other income (expenses)	65	3	62	
Income (Loss) from discontinued operations	-	-	-	-
<b>Gross income (loss)</b>	<b>2,782</b>	<b>2,698</b>	<b>84</b>	<b>3.1</b>
Taxes on income	-888	-863	25	2.9
Charges (net of tax) for integration and exit incentives	-19	-5	14	
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
<b>Net income (loss)</b>	<b>1,875</b>	<b>1,830</b>	<b>45</b>	<b>2.5</b>

	31.12.2020	31.12.2019	(millions of euro)	
			changes amount	%
Loans to customers	135,004	131,884	3,120	2.4
Direct deposits from banking business (a)	88,183	86,850	1,333	1.5
Risk-weighted assets	97,976	99,810	-1,834	-1.8
Absorbed capital	8,419	8,578	-159	-1.9

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

(a) The item includes certificates.

In 2020, the **IMI Corporate & Investment Banking Division** (formerly Corporate and Investment Banking), recorded operating income of 4,325 million euro (representing over 25% of the Group's consolidated total), up 5.4% compared to the previous year.

In detail, net interest income of 2,131 million euro was up by 13.8%, benefiting from the greater contribution of loans to customers, supported by structured finance business and, to a lesser extent, Global Corporate. Net fee and commission income, amounting to 979 million euro, fell 2% due to the performance of the commercial banking segment. Profits on financial assets and liabilities designated at fair value, amounting to 1,207 million euro, performed negatively (-2%), mainly owing to the significant reduction of the valuation effects due to the debt value adjustment (DVA) correlated with liabilities comprised of certificates. Operating costs amounted to 1,098 million euro, down 4.4% compared to the previous year, above all due to savings on administrative expenses. As a result of the above revenue and cost trends, the operating margin came to 3,227 million euro, up 9.1% compared to 2019. Gross income, amounting to 2,782 million euro, was up 3.1%, despite higher net adjustments to loans recorded due to the COVID-19 pandemic. Lastly, net income came to 1,875 million euro (+2.5%).

In the fourth quarter of 2020, the IMI Corporate & Investment Banking Division (IMI C&IB) recorded a decrease in operating margin compared to the third quarter, due to the seasonal nature of operating costs typical of year-end in the presence of substantially stable revenues. The same trend recurred at the level of gross income, whereas net income increased as a result of lower taxes.

The Division's intermediated volumes increased compared to the beginning of the year (+2%). In detail, loans to customers of 135,004 million euro increased by 3.1 billion euro (+2.4%), attributable to medium-/long-term loans for structured finance transactions. Direct deposits from banking business, amounting to 88,183 million euro, were up by 1.3 billion euro (+1.5%) due mainly to the increase in amounts due to global corporate customers, only partly offset by the decline in the securities issued of the Luxembourg subsidiary and of the Irish subsidiary within the International Department. Financial liabilities designated at fair value through profit or loss represented by certificates also performed positively.

<p><b>Business</b></p>	<p>Corporate and transaction banking, investment banking, and public finance and capital markets, in Italy and abroad.</p>
<p><b>Mission</b></p>	<p>To act as a strategic, global partner in supporting companies and financial institutions in achieving balanced, sustainable growth, including at the international level, through a specialised network of hubs, branches, representation offices and subsidiaries that engage in corporate banking operations. To foster collaboration between the public and private sectors with the aim of supporting the creation of infrastructure and sustainable investments, including by pursuing international growth opportunities in countries of strategic interest to the Group.</p>
<p><b>Organisational structure</b></p>	
<p><b>Global Corporate Department</b></p>	<p>The Department develops and manages relationships with Italian and foreign corporates with diverse needs and multinational presence, and with domestic Public Entities. It ensures the provision of a global, integrated offering of products and services by specific economic sector for customers under its remit, integrating traditional commercial banking products and services with those of investment banking and capital markets, pursuing cross-selling of products and services overseen by the IMI Corporate &amp; Investment Banking Division, by other Divisions and by the Group's product companies. It avails itself centrally of the commercial action of the Industry units, and locally of the Italian network (Areas) and of the international network of the International Department. The coverage is also completed through two units specifically dedicated to strategic investment banking deals to support industries (Global Strategic Coverage) and geographical areas (Network Origination Coverage). The specialisation by industry includes all industrial sectors: Automotive &amp; Industrials; Basic Materials &amp; Healthcare; Energy; Food &amp; Beverage and Distribution; Infrastructure &amp; Real Estate Partners; Public Finance; Retail and Luxury; Telecom, Media and Technology.</p>
<p><b>International Department</b></p>	<p>The Department ensures the international development of the Division in agreement with the other relationship and product structures, ensures the correct management of operational and commercial activities of the hubs, international branches and representative offices and oversees the management of the international subsidiary banks (Intesa Sanpaolo Bank Luxembourg, Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Brasil - Banco Multiplo and Banca Intesa - Russia and Intesa Sanpaolo IMI Securities Corp.), ensuring their overall coordination.</p>
<p><b>Financial Institutions Department</b></p>	<p>The Department is responsible for commercial relationships with financial institutions on domestic and international markets, with a dedicated service model organised by customer segment (i.e., Banks, Insurance Companies, Asset Managers, Financial Sponsors, Sovereign Funds and Governments). Commercial development activity, which is particularly diversified and innovative, takes the form of proposing integrated solutions that facilitate the cross-selling of Capital Markets, Investment Banking, Commercial Banking and Transaction Banking products.</p>
<p><b>Global Transaction Banking Department</b></p>	<p>The Department is responsible for transaction banking products and services for the entire Group. It develops a wide range of digital products and services to meet customers' investment and working capital optimisation needs in Italy and abroad.</p>
<p><b>Global Markets &amp; Investment Banking</b></p>	<p>The scope of the structure includes capital markets activities, including management of the portfolio and ownership risk through direct or indirect access to markets, structured finance, M&amp;A advisory and primary markets (equity and debt capital markets).</p>
<p><b>Distribution structure</b></p>	<p>In Italy, the IMI Corporate &amp; Investment Banking Division has a total of 25 branches dedicated to corporate customers and public customers. At the international level, it operates in 25 countries in support of the cross-border operations of its customers through a specialised network of hubs, branches, representative offices and subsidiaries that engage in corporate banking activity.</p>

## Global Corporate Department

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In 2020, the Global Corporate Department confirmed its role as strategic and financial partner to its Italian and international customers, supporting them by organising and participating in a number of financing and investment banking transactions. Owing to the specialised expertise linked to the Industry model and the origination capacity of the two teams dedicated to developing strategic investment banking and structured finance transactions, support continued to be provided to important international counterparties with a view to sector and geographical diversification. During the year, measures were implemented and updated to support corporate customers to manage the economic and financial consequences of the COVID-19 health emergency, while also ensuring full operations of customers with dedicated remote processes. These measures were taken at the Bank's initiative and in accordance with the instructions provided in various government decrees, such as loans with government guarantee from the Central Fund and SACE. In particular, a loan to FCA Italy and other Italian FCA group companies was finalised, in support of the entire national automotive industry, which incorporates an innovative system for controlling flows to be allocated to payment of Italian employees, the supply chain and expenditure for investments in Italy on new vehicle models with less polluting engines. In addition, the Bank intends to continue to play an active role in supporting the revival of the Italian economy in the delicate "back to business" phase, including through development of its production chains, an indispensable engine of the Italian economy and heart of the Italian economic and productive system. In this same context, agreements were also signed with Enel to launch supply chain development processes from an ESG perspective and with Gucci. During the period, the Group participated in numerous syndicated loans, including those to the Esselunga Group, Davide Campari Milano, General Motors, WIGA, Leonardo, Nordex, Reliance Industries, EP Infrastructure, Cerved, Polynt, Ulker Biskuvi Sanayi A.S. (Yildiz Group), Holding d'Infrastructures de Transport, Angelini Pharma, Residenziale immobiliare 2004, MD, Mediterranean Shipping Company, Immobiliaria Colonial, Cromwell REIT, Exxon Mobil, Santos and EDF. Some of the transactions were conducted as part of the Originate to Share framework. Numerous loans were finalised in the ESG, Green and Circular Economy area, including those to Pirelli, El Corte Ingles, Indorama, Downer Edi, Novamont, Moncler, Salvatore Ferragamo, Tesco, Ahold Delhaize NV, Greencycle and ENI. A loan to Canadian Solar was also concluded for the construction of photovoltaic plants. Attention should also be drawn to support for acquisition financing in important transactions, such as the acquisition of Bindi by BC Partners, of Basf Construction Chemicals by Lone Stars, of Coty by KKR and of Pinehill by Indofood CBP. The Bank participated in various project financing transactions, including F2i Energie Rinnovabili and Bina Istra (Bouygues), Ventient Energy, VTTI and EnfraGen. The refinancing of CDP RETI and of FLNG Liquefaction 3, Vodafone Hutchinson, Iliad and Louis Delhaize was also finalised. In M&A the Group acted as financial advisor in the acquisitions of Bre.Be.Mi by Aleatica (in which the Bank also acted as lender), of Gedi by Giano (Exor) and of Morris Profumi-Atkinson by Euroitalia. In the debt capital markets business, the Bank acted as bookrunner in numerous issues, including LVMH, EssilorLuxottica, AT&T, Nestle, Engie, Ford Motor Credit, United Group BV, Sabine Pass Liquefaction, Unibail Rodamco, Heineken, Signify, Eni, Telefonica, Carrefour, Naturgy, FCA Bank, EDP Energias de Portugal, Iberdrola, General Motors, Ferrari, HeidelbergCement, Snam, APRR, Cellnex, Italgas, Abertis, Acea, Cepsa, Iren, Wolters Kluwer, Volkswagen, Carnival, EDF, Cheniere Energy, WeBuild, Gecina, Cemex SAB de CV, Enagas, Aeroporti di Roma, Azzurra Aeroporti Tenzigchevroil, Terna, Hera, EnfraGen and Saipem. In the equity capital markets business, the Bank acted as joint global coordinator and joint bookrunner in the accelerated bookbuilding of Inwit, joint bookrunner for the capital increase by Cellnex, as well as coordinator-lead manager in JDE Peet's IPO.

## International Department

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During the year, the International Department managed the COVID-19 emergency on the entire international network of the IMI C&IB Division, by activating all the technological and organisational solutions necessary to protect the health of colleagues and stakeholders, as well as for business continuity on the international markets. The Shanghai branch also played an important role in supporting Italian institutions in importing medical supplies to Italy, particularly in the first phase of the pandemic. The widespread use of remote working, with percentages of colleagues involved near or equal to 100% in the most critical phases of the pandemic, did not impact the levels of service provided to customers, allowing for oversight of international business, which was characterised by strong commercial development in the initial months of the year, specifically with Italian customers operating abroad, and with international players present on both mature and high potential markets. In that context, the Accelerate programme continued, launched in the second half of 2019 by the IMI C&IB Division with the goal of boosting business with international customers, as part of the International Growth strategic initiative. The programme focused on forward looking analyses of various industrial sectors in the post-COVID-19 scenario, to be ready to incisively contribute to the restart of the economy in the geographical areas where the Division operates. Commercial and organisational development will continue with the programme IMI C&IB International Next, launched in the fourth quarter, which envisages a number of initiatives to adapt the sales model and organisational structure of the international network to the new challenges posed by the changed scenario (including Brexit). The second half of the year was also characterised by the completion of the incorporation of the Banca IMI London branch into the local Intesa Sanpaolo branch, as well as by the implementation of the actions required to comply with the Brexit scenario. The authorisation process for the opening of a new branch in Sydney, which will be fully operational in early 2021, was completed in December.

The Division's current international network is present in 25 countries through 14 wholesale branches, 10 representative offices (in addition to the Brussels office at Group level, reporting to European Regulatory & Public Affairs and in charge of managing relations with supranational regulators), 4 corporate banks (Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, Intesa Sanpaolo Brasil S.A. and Banca Intesa - Russia) and Intesa Sanpaolo IMI Securities Corporation.

## Financial Institutions Department

The Department continued to assist numerous Italian and international financial institutions in particularly complex and strategically important operating and extraordinary finance deals in a particularly challenging market context. In the domestic and international banking sectors, the Group provided advice, arranging and financing in transactions to optimise and strengthen capital structure, both on the equity and debt markets, as well as in the restructuring and sale of problematic assets and/or refinancing of performing assets. As regards the Italian market, it acted as global coordinator in the placement of a package of shares of Nexi by Mercury UK and, also for Nexi, in the issue of a convertible bond, as well as advisory for the acquisition of Nets, including the role of MLA for the related bridge financing. On the domestic market, mention should also be made of the advisory/arranging roles with Cassa Centrale Banca in a GACS (guarantee on securitisation of NPLs) transaction for cooperative credit banks and the roles as joint bookrunner in the Tier 2 issues by MPS and BPER, as well as in the senior debt issue by ICCREA Banca. On the international markets, it acted as joint bookrunner in the senior non-preferred issues of Santander and KBC and the covered bond issues of Deutsche Bank, BPCE and Erste. From the beginning of 2020, the Group took up DCM business again, for SEC-Registered transactions in the United States. In that area, it participated in numerous issues of leading American banks (Bank of America, Citigroup, Goldman Sachs, JP Morgan, Morgan Stanley and Wells Fargo) and of the Canadian group Toronto Dominion. Business with non-banking financial institutions and governments delivered very positive results due to a commercial strategy that made it possible to take advantage of the opportunities offered by the new market scenario swiftly. Within this framework, important business was developed with government customers, committed to managing the new debt deriving from measures in support of the economy. In addition, various transactions were undertaken in support of financial operators with closer ties to the real economy, among which mention should be made of the financing transactions for SME lending platforms with government guarantee (October EU) and financing transactions for the largest consumer credit companies (Compass and Agos Ducato), in addition to securitisations such as those on assignment of one-fifth of salary loans with Fincontinuo and Dynamica Retail and on VAT receivables with Banca Sistema. Finally, mention should be made of the role in various significant ESG transactions, including, in particular, the placement of the first Green Bond by Unipol and the first two Social Bonds by CDP, the first dedicated to social housing and the second designed to support the companies and public authorities affected by the pandemic. On the insurance front, it participated in the placement of the first RT1 issued by Unipol. In addition, despite the challenging market context, a strong focus was also maintained on international customers, participating in financial support transactions for some of the largest alternative international funds (including Bain Capital, Anacap, Ares and Blackrock) and placement with foreign operators of the junior tranches of the recent GACS transactions by Intesa Sanpaolo and UBI (Sirio and Rey). In other international activity, the Bank was the only Italian bank to participate in the pool financing for London Stock Exchange for the acquisition of Refinitiv. Finally, the Department took part in the restructuring transaction for Borsa Italiana, undertaking to acquire a minority interest in Euronext within the framework of the latter's acquisition of Borsa Italiana from LSE. Through this transaction, which is expected to close by the first half of 2021, the Group will become a party to the shareholders' agreement between the Euronext group's long-term shareholders. Business with financial institutions in emerging markets was also impacted by the market conditions at international level. With regard to the Bank's risk portfolio, the exposure to Turkey was significantly reduced, partially offset by a recovery of activity with Brazilian banks, supported by a favourable rate performance. Mention should be made of the constant support for exporter customers, characterised by a resumption of export flows towards Russia, Bangladesh, North Africa and Egypt. Significant guarantee issuance activity was undertaken for various geographical areas. In Structured Deals, despite the persistent problems relating to the pandemic, the partial commodities price recovery led producers and traders to approach the market to monetise future production. In particular, there was new activity in both the energy and metals sectors. There was a recovery in the use by Italian companies of financing transactions supported by SACE and with the contribution of Simest, focusing on areas such as Russia, Eastern European countries and West Africa. Transactions were targeting Egypt, Ghana and Scandinavia were also carried out in 2020. There was a constant increase in participation of new Supply Chain Finance transactions, particularly with companies in the North American area. As regards Private Equity Funds and Sovereign Wealth Funds, the Group was involved in a good number of significant transactions, also on foreign markets, strengthening its positioning. On the Italian market, mention should be made of the role as financial advisor to NB Renaissance Partners and Bain Capital in the acquisition of Engineering Group, in which the Bank was also MLA and underwriter in the acquisition financing and global coordinator in the company's bond issue, as well as the role of lead arranger and bookrunner in the acquisition financing in support of CVC for the Genetic acquisition, involving the number-one Italian operator in the market for the production and marketing of generic drugs. The Bank was also global coordinator and joint bookrunner in the capital increase by NB Aurora, the first permanent capital vehicle listed on the MIV segment in Italy. In transactions with private equity funds on international markets, the Bank was underwriter, bookrunner & MLA in the financing for the acquisition of Thyssenkrupp Elevator Technologies, a leading installer and maintainer of lifts and passenger transport systems, by Advent, Cinven, ADIA, GIC and RAG, and acted as MLA in the refinancing of Curium, a nuclear medicine company, by CapVest in France. In the Sovereign Wealth Funds and Pension Funds segments, the Bank was joint lead manager and active bookrunner in the triple-tranche bond issue by Mubadala, participated in the revolving credit facility for Investcorp and in the financing for a consortium composed of APG, South Korean Pension Service and Swiss Life AM in the acquisition of the Portuguese motorway operator Brisa. Finally, with regard to Fund Financing, mention should be made of the participation in one of the first ESG-linked fund facilities on the European market, for the fund Investindustrial VII, participation as new lender in the Revolving Credit Facility intended for the fund Apex X, and the capital call advance transaction closed with the fund Capital Dynamics Clean Energy and Infrastructure VII, owned by ADIA, APG and Calstrs.



## Global Transaction Banking Department

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In 2020, to support SMEs and corporates during the pandemic, the Global Transaction Banking Department developed services to improve liquidity management and digitalisation levels. In particular, the digital portal Inbiz was enhanced, releasing the new digital signature and contract management process directly within corporate banking, in addition to new working areas (e.g., working capital management) that offer the customer a single point of access to the Bank's services; customer support services have been reinforced through the evolution of the dedicated app and assistance through innovative dialogue methods. As part of enhancing the supply chain programme, an agreement was finalised to provide Dynamic Discounting service and offer suppliers advance payment of invoices.

In addition, solutions also continued to be developed for the public authorities and citizens with services such as IBAN Check PagoPA through Open Banking and the PagoPA solution for inputting data into the IO app. Commercial support for companies was constant, due in part to forms of distance advice, which made it possible to keep customer relationships solid and offer them solutions suited to the period for working capital management, import/export and digitalisation.

Finally, the commercial trading company Exetra continued to support Italian companies that want to export to international markets.

## Global Markets & Investment Banking

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The year 2020 was full of challenges and big key events: from the outbreak of the pandemic to the U.S. elections and the discovery of the vaccine. In the Global Market Securities area, intense market making activity (Sales and Trading) in all asset classes (Rates, FX, Commodity, Equity and Credit) and the liquidity provider activity of Brokerage allowed the IMI C&IB Division to meet the customers' demands in all situations, generating value for them. The Division ensured efficiency and market coverage during the pandemic, while also strengthening remote working and internal control and safety systems and promoting a constantly faster transition to electronic service, in line with the Group's digitalisation targets. In 2020, the activities carried out by the Global Market Solutions and Financing Unit confirmed the leadership position in Italy both in support for customers in management of financial risk, including with innovative ESG-linked solutions, and in the securitisation and asset-based financing sectors. The unit structured, financed and distributed solutions for customers designed to optimise funding and economic and regulatory capital, deconsolidate performing and non-performing assets and improve the net financial position of customers. The unit also consolidated its international presence, supporting corporate and financial institution customers inside and outside Europe with risk management and financially, as well as important foreign investors in the acquisition of granular portfolios both in Italy and the main international jurisdictions. The Finance & Investments area focused its strategy on significant derisking, both in the banking book and trading book, risk mitigation strategies and actions aimed at managing the exceptional circumstances on the markets. Management of the liquidity position was assured in view of optimal net interest income in accordance with the Liquidity Policy. Primary market activity in the EMEA region saw an increase in volumes compared to the previous year, albeit in a context of very volatile equity indices. In this area, the Equity Capital Markets team maintained its usual oversight of Italian markets, acting in various roles in the ABBs of Nexi and in the sale of a stake in Inwit. In the area of takeover bids, IMI C&IB acted as coordinator of collection of acceptances as part of the public purchase and exchange offer of Intesa Sanpaolo/UBI and the purchase offers of Gamenet, Molmed and Gedi, which allowed the Bank to confirm its leadership role in Italy. On the international front, IMI C&IB was involved in the JDE Peet's IPO, in the capital increase by Cellnex, in the convertible bond issues by STM, Falck Renewables and Pirelli and as selling agent for Carnival on the NYSE. Finally, the Division confirmed its leadership as specialist and corporate broker on the Italian market. On the Italian bond market, IMI C&IB's Debt Capital Markets topped the rankings by volumes issued, up on the same period of the previous year, despite the very complex market context. In the Corporate Investment Grade and High Yield segment, the Division acted as joint bookrunner in the bond issues of leading issuers in various currencies (euro, sterling, dollars). In the Financial Institutions area, it acted as joint bookrunner in covered, senior unsecured, senior preferred and non-preferred, subordinate issues of leading Italian and foreign issuers. In the sovereign issuers segment, it was joint bookrunner for the Republic of Italy in various issues, including BTP Futura, BTP Italia and the Poste Italiane dual tranche issue. The Division provided its M&A Advisory services in some of the most important transactions announced in Italy in 2020, including the acquisition by the private equity funds NB Renaissance and Bain Capital of Engineering and the sale by TIM of a minority interest in Inwit to a consortium led by Ardian. In relation to a general slowdown of the market due to the pandemic, the Structured Finance team achieved significant results, allowing the Division to maintain a leadership role on the Italian market and a good competitive position in the larger EMEA area. After the outbreak of the pandemic, there was a particular focus on transactions aimed at supporting the Italian business system at a time of particular difficulty and in transactions with green characteristics. Near the end of the year, there was a generalised recovery in origination activities in the various business segments, conducted with a selective approach, aimed at preserving the credit quality of loans, on one hand, and achieving adequate economic returns, on the other. Through the BdT Corporate Finance desk, the Division played fundamental roles with customers of the sales network in various types of structured lending transactions for Wiit, Retelit, Techedge, Arexpo and BioDue, in bond issues, for the structuring of Basket Bonds, and in equity, including the listing of Labomar in the AIM Italia segment of Borsa Italiana.

**International Subsidiary Banks**

Income statement	2020	2019	(millions of euro)	
			changes amount	%
Net interest income	1,310	1,370	-60	-4.4
Net fee and commission income	505	537	-32	-6.0
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	131	124	7	5.6
Other operating income (expenses)	-38	-33	5	15.2
<b>Operating income</b>	<b>1,908</b>	<b>1,998</b>	<b>-90</b>	<b>-4.5</b>
Personnel expenses	-527	-540	-13	-2.4
Other administrative expenses	-344	-346	-2	-0.6
Adjustments to property, equipment and intangible assets	-110	-105	5	4.8
<b>Operating costs</b>	<b>-981</b>	<b>-991</b>	<b>-10</b>	<b>-1.0</b>
<b>Operating margin</b>	<b>927</b>	<b>1,007</b>	<b>-80</b>	<b>-7.9</b>
Net adjustments to loans	-247	-77	170	
Other net provisions and net impairment losses on other assets	-15	5	-20	
Other income (expenses)	7	9	-2	-22.2
Income (Loss) from discontinued operations	-	-	-	-
<b>Gross income (loss)</b>	<b>672</b>	<b>944</b>	<b>-272</b>	<b>-28.8</b>
Taxes on income	-140	-181	-41	-22.7
Charges (net of tax) for integration and exit incentives	-59	-40	19	47.5
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
<b>Net income (loss)</b>	<b>473</b>	<b>723</b>	<b>-250</b>	<b>-34.6</b>

	31.12.2020	31.12.2019	(millions of euro)	
			changes amount	%
Loans to customers	36,079	34,038	2,041	6.0
Direct deposits from banking business	46,308	43,420	2,888	6.7
Risk-weighted assets	32,886	32,916	-30	-0.1
Absorbed capital	3,459	3,467	-8	-0.2

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

The **International Subsidiary Banks Division** is responsible for the Group's activities in foreign markets through commercial banking subsidiaries and associates, mainly active in retail banking.

In 2020, the Division's operating income came to 1,908 million euro, down (-4.5%) compared to the previous year (-4% at constant exchange rates). A detailed analysis shows that net interest income came to 1,310 million euro (-4.4%), mainly due to the trends reported by VUB Banka (-45 million euro), and PBZ - including Intesa Sanpaolo Bank (Slovenia) and Intesa Sanpaolo Banka Bosna i Hercegovina (-32 million euro) - only partly offset by the positive contributions by Bank of Alexandria (+13 million euro) and CIB Bank (+10 million euro). Net fee and commission income, equal to 505 million euro, was down (-6%) mainly due to PBZ - including Intesa Sanpaolo Bank (Slovenia) and Intesa Sanpaolo Banka Bosna i Hercegovina (-33 million euro). Among the other components of revenues, positive developments included profits on financial assets and liabilities designated at fair value (+7 million euro), whereas negative developments included other net operating costs (+5 million euro).

Operating costs of 981 million euro declined by 1% (-0.2% at constant exchange rates) due to the containment of personnel expenses and, to a lesser extent, of administrative expenses, which offset the increase in amortisation of intangible assets and depreciation of property and equipment.

As a result of the above revenue and cost trends, the operating margin decreased (-7.9%) to 927 million euro. Gross income, equal to 672 million euro, decreased by 28.8%, also due to higher adjustments to loans, primarily attributable to provisions relating to the COVID-19 pandemic. The Division closed 2020 with net income of 473 million euro (-34.6%).

In the fourth quarter of 2020, the operating margin increased compared with the third quarter due to the increase in fee and commission income and profits (losses) on financial assets and liabilities designated at fair value, which exceeded the increase in operating costs typically seen at year-end. Gross income and net income were adversely impacted by the increase in adjustments to loans and other net provisions.

The Division's intermediated volumes grew at the end of December 2020 by 6.4% year-on-year, owing to both loans to customers (+6%), in the medium-/long-term component, and to direct deposits from banking business (+6.7%), in particular amounts due to customers. The trend in volumes was mainly attributable to subsidiaries operating in Slovakia, Serbia, Croatia and Hungary.

In 2020, the International Subsidiary Banks Division continued the process of moving towards a common operating model in the areas of governance, control/support, commercial strategy, and information technology.

With the aim of reinforcing and optimising the international subsidiary banks' presence in their territories of reference, the development plan of the Slovenian bank continued, within the framework of the South-Eastern Europe Hub (Croatia, Bosnia and Slovenia). With regard to the Central Europe Hub (Slovakia, Czech Republic and Hungary), following the formulation of the new governance model, the alignment of the operating models and the strengthening of commercial synergies in the retail and corporate sectors continued. In addition, the refocusing process continues in Ukraine.

In commercial dealings, the extension of the advisory model for wealth management services in Croatia, Slovenia, Slovakia and Hungary was completed. With regard to the service model, in 2020 the extension of the target distribution model of the Group in Slovakia, Croatia, Serbia, Hungary, Slovenia, Romania, Albania and Bosnia continued (with the conversion of 144 branches).

In Information Technology, the target Core Banking System was adopted in the Czech Republic and a feasibility study was launched to identify the target approach for the development of the Core Banking System in Slovakia.

During the year, project activities were also launched to implement the evolution of the IT services company (ISP International Value Services – ISP IVS) based in Croatia; in addition, the operational activities of the Serbian branch were also launched through the transfer of the first operating unit of the Serbian bank and the registration process was begun for the Slovakian branch.

With regard to digital services, functionalities and digital services continued to be expanded in Croatia, Hungary, Egypt, Slovenia and Albania. The pilot phase was also launched in Serbia, whereas detailed analyses continued in Romania and Slovakia.

Lastly, with regard to the development of wealth management operations in China, we note the launch of the business through the sale of the first financial products to High Net Worth Individual customers. With regard to the establishment of the Securities Company, the application was accepted by the CSRC (China Securities Regulatory Commission) and contacts were launched with the local regulator. Moreover, the authorisation process was completed for the establishment of a service company to support the pre-opening costs of the Securities Company and any other development projects in China after obtaining the necessary authorisations (whether internal or Bank of Italy and ECB).

<b>Business</b>	It is responsible for the Group's operations on the international markets through commercial bank subsidiaries and associates.
<b>Mission</b>	Guidance, coordination and support for international subsidiaries, which engage primarily in retail banking operations. The Division is responsible for setting the Group's strategic development guidelines in terms of its direct presence on international markets, involving systematic exploration and analysis of new growth opportunities on markets already served and new markets, the coordination of international subsidiary banks' operations and the management of the relationships between international subsidiary banks and the Parent Company's central units and the branches and other foreign offices of the IMI Corporate & Investment Banking Division.
<b>Organisational structure</b>	
South-Eastern Europe Hub (SEE HUB)	Presence in Croatia, Bosnia-Herzegovina and Slovenia.
Central Europe Hub (CE HUB)	Presences in Slovakia, Hungary and the Czech Republic.
Other banks	Presence in Albania, Romania, Serbia, Egypt, Ukraine and Moldova.
<b>Distribution structure</b>	964 branches in 12 countries.

### South-Eastern Europe Hub (SEE HUB)

In 2020, the operating income of the **Privredna Banka Zagreb** group amounted to 429 million euro, down on 2019 (-15.6%), specifically due to the decline in fee and commission income, net interest income and net profits (losses) on financial assets and liabilities designated at fair value. Operating costs of 185 million euro decreased (-4.4%), due to savings on all three components of expenditure. The operating margin came to 244 million euro (-22.5%). Gross income amounted to 174 million euro (-34.9%), penalised by higher adjustments to loans; net income was 114 million euro (-43.1%).

**Intesa Sanpaolo Banka Bosna i Hercegovina** closed 2020 with an operating margin of 22 million euro, down on the previous year (-11.4%). That trend is attributable to the decrease in operating income (-6.4%), while operating costs were essentially stable. Gross income, amounting to 12 million euro, declined by 41.4%, while net income came to 9 million euro (-47.5%).

**Intesa Sanpaolo Bank (Slovenia)** reported an operating income of 68 million euro, down by 7.6% on 2019, mainly due to the drop in net interest income, other net operating income and, to a lesser extent, net fee and commission income. Operating costs declined (-6.8%) on the previous year. Gross income, equal to 20 million euro, decreased by 38.6%, in particular due to higher adjustments to loans. Net income came to 13 million euro (-45.9%).

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### Central Europe Hub (CE HUB)

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The **VUB Banka** Group reported an operating margin of 229 million euro, down on the previous year (-2.3%) as a result of a decrease in operating income (-2.2%), which exceeded the decrease in operating costs (-2.2%). Gross income amounted to 159 million euro, down by 18.9%. Net income came to 83 million euro (-31.1%).

The **CIB Bank** Group recorded operating income of 177 million euro, up by 4.8% on 2019, due to the positive performance of net interest income and profits (Losses) on financial assets and liabilities designated at fair value. Operating costs decreased (-9.1%), led by personnel expenses. Net income came to 21 million euro, down 49% on the previous year, mainly due to greater net adjustments to loans.

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### Other banks

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**Intesa Sanpaolo Bank Albania** (including Veneto Banka Sh.A.) reported an operating margin of 17 million euro, down on 2019 (-17.9%), due to the fall in revenues and the increase in operating costs. Gross income, amounting to 16 million euro, and net income (10 million euro) were lower than the previous year.

**Intesa Sanpaolo Bank Romania** reported an operating margin of 13 million euro, down on 2019 (-20.3%), due to the decrease in operating income (-11.4%), particularly net interest income, net fee and commission income and profits (losses) on financial assets and liabilities designated at fair value, which more than offset the decrease in operating costs (-6.4%). The company ended 2020 with a substantial break-even, compared with a net income of 12 million euro in 2019.

**Banca Intesa Beograd**, including Intesa Leasing Beograd, reported an operating margin of 158 million euro, down 5.2% on 2019. Operating income decreased by 1.4%, primarily due to the unfavourable performance of other net operating income, profits (losses) of financial assets and liabilities designated at fair value and fee and commission income. Operating costs increased (+5.1%) compared with the previous year. Gross income amounted to 118 million euro (-17.6%), while net income was 82 million euro (-23.1%).

**Bank of Alexandria**, which benefited from the revaluation of the Egyptian pound, reported an operating margin of 213 million euro, in line with the previous year (-4% at constant exchange rates). Operating income of 364 million euro increased (+3.3%, -0.9% at constant exchange rates), primarily due to the positive performance of net interest income and fees and commissions. Operating costs rose (+8.2%; +3.8% at constant exchange rates), in particular administrative expenses. Net income came to 125 million euro, down 26.3% (-29.3% at like-for-like exchange rates).

**Pravex** reported a negative operating margin of 4.9 million euro, compared with -4.2 million euro in the previous year, as a result of the decrease in operating income (-18.3%), attributable to the negative performance by net interest income, despite a decline in operating costs (-11.4%). The net loss came to -4.6 million euro (-3.9 million euro in 2019).

**Eximbank** generated an operating margin of 0.9 million euro, down 13.1% on the previous year due to the growth in operating costs, which offset the increase in operating income. The net loss of -1.3 million euro, is compared to a net income of 2.2 million euro in 2019, mainly due to higher adjustments to loans.

## Private Banking

Income statement	2020	2019	(millions of euro)	
			changes amount	%
Net interest income	196	177	19	10.7
Net fee and commission income	1,714	1,747	-33	-1.9
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	28	41	-13	-31.7
Other operating income (expenses)	6	6	-	-
<b>Operating income</b>	<b>1,944</b>	<b>1,971</b>	<b>-27</b>	<b>-1.4</b>
Personnel expenses	-347	-353	-6	-1.7
Other administrative expenses	-200	-205	-5	-2.4
Adjustments to property, equipment and intangible assets	-57	-56	1	1.8
<b>Operating costs</b>	<b>-604</b>	<b>-614</b>	<b>-10</b>	<b>-1.6</b>
<b>Operating margin</b>	<b>1,340</b>	<b>1,357</b>	<b>-17</b>	<b>-1.3</b>
Net adjustments to loans	-12	-2	10	
Other net provisions and net impairment losses on other assets	-42	-30	12	40.0
Other income (expenses)	-4	9	-13	
Income (Loss) from discontinued operations	-	-	-	-
<b>Gross income (loss)</b>	<b>1,282</b>	<b>1,334</b>	<b>-52</b>	<b>-3.9</b>
Taxes on income	-378	-394	-16	-4.1
Charges (net of tax) for integration and exit incentives	-30	-21	9	42.9
Effect of purchase price allocation (net of tax)	-2	-2	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	1	1	-	-
<b>Net income (loss)</b>	<b>873</b>	<b>918</b>	<b>-45</b>	<b>-4.9</b>

	31.12.2020	31.12.2019	(millions of euro)	
			changes amount	%
Assets under management <sup>(1)</sup>	130,946	122,660	8,286	6.8
Risk-weighted assets	9,549	9,184	365	4.0
Absorbed capital	866	798	68	8.5

(1) Figures restated in line with consolidated reporting criteria of indirect customer deposits.

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

The **Private Banking Division** serves the top customer segment (Private and High Net Worth Individuals), creating value by offering top products and services. The Division coordinates the operations of Fideuram, Fideuram Investimenti (Fideuram Asset Management SGR with effect from 1 January 2021), Intesa Sanpaolo Private Banking, SIREF Fiduciaria, Intesa Sanpaolo Private Bank (Suisse) Morval, Fideuram Asset Management Ireland, Fideuram Bank (Luxembourg) and Financière Fideuram.

In 2020, the Division generated gross income of 1.282 million euro, down by 52 million euro (-3.9%) compared with the previous year, due to the reduction in revenues (-27 million euro) and other income (-13 million euro), as well as to greater provisions for risks and charges (+12 million euro) and net adjustments to loans (+10 million euro). Operating costs decreased, showing savings of 10 million euro, concentrated in personnel and administrative expenses.

The performance of operating income was attributable to a decrease in net fee and commission income (-33 million euro) and profits (losses) on financial assets and liabilities designated at fair value (-13 million euro), partially offset by the increase in net interest income (+19 million euro).

The trend in financial assets was due to the lower capital gains realised on the sale of debt securities in the portfolio measured at fair value through other comprehensive income, whereas the performance of net fee and commission income was attributable to the decline in performance fees and the increase in fee and commission expense due to incentives for the distribution networks. The growth of net interest income was due to the increase in the average volumes, mainly attributable to treasury time deposits and the containment of the average cost of interbank funding.

The Division closed 2020 with net income of 873 million euro, down by 4.9% compared to the previous year.



The values of assets gathered have been recognised in accordance with the reporting criteria for indirect customer deposits used in the Intesa Sanpaolo Group's consolidated financial statements, involving in particular the elimination of customer current accounts correlated with investment transactions, bonds and certificates that, despite being part of customers' assets, are already included in direct customer deposits. In addition, third-party products were reallocated from assets under management to assets under administration.

As at 31 December 2020, assets gathered, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 213.9 billion euro (+10.4 billion euro compared to the beginning of the year). This performance was due to the positive contribution of net inflows, along with the revaluation of assets in the second half of the year. The assets under management component amounted to 130.9 billion euro (+8.3 billion euro).

In the international development project for the Private Banking Division, Morval Vonwiller Assets Management Co. Ltd and Southern Group Ltd were liquidated and the liquidation of Morval Bank & Trust Cayman Ltd and Intesa Sanpaolo Private Monaco SAM was begun; in addition, an agreement was concluded to form a strategic partnership with Reyl & Cie S.A., a Swiss bank that controls the banking group of the same name, and for Fideuram Bank (Luxembourg) to sell the custodian bank and fund administration business line to State Street Bank.

Following the acquisition of UBI Banca by Intesa Sanpaolo, operations were begun for the assignment to Fideuram of full ownership of IW Bank, along with the UBI Banca business line formed by the units dedicated to performing servicing activities for IW Bank, for the assignment to Intesa Sanpaolo Private Banking of the business line formed by the Top Private Banking division and for the contribution to Fideuram Bank (Luxembourg) of UBI Trustee.

<b>Business</b>	Generating new inflows of assets and managing them, using a network of financial advisors and in-house private bankers serving a customer base with high savings potential.
<b>Mission</b>	Improve and broaden the product portfolio and increase the service levels by allowing the customers to choose the network which best satisfies their needs; assist customers in the informed management of their wealth, based on a detailed analysis of their real requirements and risk profile; and offering fully transparent financial and pensions advice in accordance with the regulations.
<b>Organisational structure</b>	
Fideuram	Dedicated to the production, management and distribution of financial products and services to high profile customers, using a network of around 4,800 Fideuram and Sanpaolo Invest private bankers.
Intesa Sanpaolo Private Banking	Bank dedicated to private customers (with over 1 million euro in financial assets), providing financial services which are designed to preserve and increase wealth and provide continuity, using a network of around 900 private bankers, mostly employees.
Intesa Sanpaolo Private Bank (Suisse) Morval	Bank dedicated to developing international private customers, which operates through a group of companies specialising in wealth management and private banking.
SIREF Fiduciaria	Company specialised in the provision of fiduciary services.
<b>Distribution structure</b>	Network of 230 branches in Italy, 4 branches abroad and 5,741 private bankers.

## Asset Management

Income statement	2020	2019	(millions of euro)	
			Changes amount	%
Net interest income	-	1	-1	
Net fee and commission income	835	799	36	4.5
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	-1	5	-6	
Other operating income (expenses)	33	35	-2	-5.7
<b>Operating income</b>	<b>867</b>	<b>840</b>	<b>27</b>	<b>3.2</b>
Personnel expenses	-82	-82	-	-
Other administrative expenses	-69	-70	-1	-1.4
Adjustments to property, equipment and intangible assets	-5	-5	-	-
<b>Operating costs</b>	<b>-156</b>	<b>-157</b>	<b>-1</b>	<b>-0.6</b>
<b>Operating margin</b>	<b>711</b>	<b>683</b>	<b>28</b>	<b>4.1</b>
Net adjustments to loans	-	-	-	-
Other net provisions and net impairment losses on other assets	-	-	-	-
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
<b>Gross income (loss)</b>	<b>711</b>	<b>683</b>	<b>28</b>	<b>4.1</b>
Taxes on income	-189	-165	24	14.5
Charges (net of tax) for integration and exit incentives	-2	-	2	-
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-1	-	1	-
<b>Net income (loss)</b>	<b>519</b>	<b>518</b>	<b>1</b>	<b>0.2</b>

	31.12.2020	31.12.2019	(millions of euro)	
			changes amount	%
Assets under management	273,318	265,813	7,505	2.8
Risk-weighted assets	1,354	1,446	-92	-6.4
Absorbed capital	159	146	13	8.9

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

The **Asset Management Division** pursues the mission of developing the best asset management solutions aimed at the Group's customers and its presence on the open market segment through the subsidiary Eurizon Capital and its investees.

Operating income in 2020, amounting to 867 million euro, increased by 3.2% compared to the previous year, attributable to the increase in fee and commission income, correlated to the robust performance of asset management products, which more than offset the negative contribution from the fair value measurement of the financial portfolio in which cash and cash equivalents of the Division are invested and, to a lesser extent, the decrease in other operating income despite the positive contribution of subsidiaries consolidated at equity. In particular, net fee and commission income benefited from the growth of incentive fees collected at year-end, as well as placement fees; conversely, management fees were affected by the repositioning of the asset management asset mix as a result of the financial market turbulence following the spread of the pandemic. Asset management operating costs decreased slightly (-0.6%) during the period as a result of administrative expenses, owing to both increased operating efficiency and the crisis situation that slowed spending dynamics. As a result of the above revenue and cost trends, the operating margin came to 711 million euro, up 4.1% on 2019. The Division closed 2020 with net income of 519 million euro, around the same level as in 2019.

Overall, assets managed by the Asset Management Division amounted to 273.3 billion euro as at 31 December 2020, up by 7.5 billion euro (+2.8%) year-on-year, as a result of the revaluation of assets and net inflows. Net inflows for the year amounted to 1.5 billion euro, driven by mutual funds (+1.1 billion euro) and products dedicated to institutional customers (+1 billion euro), deriving in particular from insurance mandates, only partially offset by outflows from portfolio management

schemes for retail and private-banking customers (-0.6 billion euro). In the third and fourth quarters there was an increase in assets under management, due in part to the positive performance of the markets, which recovered a portion of the negative effects of the pandemic.

As at 31 December 2020, Eurizon Capital's Italian market share of assets under management was 14.4% (gross of duplications). Excluding the closed-end funds segment, in which the company operates only through the equity fund "Eurizon Italian Fund - Eltif", the share of assets under management at the end of December rose to 14.8%.

<b>Business</b>	Asset management.
<b>Mission</b>	To provide collective and individual asset management products to the Group's customers and develop its presence on the open market through specific distribution agreements with other networks and institutional investors.
<b>Organisational structure</b>	
Eurizon Capital SGR	Specialised in active asset management on behalf of both retail customers (mutual funds and portfolio management schemes) and institutional customers, to which it offers a wide range of investment products and services.
Epsilon SGR	Specialised in portfolio management on quantitative bases. It is a 100% subsidiary of Eurizon Capital SGR.
Eurizon Capital Real Asset SGR	Specialised in alternative investments. It is 51% owned by Eurizon Capital SGR, with the remaining 49% held by Intesa Sanpaolo Vita.
Eurizon Capital S.A. (Luxembourg)	The company manages and distributes Luxembourg UCI products aimed at retail and institutional customers and offers a wide range of services dedicated to institutional investors. It specialises in limited tracking error (LTE) management and money market products.
Eurizon Capital (HK) Ltd. (Hong Kong)	A company wholly owned by Eurizon Capital SGR, established to develop consulting activities on financial instruments, portfolio management and distribution in the Asian market.
Eurizon Asset Management Slovakia (Slovakia)	A Slovak asset management company, 100%-owned by Eurizon Capital SGR, which heads up the Hungarian CIB IFM and the Croatian PBZ Invest (Eastern European asset management hub).
PBZ Invest d.o.o. (Croatia)	A Croatian asset management company and wholly owned subsidiary of the Slovak company Eurizon Asset Management Slovakia. It promotes and manages Croatian mutual funds and offers individual portfolio management services to retail and institutional customers.
CIB Investment Fund Management Ltd (Hungary)	A Hungarian asset management company and wholly owned subsidiary of the Slovak company Eurizon Asset Management Slovakia. It promotes and manages Hungarian mutual funds and offers individual portfolio management services to retail and institutional customers.
Eurizon SLJ Capital Ltd (U.K.)	An English company controlled by Eurizon Capital SGR through a 65% interest, which conducts research and provides investment and advisory services.
Oval Money Ltd	An Italian-English FinTech finance start-up primarily active in the personal finance management services sector, in which Eurizon Capital SGR holds a 12.78% interest.
Penghua Fund Management Company Limited	Chinese fund manager 49%-owned by Eurizon Capital SGR.

**Insurance**

Income statement	2020	2019	(millions of euro)	
			Changes amount	%
Net interest income	-	-	-	-
Net fee and commission income	2	-	2	-
Income from insurance business	1,268	1,228	40	3.3
Profits (Losses) on financial assets and liabilities designated at fair value	-	-	-	-
Other operating income (expenses)	-13	-12	1	8.3
<b>Operating income</b>	<b>1,257</b>	<b>1,216</b>	<b>41</b>	<b>3.4</b>
Personnel expenses	-99	-95	4	4.2
Other administrative expenses	-126	-117	9	7.7
Adjustments to property, equipment and intangible assets	-16	-12	4	33.3
<b>Operating costs</b>	<b>-241</b>	<b>-224</b>	<b>17</b>	<b>7.6</b>
<b>Operating margin</b>	<b>1,016</b>	<b>992</b>	<b>24</b>	<b>2.4</b>
Net adjustments to loans	-	-	-	-
Other net provisions and net impairment losses on other assets	-17	-2	15	
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
<b>Gross income (loss)</b>	<b>999</b>	<b>990</b>	<b>9</b>	<b>0.9</b>
Taxes on income	-220	-266	-46	-17.3
Charges (net of tax) for integration and exit incentives	-16	-2	14	
Effect of purchase price allocation (net of tax)	-24	-16	8	50.0
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-53	-45	8	17.8
<b>Net income (loss)</b>	<b>686</b>	<b>661</b>	<b>25</b>	<b>3.8</b>

	31.12.2020	31.12.2019	(millions of euro)	
			changes amount	%
Direct deposits from insurance business (1)	172,609	165,953	6,656	4.0
Risk-weighted assets	-	-	-	-
Absorbed capital	4,064	3,804	260	6.8

(1) Including the subordinated securities issued by the companies.

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

The **Insurance Division** includes Intesa Sanpaolo Vita, Intesa Sanpaolo Life, Fideuram Vita, Intesa Sanpaolo Assicura and Intesa Sanpaolo RBM Salute, with the mission of synergically developing the insurance product mix targeting Group customers.

In 2020, the Division reported income from insurance business of 1,268 million euro, up by 40 million euro (+3.3%) on 2019. The improved result – achieved despite the lower financial profitability of investments in the life insurance portfolio compared to the previous year – was mainly attributable to the increase in revenues linked to the non-life business, characterised by a significant decline in claims recorded during the period of lockdown as a result of the COVID-19 emergency.

Gross income amounted to 999 million euro, up by 9 million euro (+0.9%), due to the aforementioned increase in operating income, almost entirely offset by an increase in operating costs (+7.6%) and the adjustments to other assets made as a result of the difficult market scenario.

The cost/income ratio, at 19.2%, remained at excellent levels, slightly above those recorded in 2019.

Lastly, net income, after the attribution of taxes of 220 million euro, charges for integration and exit incentives of 16 million euro, effects of purchase price allocation for 24 million euro and minority interests for 53 million euro, amounted to 686 million euro (+3.8%).

Direct deposits from insurance business, amounting to 172,609 million euro, were up 4% year-on-year (+6.7 billion euro), attributable to all components and, markedly, to the rise in technical reserves.

The Division's collected premiums for life policies and pension products amounted to 17 billion euro, down 5% on the previous year, due to both traditional and unit-linked products. Conversely, pension products grew slightly (+1%).

Collected premiums for the protection business totalled 1.196 million euro, down by 4% on 2019, restated to include Intesa Sanpaolo RBM Salute for a uniform comparison. There was an increase in non-motor products (excluding CPI - Credit Protection Insurance), which are the focus of the 2018-2021 Business Plan, up by 3%.

<b>Business</b>	Life and Non-Life Insurance.
<b>Mission</b>	Develop the offering of insurance and social security products for the Group's customers.
<b>Organisational structure</b>	
Intesa Sanpaolo Vita	Insurance parent company specialised in offering insurance, pension and personal and asset protection services within Banca dei Territori. The company is the sole owner of Intesa Sanpaolo Life and Intesa Sanpaolo Assicura and has a 49% interest in Intesa Sanpaolo Smart Care, a 51%-owned subsidiary of Intesa Sanpaolo (Banca dei Territori Division) that markets hardware and software and provides remote assistance services. In May 2020, Intesa Sanpaolo Vita acquired control of RBM Assicurazione Salute.
Intesa Sanpaolo Life	Specialised in life insurance products with a higher financial content, such as unit-linked products.
Intesa Sanpaolo Assicura	Dedicated to the non-life business, it offers customers a wide range of products capable of covering personal injury, damage to vehicles and to the home and loan protection.
Intesa Sanpaolo RBM Salute	Specialised in the health care business.
Fideuram Vita	Specialised in offering insurance, pension and personal and asset protection products in service of the Private Banking Division.



## Corporate Centre

The Corporate Centre is responsible for direction, coordination and control of the whole Group, as well as for the NPE Department, Treasury and Strategic ALM.

The Corporate Centre Departments generated a negative operating margin of 1,916 million euro in 2020, compared to -1,337 million euro in the previous year. That performance is essentially attributable to the declining trend in operating income, largely attributable to the drop in the profits (losses) on financial assets and liabilities designated at fair value which in 2019 had benefited from significant capital gains. A negative contribution was also provided by interest income, due to the higher cost of excess liquidity in view of the decrease in short-term market rates, always on negative ground, and fee and commission income, mainly due to the increase in guarantees received on credit risk hedging transactions. The operating costs, net of the amount charged back to the business units for the performance of the servicer activities, governed by specific agreements, were at lower levels than those of 2019. The gross loss, which includes both the greater provisions on loans in response to the health emergency (742 million euro) and the profits relating to income components attributable to the acquiring business contributed to Nexi (1,163 million euro), amounted to -1,779 million euro. The net loss in 2020 was 1,578 million euro, compared to the loss of 1,468 million euro recorded in the previous year. The income statement of the Corporate Centre includes the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking industry and consequently outside the company management. These charges amounted to 465 million euro, after tax, up compared with the 360 million euro for 2019, mainly due to the greater charges attributable to deposit guarantee funds.

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## Treasury services

The Group Treasury and Finance includes treasury services in euro and foreign currencies, and the integrated management of liquidity requirements/surpluses, financial risks (ALM) and settlement risks.

In 2020, Intesa Sanpaolo confirmed its systemic role as a “critical participant” in the ECB’s settlement systems, (T2 for cash and T2S for securities). In addition, in December the certification that will allow the Bank to retain the status of “Target2 critical participant” in 2021 was concluded.

During the year the escalation of the COVID-19 pandemic also led Intesa Sanpaolo, like almost all European banks, to work largely remotely, focusing its efforts on business as usual and on activities aimed at increasing digitalisation in response to the emergency. Consequently, despite not stopping projects in the payments area, there was also a slight slowdown in work on implementing the “T2-T2S Consolidation” project and all related projects.

This emergency situation convinced the ECB to postpone the launch of the new cash settlement platform (Target2) by one year (November 2022); in mid-September, it then announced the official new project milestones for the next two years.

In parallel, all projects related to “T2-T2S Consolidation” were rescheduled and postponed by one year. This applies to the entire set of ancillary systems (such as the EBA Clearing systems for settlement of SEPA bank transfers) and, above all, to the ECMS (the Eurosystem Collateral Management System), the new Eurosystem-wide centralised collateral management system, which will see the light in November 2023 and will conclude the process of revamping ECB’s Target Services. Finally, also in the context of European institutional projects, in September the ECB announced its strategy for stimulating the adoption of instant payments in the Eurozone. This will take place through the development of TIPS (Target Instant Payments System) into a service that handles all European instant payments, including those deriving from the various national clearing houses (go-live expected for 15 December 2021).

In 2020, the global spread of the COVID-19 pandemic created difficulties for almost all governments in introducing highly restrictive measures on the movement of individuals and economic activity.

The main central banks acted promptly, injecting liquidity into the market and introducing all possible measures to combat the severe negative effects on the economy and preserve the transmission of liquidity within their monetary systems. The second half of the year saw a sharp recovery of economic indicators following the resumption of economic activities and coinciding with a decline in COVID-19 cases in European nations. Nonetheless, the economic situation remained very fragile, with many sectors of the economy requiring enormous government aid due to the persistent uncertainty at the global level. In the autumn, Biden’s election as the new president of the United States and above all the good news regarding the efficacy of the COVID-19 vaccines counteracted the new flare-up of infections. In the final months of the year, many governments were forced to reintroduce strict measures restricting individual movement, while avoiding a general lockdown of the sort seen in the spring. In the meantime, the difficult negotiations between the UK and EU to reach a post-Brexit agreement ended up generating uncertainty almost until 31 December 2020, the final deadline for the transitional phase for the United Kingdom’s departure from the European Union.

Within this scenario, the ECB created a tool for responding to the negative effects of the pandemic on the economy known as the PEPP (Pandemic Extraordinary Purchase Programme) and injected an enormous quantity of liquidity into the market at favourable rates through the TLTROs. Finally, at its December meeting, it decided to recalibrate its monetary policy, further increasing the PEPP to an annual level of 1,850 billion euro, while also extending the programme’s purchasing window until March 2022 and introducing three new TLTRO auctions from June to December 2021, applying favourable rate conditions until June 2022. In addition, during the meeting, President Lagarde emphasised that the inherent flexibility of certain instruments is fundamental to supporting the European economy. The Federal Reserve also maintained a very accommodative monetary policy, announcing that it wished to support the U.S. economy for an extended period.

The Euribor curve, which in the spring, at the height of the health crisis, had risen considerably in the wake of rising credit risk, began to decline with the ECB’s interventions, driving the Euribor fixings down towards new all-time lows and the entire curve below the Deposit Facility rate (-0.50%). The €STR swap curve remained less volatile, periodically reflecting decreases in rates, which now price in expectations of a 10 basis point cut of the Deposit Facility rate in late 2021 or early 2022.

The total amount of Intesa Sanpaolo's short-term securities fund-raising activity in euro and foreign currencies decreased as the months went by, primarily due to less interest in short-term funding in view of the Bank's more-than-solid liquidity position.

In 2020, in terms of medium/long-term funding operations, the total amount of Group securities placed on the domestic market via its own networks and direct listings was 5.15 billion euro. Among the securities placed, there was a prevalence (80%) of the component consisting of structured financial instruments, mainly comprised of index-linked structures. A breakdown by average maturity shows that 19% is comprised of instruments with maturities up to 4 years, 78% by 5-, 6- and 7-year securities, and the remaining 3% by 8- and 10-year securities.

In particular, in the first half of the year the Private Banking Division network placed two subordinated T2 bond issues (one fixed-rate and one floating-rate) with a 7-year duration, targeted to professional customers and qualified investors, for a total amount of around 900 million euro. The securities are traded on the professional segment (ExtraMOT PRO) of the ExtraMOT market.

As regards funding on international markets, during the period institutional unsecured transactions were completed for a total of around 7.14 billion euro, of which 6.48 billion euro through senior preferred and subordinate financial instruments placed on the Euromarket and 660 million euro through the issue of bonds and certificates by the IMI Corporate & Investment Banking Division placed with domestic institutional investors.

In the senior preferred segment, in January 350 million GBP (equal to around 413 million euro) in fixed-rate 10-year bonds targeted to the UK and European markets were issued. In May, a 5-year fixed-rate security was issued for 1.25 billion euro, intended for European institutional investors. In addition senior preferred private placements were undertaken during the year in euro, Australian dollars and yen in a total amount of approximately 300 million euro.

Furthermore, two AT1 equity instruments issues targeted at international markets were finalised in the total amount of 3 billion euro. The first issue of 1.5 billion euro was finalised in February in dual tranche format of 750 million euro each, with the right of early redemption which can be exercised by the issuer starting from the fifth year and the tenth year from the issue date, respectively, and subsequently, at each coupon payment date. The second issue of 1.5 billion euro was finalised in September, also in dual tranche format of 750 million euro each, with the right of early redemption which can be exercised by the issuer starting from the seventh-and-a-half and the eleventh year from the issue date, respectively, and subsequently, at each coupon payment date. Based on the contractual terms on the instruments, payment of interest is at the issuer's full discretion (though subject to several regulatory restrictions). Where the Common Equity Tier 1 (CET1) ratio of the Group or of Intesa Sanpaolo falls below 5.125%, the nominal value of the instruments will be temporarily reduced by the amount needed to restore the trigger level (5.125% of CET1), taking into account also the other instruments with similar characteristics. Lastly, in January 2020, UBI Banca issued an AT1 instrument for 400 million euro, with the right to early redemption, which may be exercised by the issuer on any day between 20 January 2025 and 20 June 2025 inclusive.

Lastly, two issues of T2 subordinated instruments were finalised in the club deal format, denominated in euro and GBP. In June, an issue of 350 million GBP (equal to around 393 million euro) of fixed-rate 10-year bonds targeted to the UK was completed, and 350 million euro in fixed-rate 10-year bonds were issued in October, with an increase of an additional 150 million euro in December. Finally, in December Intesa Sanpaolo Vita finalised an issue of 600 million euro of fixed-rate 10-year T2 subordinated securities intended for institutional investors. During the issue phase, a significant portion of the amount was temporarily withheld by the IMI CIB Division for subsequent sale on the secondary market.

Under the programme guaranteed by ISP OBG, the securities of the 6th, 15th and 16th series were redeemed in advance in February for a total of 3.484 billion euro and two new series, the 38th and 39th, were issued for an amount of 1.75 billion euro each. In March, the 40th series was issued for an amount of 1.8 billion euro. The securities are floating rate with a maturity of 13 years for the 38th series and 14 years for the 39th and 40th series, respectively.

The securities for the 41st and 42nd series were issued in April, each amounting to 2.4 billion euro, floating rate, with a maturity of 15 years. Two additional series, the 43rd and 44th, were then issued in June, each amounting to 1.35 billion euro, floating rate, with maturities of 8 and 16 years, respectively. In December, the 17th series was partially redeemed in the amount of 200 million euro. All securities in the series issued are listed on the Luxembourg Stock Exchange and rated A (High) by DBRS, were fully subscribed by the Parent Company and are eligible with the Eurosystem.

With regard to the covered bond issue programme guaranteed by ISP CB Pubblico, the 10th series was partially redeemed in January for an amount of 550 million euro and then in July a further partial redemption of 300 million euro was undertaken, reducing the nominal amount to 250 million euro.

Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the 27th series was issued in January for an amount of 750 million euro. This security has a Moody's Aa3 rating and is a floating-rate bond with a maturity of 11 years. The security, which is listed on the Luxembourg Stock Exchange, was fully subscribed by the Parent Company and is eligible for the Eurosystem. During the year the 20th retained series was redeemed through an initial partial redemption in July of 700 million euro and then the redemption of the residual amount of 550 million euro in August.

A new securitisation on a portfolio of consumer credit loans was completed in June by the special purpose vehicle company Clara Sec., which issued two classes of notes for a total of 7.2 billion euro, subscribed by Intesa Sanpaolo. Only the senior class, amounting to 6.35 billion euro, with an A High rating from DBRS and A1 from Moody's, was made eligible with the Eurosystem. A second securitisation on a portfolio of SME loans was structured in December by the special purpose vehicle company Giada Sec., which issued two classes of notes for a total of 10.1 billion euro, fully subscribed by Intesa Sanpaolo. Only the senior class, amounting to 6.61 billion euro, with an A rating from DBRS and A1 from Moody's, was made eligible with the Eurosystem.

For the management of collateral, Intesa Sanpaolo also uses the A.Ba.Co. (Collateralised Bank Assets) procedure, which allows bank loans disbursed to non-financial companies to be used to secure loan transactions with the Bank of Italy: at 31 December 2020, the outstanding amount of loans (gross of applicable hair-cuts) lodged as pledge by the Group was approximately 16 billion euro.

The global spread of the virus beginning in February caused an unprecedented impact on the financial markets in terms of the intensity and rapidity of the adjustment. The subsequent monetary and fiscal policy responses mitigated these trends, driving robust rallies by the main asset classes. This trend extended to the Italian government bond market, which outperformed core European markets in the second half of the year. In January, the temporary compression of credit spreads permitted a rotation of asset allocation on government and corporate markets. At the same time, portfolio operations were extended to the business model of management under exceptional circumstances in order to ensure the maintenance of liquidity reserves in phases of extreme market disturbance. Once the March peak was overcome, volatility decreased on the bond market. The measures by the FED and the ECB and the extraordinary initiatives by the European Union restored the correlations typical of the phases of ordinary operation of the markets, restoring effectiveness to the usual portfolio diversification strategies and enabling a moderate decline in credit risk in the fourth quarter of 2020.

In repo business, Italian government bond trading volumes were lower than in the previous year, while rates were slightly higher than the Deposit Facility rate; the fourth quarter was an exception, with rates equal to the Deposit Facility rate, and sometimes even lower. The spread between core nation and Italian government rates gradually narrowed over the year, with the exception of the expansion recorded at the end of each quarter and in December; rates at the end of the period fell to levels significantly below the Deposit Facility rate.

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### Strategic ALM

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With regard to the Group's Asset & Liability Management (ALM), operational management of the financial risks of the Group's banking book is carried out under the supervision of the CRO Area. Interest rate risk is monitored and managed mainly by examining the sensitivity of the market value of the various positions in the banking book to parallel shifts in the interest rate curve; moreover, specific scenario analysis techniques on rate developments are used, as well as performance scenarios for specific positions. The strategic choices on interest rate risk are made by the Group Financial Risk Committee within the limits established by the Board of Directors: the Group Treasury & Finance structure actively supports the Committee's decision-making activity by formulating analyses and proposals. The structural component of liquidity risk is managed, based on the liquidity policies defined at Group level, by monitoring the current and future short and long-term liquidity balances, defining the funding plan on the various channels and instruments (domestic/international, retail/corporate, secured/unsecured, preferred/non-preferred/subordinate), as well as the loan-deposit gap targets of the Business Units.

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### Chief IT, Digital and Innovation Officer Governance Area

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At the beginning of 2018 the Chief IT, Digital and Innovation Governance Area (CITDIO) was established, to drive the Group's digital transformation, by upgrading the architecture of IT systems and processes, introducing new digital platforms, innovating the experiences of our customers and employees and strengthening IT security controls. The Area is constantly evolving to respond increasingly effectively to digitalisation and play a pro-active role in designing and developing solutions. In this regard, the Group continued the recruitment of new digital professionals (such as data scientists and cyber-security experts), the evolution of working methods in view of shorter time-to-market, and maintained constant focus on ongoing improvement of service levels and the use of modern technologies. In cooperation with the Business Units and Governance Areas, the CITDIO Area continued the implementation of the 2018-2021 projects plan.

In 2020, a considerable focus continued to be placed on innovation of the methods of interaction with customers through the digitalisation and expansion of contact channels to improve the range and user experience. For example, a new platform was launched for retail companies based on the Group's digital architecture, which enables a single, consistent customer experience and the possibility of taking a multichannel approach; fully digital short-term (18 months) loan applications were launched for retail companies, along with the instalment service for account activity relating to credit lines by app, the ability for customers to view and trade mutual funds from the Investo app, the aggregation service for accounts and payment cards held by customers with other banks, and the implementation of an integrated digital collaboration system with virtual assistant based on Google cognitive technology for the management of the customer relationship remotely on mobile and Internet banking apps; a new operating and service model was released in bancassurance to increase volumes in the non-life business and increase the efficiency of policy-writing processes (adoption of a new platform, new apps, release of a new collective injury product, activation of the remote offering channel for motor policies); and, in the corporate area, the digitalisation of contracts and the adoption of digital identity (in both self-service and in-branch mode) was activated on the new Inbiz Portal for the subscription of contracts. The Samsung Pay service, wearable service for Swatch Pay customers and the Mobility app for paying for parking were released for the adoption of cutting-edge digital payment tools according to a multichannel approach.

As already mentioned, the digital transformation process was also expedited to response to the COVID-19 emergency to enable all customers and employees to operate remotely in a fully effective, efficient and safe manner. For customers, the range of products and services that can be managed remotely was expanded and tutorial services in the management of digital channels were enhanced; for employees, remote-working was enabled through the widespread use of technologies and tools for facilitating collaboration, interaction and sharing of information. Remote video interview services were also enhanced, thus also ensuring continuity in recruiting efforts.

In other digital transformation initiatives, a memorandum of understanding (MoU) was signed with TIM and Google to create two cloud regions in Italy based on green solutions that will reduce CO<sup>2</sup>, take advantage of the potential of cutting-edge cloud-based technologies and also boost digitalisation of the territory through training processes for students, SMEs and start-ups.

Following the conclusion of the negotiations that began with the memorandum of understanding signed on 21 May, Intesa Sanpaolo, TIM and Google signed final agreements according to which the Bank will migrate a significant part of its information system to Google's cloud services, which will meet the highest international standards of safety and confidentiality of information, to TIM's Italian data centres.

De-risking activities also continued in 2020, involving the sale of NPL portfolios, the revamping of non-performing loan processes and the digitalisation of procedures. The measures required by the changing regulatory context also continued, including, significantly, completion of activities within the Targeted Review of Internal Models and the release of the product governance, capable of orchestrating and monitoring the product life cycle from the design phase to the marketing phase. Long-term initiatives continued to enhance the Group's anti-financial crime safeguards with the implementation of an AI-based system to support the process of checking payment messages in order to reduce financial and reputational risks relating to embargoes and anti-terrorism, due to the entry into force of Directive (EU) 65/2014 ("MiFID II") and Regulation (EU) 600/2014 ("MiFIR"). The integration of Banca IMI was completed and the UBI Banca integration project was launched.

**UBI Group**

	(millions of euro)
Income statement	2020
Net interest income	713
Net fee and commission income	721
Income from insurance business	10
Profits (Losses) on financial assets and liabilities designated at fair value	131
Other operating income (expenses)	39
<b>Operating income</b>	<b>1,614</b>
Personnel expenses	-608
Other administrative expenses	-219
Adjustments to property, equipment and intangible assets	-58
<b>Operating costs</b>	<b>-885</b>
<b>Operating margin</b>	<b>729</b>
Net adjustments to loans	-54
Other net provisions and net impairment losses on other assets	-8
Other income (expenses)	-
Income (Loss) from discontinued operations	-
<b>Gross income (loss)</b>	<b>667</b>
Taxes on income	-170
Charges (net of tax) for integration and exit incentives	-1,387
Effect of purchase price allocation (net of tax)	2,062
Levies and other charges concerning the banking industry (net of tax)	-47
Impairment (net of tax) of goodwill and other intangible assets	-
Minority interests	-19
<b>Net income (loss)</b>	<b>1,106</b>

	(millions of euro)
	31.12.2020
Loans to customers	59,748
Direct deposits from banking business	68,030
Risk-weighted assets	60,193
Absorbed capital	5,386

The table presented above shows the income statement and balance sheet figures for the UBI sub-consolidation scope (UBI Banca and its subsidiaries), which as previously reported are subject to consolidation from the acquisition date and thus starting in August.

These results are temporarily represented as a separate business unit and will be assigned to divisions at a later date, as integration of the processes moves ahead. As stated above in the comments on the consolidated economic results and balance sheet aggregates, given the particular case in question, no adjustments have been made to the historic reclassified data in order to retroactively reflect the effects of the acquisition. Accordingly, no comparative figures are provided and the following comments are framed in absolute and performance terms only.

Operating income of 1,614 million euro is 44% composed of net interest income, 45% of fee and commission income and 8% of profits (losses) on financial assets and liabilities at fair value.

Net interest income of 713 million euro, in particular in the fourth quarter, were up slightly in terms of average loan volumes, concentrated in the medium/long term, accompanied by a modest increase in volumes attributed to funding; the customer spread shows a slight deterioration, mainly due to the decline in the mark-up. Net interest income include approximately 14.4 million euro attributable to the recognition of current and prior interest income on amounts due from the Italian Treasury. Interbank activity presented a positive contribution due to the recognition of the positive interest accrued on the TLTRO III funds obtained in the June 2020 auction.

Net fee and commission income (equal to 721 million euro) showed a positive trend, which continued over the last three months, driven in particular by management, dealing and financial consultancy services and the recovery of traditional banking activity, which generated greater fee and commission income than in previous periods, which had been negatively impacted by the shutdowns and slowdowns caused by the lockdown.



Profits (losses) on financial assets and liabilities designated at fair value of 131 million were mainly attributable to profits on trading of derivatives of approximately 24 million euro, the sale of securities in portfolio for approximately 57 million euro and the release of the PPA (cash flow component) on loans mandatorily measured at fair value due to the trend in the underlying portfolio (repayments and collections) of approximately 28 million euro.

The caption Levies and other charges concerning the banking industry primarily includes the ordinary contribution for all 2020 to the Italian deposit guarantee fund (approximately 46 million euro after tax).

It should be noted that the caption Effect of purchase price allocation (net of tax) refers to the measurement of the negative goodwill recognised following the acquisition through the calculation at the acquisition date of the fair value of the identifiable assets acquired and liabilities assumed from the UBI Group. Moreover, the 2020 Financial Statements include the charges related to the integration and improvement of the operating efficiency and to the de-risking.

As for balance sheet aggregates, at the end of December total loans amounted to 59.7 billion euro at 31 December 2020, essentially classified among Financial assets measured at amortised cost, net of approximately 24 billion euro classified among liabilities held for sale, relating to the going concern sold to BPER within the framework of the ISP-UBI integration project.

Direct deposits from banking business amounted to approximately 68 billion euro, net of the approximately 30 billion euro classified among non-current assets held for sale within the framework of the ISP-UBI integration. Overall, bank funding, inclusive of the balances included in going concerns subject to sale, was in line as a result of two opposing trends, namely the increase in amounts due to customers and the gradual decline in securities issued.

## GEOGRAPHICAL AREAS

(millions of euro)

	Italy	Europe	Rest of the World	Total
<b>Operating income</b>				
2020 (Consolidated figure)	15,193	3,072	758	19,023
2020 (Consolidated figure net of UBI Group)	13,586	3,071	752	17,409
2019	14,438	2,952	777	18,167
% change (*)	-5.9	4.0	-3.2	-4.2
<b>Loans to customers</b>				
31.12.2020 (Consolidated figure)	392,185	53,987	15,400	461,572
31.12.2020 (Consolidated figure net of UBI Group)	332,486	53,938	15,400	401,824
31.12.2019	322,977	54,694	17,558	395,229
% change (**)	2.9	-1.4	-12.3	1.7
<b>Direct deposits from banking business</b>				
31.12.2020 (Consolidated figure)	453,127	64,215	7,657	524,999
31.12.2020 (Consolidated figure net of UBI Group)	385,147	64,165	7,657	456,969
31.12.2019	351,849	65,056	8,607	425,512
% change (**)	9.5	-1.4	-11.0	7.4

Breakdown by geographical area is carried out with reference to the location of Group entities.

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning UBI Group have not been restated.

(\*) The change expresses the ratio between 2020 and 2019 (Consolidated figure net of UBI Group).

(\*\*) The change expresses the ratio between 31.12.2020 and 31.12.2019 (Consolidated figure net of UBI Group).

With regard to the subdivision by geographical areas of operations, carried out with regard to the location of the entities comprising the Group, activities continued to be concentrated primarily in the Italian market. Excluding the UBI Group, Italy accounted for 78% of revenues, 83% of loans to customers and 84% of direct deposits from banking business.

Abroad, the Group has a significant presence in Central and South-Eastern Europe (Croatia, Slovenia, Slovakia, Serbia, Hungary, Bosnia and Herzegovina, Albania, Romania), in the Russian Federation, Ukraine, Moldova and in the Mediterranean area (Egypt).

With regard to operating performance in 2020, loans to customers and direct deposits from banking business were up on a like-for-like basis in Italy and down slightly in Europe and the rest of the world. Revenues showed a downturn in Italy and the rest of the world and an increase in Europe.



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# Corporate Governance and remuneration policies

## Corporate Governance

Intesa Sanpaolo adheres to the Corporate Governance Code for listed companies, and adopts a one-tier corporate governance system in line with the principles contained therein, as well as, in general, with national and international best practices, which aim to ensure, also in accordance with the Supervisory Authority provisions, effective and transparent distribution of the roles and responsibilities of its Corporate Bodies and a proper balance of strategic supervision, management and control functions.

For a more detailed description of the corporate governance system, reference should be made to the “Report on Corporate Governance and Ownership Structures” – available in the “Governance” section of the Company’s website – prepared in accordance with Article 123-bis of the Consolidated Law on Finance, which requires issuers to provide the market yearly with detailed information, identified by the said Article, on their ownership structures, their compliance with a corporate governance code, their corporate bodies structure and operation as well as their corporate governance practices.

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## Shareholder base

According to records in the Shareholders’ Register, as at 31 December 2020, shareholders with stakes exceeding 1% of the share capital represented by shares with voting rights – threshold that, if exceeded, requires disclosure to both the company and Consob, pursuant to Italian legislation (Art. 120 of the Consolidated Law on Finance “TUF” and Consob Resolution no. 21525 - Extension of the reduction in the initial disclosure percentage thresholds pursuant to Art. 120, paragraph 2-bis, of Legislative Decree no. 58 of 1998 for company shareholdings) – are shown in the table below. It is worth mentioning that, when applying current legislation, shareholders by way of asset management could have requested the exemption from reporting until exceeding the threshold of 5%.

Shareholder	Ordinary shares	% held
Compagnia di San Paolo	1,188,947,304	6.119%
BlackRock Inc. (1)	972,416,733	5.005%
Fondazione Cariplo (2)	767,029,267	3.948%
Norges Bank (2) (3)	408,812,789	2.104%
Fondazione Cariparo (2)	347,111,188	1.786%
Fondazione CR Firenze (2)	327,138,747	1.684%
Fondazione Carisbo	243,955,012	1.256%
JPMorgan Chase & Co.	218,914,020	1.127%

(1) BlackRock Inc. holds, as a fund management company, an aggregate investment equal to 5.066%, as per form 120 B dated 4 December 2020.

(2) The percentage held has been recalculated due to the changes in Intesa Sanpaolo’s share capital of 5 August 2020, 17 September 2020 and 5 October 2020 as a result of the share capital increase to serve the Public Purchase and Exchange Offer for UBI Banca shares, the ensuing Procedure for the Compulsory Squeeze-Out pursuant to art. 108, paragraph 2, of the Consolidated Law on Finance (“TUF”) and the subsequent Joint Procedure for the Right of squeeze-out pursuant to art. 111 of the TUF and Compulsory squeeze-out pursuant to art. 108, paragraph 1, of the TUF.

(3) Also on behalf of the Government of Norway.

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## One-tier governance system

Intesa Sanpaolo adopts the one-tier governance system and therefore operates through a Board of Directors, within which guidance and strategic supervision powers converge; the control functions are carried out by the Management Control Committee, established within the Board of Directors, made up entirely of independent Directors appointed by the Shareholders’ Meeting; the Managing Director and CEO-Chief Executive Officer supervises the company’s management to the extent of his assigned powers, in compliance with the general planning and strategic guidelines set forth by the Board of Directors.

The practical application of the one-tier system to the Bank’s structure is marked by a clear division of roles and responsibilities between the Governing Bodies:

- the Board of Directors of the Company is assigned the guidance and strategic supervision duties and the duty to resolve on all the relevant corporate deeds;
- the internal Board Committees support the Board of Directors in carrying out its functions in order to facilitate the taking of fully informed decisions;
- the Management Control Committee performs the powers and functions conferred by the current regulations upon the body with the control function and upon the internal control and audit committee, pursuant to Legislative Decree 39/2010;
- the Managing Director and CEO performs the day-to-day management function, within the scope of the powers delegated by the Board of Directors;

- the Managers support the Managing Director and CEO in performing the day-to-day management function: as Managerial Committees, in performing the tasks and powers assigned to them by the Board of Directors and detailed within the scope of specific Regulations which govern the functioning thereof.

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### The Shareholders' Meeting

The Shareholders' Meeting is the body deemed to represent all shareholders and its resolutions, passed in accordance with the law and the Articles of Association, are binding on all shareholders, irrespective of their attendance or dissent.

In the one-tier system adopted by the Bank, the ordinary Shareholders' Meeting resolves, amongst other things, on:

- the approval of the financial statements and distribution of profits;
- the appointment, revocation and determination of remuneration with respect to the positions of Board Member, Chairman and Deputy Chairperson of the Board of Directors and Chairman and member of the Management Control Committee;
- the approval of the Board Members' and personnel's remuneration policies, as well as the plans based on financial instruments;
- the appointment of the statutory audit mandate and the determination of the relative fees, upon the reasoned proposal of the Management Control Committee and, where the conditions are met, the revocation or amendment of said mandate, upon consultation with the same Committee;
- the other matters entrusted to its authority by law or by the Articles of Association.

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### The Board of Directors, the Managing Director and the Board Committees

The Board of Directors is composed of a minimum of 15 up to a maximum of 19 members, including non-shareholders, appointed by the Shareholders' Meeting on the basis of slates submitted by Shareholders. Board Members remain in office for three financial years until the date of the next Shareholders' Meeting called to approve the financial statements and the proposal for allocation of net income in accordance with Article 2364 of the Italian Civil Code and may be re-elected.

The Shareholders' Meeting of Intesa Sanpaolo, held on 30 April 2019, determined the number of members of the Board of Directors as 19 and appointed the Board of Directors for the 2019/2020/2021 financial years, electing as its Chairman Gian Maria Gros-Pietro and as Deputy Chairperson Paolo Andrea Colombo. The election took place on the basis of slates of candidates who meet the requirements envisaged by law and by the Articles of Association. Following the resignation tendered by a Director in November 2019, pursuant to Article 15.3 of the Articles of Association, the Board of Directors has replaced a new member by co-option, as subsequently confirmed by the Shareholders' Meeting of 27 April 2020. The latter also proceeded to appoint a Board Member who is a member of the Management Control Committee, in replacement of an outgoing member, pursuant to Article 15.3 of the Articles of Association.

The Board of Directors is responsible for corporate management: it may therefore undertake all transactions considered necessary, useful or appropriate in achieving the corporate purpose, relating to both ordinary and extraordinary administration. It is assigned strategic guidance and supervision functions for the Company and the duty to resolve on all the most important corporate deeds.

With regard to the corporate management function, the Board of Directors, without prejudice to the powers reserved to it, delegates to the Managing Director the necessary and appropriate powers to ensure consistency with day-to-day management, in implementation of the guidelines decided by the Board. The Board of Directors determined the content, limits and methods of exercise of the powers granted to the Managing Director and CEO, while also defining the methods whereby the Board of Directors is to receive information concerning the delegated activity.

The Board of Directors' meeting held on 2 May 2019 appointed Carlo Messina as Managing Director, thereby granting him the necessary and appropriate powers to ensure consistency with day-to-day management, in implementation of the guidelines decided by the Board.

The Managing Director is the Chief Executive Officer and General Manager and supervises the company's management to the extent of his assigned powers, in compliance with the general planning and strategic guidelines set forth by the Board of Directors. He is responsible for personnel management and determines operational directives.

The Board of Directors has established four internal committees, the prerogatives and duties of which comply with the provisions of the Articles of Association and the Supervisory regulations in force:

- **Nomination Committee:** it performs investigative and consulting functions to support the Board of Directors in the process of appointment or co-option of the Board Members to ensure that the composition of the body, in terms of size and professionalism, makes it possible to fulfil its duties efficiently, and as part of the process for the appointment of the Bodies of the main subsidiaries.
- **Remuneration Committee:** it proposes, advises and enquires on remuneration and incentive matters, thereby supporting the Board of Directors.
- **Risks Committee:** it supports the Board of Directors in the performance of strategic supervision functions regarding risks and the internal control system, and performs the other duties assigned to it pursuant to the law or by the Board of Directors.
- **Committee for transactions with related parties of Intesa Sanpaolo S.p.A. and associated entities of the Group:** it carries out the tasks assigned to it by the rules on transactions with related parties and associated entities; in particular, it issues its opinion on the transactions that fall within the scope of application of the rules and of the internal regulations.

## The Management Control Committee

The Management Control Committee, established as part of the Board of Directors, consists of 5 members of the Board of Directors elected by the Meeting of 30 April 2019, who appointed as its Chairman Alberto Maria Pisani. The Shareholders' Meeting of 27 April 2020 replaced a member of the Committee, following the resignation of another member tendered in March 2020. All Committee members meet the independence requirements defined by the Articles of Association.

The Management Control Committee performs the duties assigned by current legislation to the control body of a parent company of a banking group heading a financial conglomerate and issuing listed shares and also operates as the internal control and audit committee pursuant to Article 19, paragraph 2, letter c) of Legislative Decree no. 39/2010.

The Management Control Committee oversees, amongst other things:

- compliance with legal and regulatory provisions and the Articles of Association and the principles of correct management;
- the adequacy, efficiency and functionality of the company's organisational structure and administrative-accounting system and its suitability to correctly represent the company operations;
- the adequacy, efficiency and functionality of the internal control system and risk management process;
- compliance with the regulations applicable to Intesa Sanpaolo as the Parent Company of a banking group issuing shares listed on regulated markets.

The Committee may, subject to notice to the Chairman of the Board of Directors, convene the Shareholders' Meeting whenever it deems it necessary for the performance of its duties or in the event that, in the performance of its office, it should detect reprehensible facts of significant severity and urgent measures need to be taken.

## The operating structure

### *Divisions, Governance Areas and Head Office Departments reporting directly to the Managing Director and CEO*

The Parent Company is divided into six Divisions (with the temporary addition of UBI Banca and its subsidiaries), comprising business line aggregations with similar characteristics in terms of products and services provided and in terms of regulatory framework, nine Governance Areas and two Head Office Departments in a direct reporting line to the Managing Director and CEO, which exercise guidance, coordination, control, support and service functions at Group level, as detailed below.

- Divisions
  - o Banca dei Territori;
  - o IMI Corporate & Investment Banking;
  - o International Subsidiary Banks;
  - o Private Banking;
  - o Asset Management Division;
  - o Insurance Division;
 UBI Banca and its subsidiaries are temporarily considered a business area (until the merger by incorporation of UBI Banca into Intesa Sanpaolo).
- Governance Areas/Head Office Departments reporting directly to the Managing Director and CEO
  - o Chief Operating Officer Governance Area;
  - o Chief IT, Digital and Innovation Officer Governance Area;
  - o Chief Cost Management Officer Governance Area;
  - o Chief Lending Officer Governance Area;
  - o Chief Financial Officer Governance Area;
  - o Chief Risk Officer Governance Area;
  - o Chief Compliance Officer Governance Area;
  - o Chief Governance Officer Governance Area;
  - o Chief Institutional Affairs & External Communication Officer Governance Area;
  - o Strategic Support Head Office Department;
  - o Safety and Protection Head Office Department.

In addition to the aforesaid structures, the Chief Audit Officer reports directly to the Board of Directors in order to ensure the necessary autonomy and independence.

The duties assigned to the Governance Areas, the Strategic Support Head Office Department and the Safety and Protection Head Office Department are outlined below:

### *Chief Operating Officer (COO) Governance Area*

The Chief Operating Officer (COO) Governance Area is responsible for:

- supporting the Managing Director and CEO in defining the Group's general policies within the scope of Human Resource Development and Management, in line with the company's strategies and objectives, with a view to renewing and creating value, as well as in compliance with current regulations;
- ensuring the remuneration governance process, supporting the Corporate Bodies in the definition and approval of the Remuneration Policies, as envisaged by Intesa Sanpaolo Group's Remuneration and Incentive Guidelines, also ensuring, for the Group, the monitoring and governance of labour costs, in line with the company's strategies and objectives;
- proposing to the Managing Director and CEO the definition and evolution of organisational models aimed at enhancing the Group's organisational effectiveness and efficiency, in line with the company's strategies and objectives, ensuring implementation thereof;

- ensuring, for the Group, the definition of the guidelines and policies relating to trade union affairs and welfare and the related implementation, in line with the company's strategies and objectives and in compliance with current regulations;
- ensuring, for the Group, the definition of the guidelines and policies relating to physical security and the related implementation;
- encouraging people's development and training, improving the quality of corporate life, developing an inclusive and attentive approach towards diversity, including through dedicated initiatives.

#### *Chief IT, Digital and Innovation Officer (CITDIO) Governance Area*

The Chief IT, Digital and Innovation Officer (CITDIO) Governance Area is responsible for:

- supporting, in line with the Business Owners' requirements, the definition and development of innovation initiatives, technologies and solutions;
- ensuring the implementation of the initiatives identified by the Business Owners in line with the objectives of the Business Plan by directing actions within a logic of digital transformation and innovation;
- defining the Group's ICT strategy, policies and guidelines - including architectural, methodological and technological standards -, in line with corporate objectives and priorities, and overseeing their implementation;
- overseeing the complexity of IT systems, operations and processes with a view to the continuous innovation of technological solutions, in order to guarantee the Group's constant projection towards a dimension that is evolved and consistent with digitalisation advances, in compliance with the expenditure and investment levels assigned;
- coordinating the definition and implementation of the data governance system to ensure a high level of quality and meet regulatory and business requirements;
- ensuring, for the Group, the definition and implementation of the guidelines and policies on cybersecurity, IT security and business continuity in line with the company's strategies and objectives and in compliance with current regulations;
- ensuring the information flows to the Corporate Bodies provided for by the Internal Control System and the governance documents within the respective areas of responsibility.

#### *Chief Cost Management Officer (CCMO) Governance Area*

The Chief Cost Management Officer (CCMO) Governance Area is responsible for:

- consistently with corporate strategies and objectives, assisting the Corporate Bodies in defining guidelines and policies on cost management, property, logistics and procurement of the Group;
- coordinating the implementation of guidelines and policies on cost management, property, logistics and procurement by the relevant Group business units, also in the various corporate contexts;
- collaborating with the Chief Financial Officer Governance Area and the Chief IT Digital and Innovation Officer Governance Area contributing to the definition of the investment initiatives promoted by the same CITDIO Area, by the Divisions/Business Units and by the other Governance Areas, in line with the objectives of the Business Plan;
- ensuring, through the appropriate control methods, compliance with the guidelines and policies in the aforementioned areas, ensuring, in accordance with the Business Plan, cost management results as well as the service levels offered within the property, logistics and procurement scope.

#### *Chief Lending Officer (CLO) Governance Area*

The Chief Lending Officer (CLO) Governance Area is responsible for:

- making material lending decisions, directly or submitting them to the relevant bodies in relation to the assumption and management of the Group's credit risks, authorising them directly within the scope of their responsibility, including through compliance opinions;
- ensuring the proactive management of credit and guaranteeing the management and the monitoring of the Group's non-performing loans, within the respective area of responsibility;
- ensuring the correct classification and valuation for financial reporting purposes of positions under its responsibility that are classified as non-performing loans;
- managing the stocks and flows of bad loans managed within the Group;
- conceiving and managing transactions for the sale of individual NPE positions or portfolios, credit exposures and other assets within scope, with the collaboration of other competent functions;
- performing monitoring and control on outsourced activities, including monitoring the performance KPIs of outsourcers, directly making decisions, or submitting them to the competent Bodies, regarding proposals exceeding the powers delegated to the Outsourcers;
- contributing to the process of formulating the proposal of the Credit Strategies in the analysis of the impacts on the granting of loans and their definition in relation to the relevant credit management variables, without prejudice to the finalisation powers within the remit of the Chief Financial Officer Governance Area;
- coordinating the implementation of Credit Policies by the relevant Group business units, also in the various corporate contexts;
- analysing the evolution of the cost of credit within the Group, also taking into account the application of the aforesaid Credit Strategies;
- allocating and validating the ratings to the relevant positions, also providing support in the definition of the rating allocation processes and tools;
- defining the reference regulations on credit matters, the requirements for the development of credit instruments and contributing to the formulation of the proposals for the assignment of credit granting and management powers, without prejudice to the finalisation powers within the remit of the Chief Risk Officer Governance Area;
- promoting initiatives aimed at disseminating and developing a credit culture;
- ensuring, consistently with the guidelines of the Chief Risk Officer Governance Area and in compliance with the Credit Policies, the first level systematic supervision of the relevant credit portfolio, identifying phenomena referring to specific credit aggregates characterised by high levels of anomalies for which to activate the appropriate risk mitigation measures.

*Chief Financial Officer (CFO) Governance Area*

The Chief Financial Officer (CFO) Governance Area is responsible for:

- assisting the Corporate Bodies in defining, in accordance with the Group corporate strategies and objectives, the guidelines and policies on administration and tax, planning and management control, treasury and finance, studies and research, active management of the loan portfolio, relations with investors and rating agencies, and social and environmental responsibility;
- coordinating the implementation of said guidelines and policies by the relevant Group business units, and in other corporate areas as appropriate;
- overseeing Asset and Liability Management (ALM) activities, the management of the Treasury securities portfolio, the Funding Plan, the integrated management of liquidity risks as well as financial and regulatory risks, ensuring the satisfaction of funding requirements at Group level;
- define the Group's future qualitative and quantitative objectives through strategic planning, budgeting, capital management, internal assessment of capital adequacy and liquidity position (ICAAP/LAAP), monitoring of the Recovery and Resolution Plan and carrying out the continuous analysis of the economic and financial results;
- overseeing studies and research on investments, economy and markets;
- overseeing the Credit Portfolio Management at Group level, supporting the Divisions in the active management of credit risk, with the aim of improving the risk-return profile of the loan portfolio in order to create value for shareholders, through targeted credit strategies and participation in market operations on performing and non-performing loan portfolios;
- ensuring the management of communications and relations with investors, financial analysts and rating agencies and overseeing the Group's areas of social and environmental responsibility, by planning, managing and monitoring policies and tools for sustainability.

The Chief Financial Officer Governance Area also includes the Manager responsible for preparing the Company's financial reports, who ensures the accurate and timely presentation of income statement and balance sheet results of the Bank and of the entire Group, as well as compliance with the relative accounting, supervisory and fiscal obligations, performing quality control of the processes governing administrative and financial reporting disclosures to the market, pursuant to the appropriate regulations.

*Chief Risk Officer (CRO) Governance Area*

The Chief Risk Officer (CRO) Governance Area is responsible for:

- governing the macro-process of definition, approval, control and implementation of the Group's Risk Appetite Framework (RAF) with the support of the other corporate functions involved;
- consistent with corporate strategies and objectives, assisting the Bodies in defining and implementing guidelines and policies on risk management;
- coordinating the implementation of guidelines and policies on risk management by the relevant Group business units, also in the various corporate contexts;
- guaranteeing the measurement and control of Group exposure to the various types of risk, also verifying the implementation of guidelines and policies as above;
- performing II level monitoring and controls on credit quality, composition and evolution of the various loan portfolios and on proper classification and measurement of single positions ("single name" controls);
- performing II level monitoring and controls for monitoring risks other than credit risk;
- continuously and iteratively validating risk measurement and management systems – used both for the determination of capital requirements and for non-regulatory purposes – in order to assess their compliance with regulatory provisions, operational company and reference market demands, and to manage the internal validation process at Group level.

*Chief Compliance Officer (CCO) Governance Area*

The Chief Compliance Officer (CCO) Governance Area is responsible for:

- ensuring monitoring of the Group compliance risk, including conduct risk, both with regard to the operational risk component and the reputational risk, also through the implementation of a graduated compliance model for the regulations encompassing specific forms of specialized supervision;
- defining, in line with corporate strategies and objectives, guidelines and policies regarding compliance with the Group standards, integrating the compliance risk assessment and management model within the Risk Appetite Framework;
- coordinating the implementation of guidelines and policies on compliance with regulations by the relevant Group business units, and in the various corporate departments;
- collaborating with the other corporate control functions in order to achieve effective integration of the risk management process;
- managing relations with the corporate Bodies and Supervisory Authorities with regards to compliance issues.

*Chief Governance Officer (CGO) Governance Area;*

The Chief Governance Officer (CGO) Governance Area is responsible for:

- ensuring assistance and advice to the Corporate Bodies in defining the strategies concerning extraordinary finance transactions for the Group, in line with the corporate objectives;
- overseeing, closely with the Business Divisions, the analysis of the evolutionary trends of the domestic and international markets of relevance to the Group, to identify potential targets and/or partnerships and/or extraordinary corporate transactions in line with the Group's growth and/or rationalisation strategies;
- ensuring compliance with the guidelines and policies regarding the governance of the investment portfolio and the achievement of results in line with the Business Plan, safeguarding the best protection of the Group's interests;
- ensuring assistance and legal advice to the Corporate Bodies of the Parent Company and to Top Management, overseeing the proper implementation of corporate and supervisory regulations on the subject of governance and institutional obligations at Group level;



- managing the activities associated with the functioning of all the Corporate Bodies and providing support for the related processes;
- overseeing the legal risk at Group level, managing litigation and the related operational risk and defining, in these areas, the guidelines through directives and instructions;
- providing legal advice and assistance to the Group's structures, following regulatory and case law literature, including at European and international level, ensuring the correct regulatory framework of all new initiatives and supporting the compliance function in the identification and interpretation for the purposes of managing the risk of non-compliance;
- ensuring the protection and enhancement of the cultural, archival and historical-artistic heritage of the Group, according to programmatic guidelines that enhance its institutional profile.

*Chief Institutional Affairs and External Communication Officer (CIAECO) Governance Area*

The Chief Institutional Affairs and External Communication Officer (CIAECO) Governance Area is responsible for:

- promoting a coordinated, dynamic and result-oriented approach in the management of the Group's institutional and external relations in order to support the growth and development of the Group's activities;
- overseeing the Group's institutional relations, promoting and directing relations with institutions, regulators and supervisors, at the national, European and international level;
- overseeing external relations for the Group, promoting solid relations with stakeholders and reference partners and national and international media;
- supporting the reputation and promoting the Group's image and identity by disseminating its ethical, social and cultural values, in line with the company's mission.

*Chief Audit Officer (CAO)*

The Chief Audit Officer (CAO), who reports directly to the Board of Directors (and, on its behalf, to its Chairman), functionally reporting to the Management Control Committee, without prejudice to the appropriate sharing of information with the Managing Director and CEO, is responsible for:

- ensuring constant and independent auditing of the regular performance of the Bank and Group operations and processes for the purpose of preventing or identifying any anomalous or risky conduct or situation, assessing the operations of the internal control system and its adequacy in guaranteeing the effectiveness and efficiency of company processes, safeguarding asset value and loss protection, and the reliability and completeness of accounting and management reports, and the compliance of transactions with corporate governance policies and with internal and external regulations;
- providing consultancy to the Group's departments, also through participation in projects, for the purpose of adding value and improving effectiveness of control, risk management, compliance and internal governance processes;
- ensuring supervision of the internal control system of the Group's subsidiaries, also by exercising governance of, and guidance to, the respective Internal Audit functions;
- supporting corporate governance and ensuring that Top Management, the Corporate Bodies and the competent Authorities (European Central Bank, Bank of Italy, Consob, etc.) promptly and systematically receive information on the status of the control system and on the outcome of activities performed and on the progress of any corrective measures;
- ensuring the proper conduct of the internal process for managing whistleblowing reports.

The Strategic Support Head Office Department is responsible for:

- assisting the Managing Director and CEO in all his internal and external activities, including in the respective institutional and representative areas;
- guaranteeing specialist support to the Managing Director and CEO by gathering, evaluating and reviewing the documentation of strategic relevance and preparing technical analyses, including with reference to the activities of the Bodies within the Board with a particular focus on the optimal operation of the Steering Committee;
- overseeing selected initiatives in Italy and abroad, assisting the Managing Director and CEO in extraordinary transactions, in negotiations and in the most impactful corporate projects in which he is directly involved;
- supporting the Chairman of the Steering Committee in the performance of his duties;
- coordinating specific interdivisional and interfunctional activities ensuring the coherence and development of synergies with respect to the Group's strategic guidelines;
- facilitating relations with and between the Governance Areas and the Business Units in order to strengthen cooperation mechanisms.

The Safety and Protection Head Office Department is tasked with ensuring, for the Group, the monitoring of the risk of non-compliance with reference to the following areas:

- Personal Data Protection, pursuant to Legislative Decree 101/2018 (adapting national legislation to the provisions of EU Regulation 2016/679 - General Data Protection Regulation or GDPR);
- Protection of Health and Safety in the workplace, pursuant to Legislative Decree 81/2008;
- Environmental Protection, pursuant to Legislative Decree 152/2006.



## Remuneration and incentive policies

Over the last few years, international bodies and regulators have paid increasing attention to the issue of remuneration across different sectors, including, in particular, that of listed companies, banks and banking groups, as well as insurance and asset management, with the aim of guiding operators towards the adoption of remuneration policies and remuneration systems that are consistent with the principles – reinforced following the economic and financial crisis – governing the process for drawing up and approving the remuneration and incentive policies, the compensation structure and their transparency.

The regulatory framework has undergone a significant evolution - which is still ongoing - both at the European level and at the national level, in each of the sectors mentioned.

With reference to listed companies, Art. 123-ter of the Consolidated Law on Finance ("TUF") provides for the obligation to prepare and make available to the public a report on the remuneration policy and the compensation paid, divided into two sections (the first illustrating the company's policy in relation to remuneration and the procedures used for the adoption and implementation of this policy, the second providing information on the compensation paid), to be drawn up including the information set out in the Issuers' Regulation, and to be submitted to the Shareholders' Meeting resolution. Until 2019, the Shareholders' Meeting was called upon to issue its opinion with an advisory vote on the first section of the policy; in 2019, in implementation of the so-called Shareholders' Rights Directive II (Directive (EU) 2017/828), Art. 123 ter of the TUF was amended thereby requiring, among other things, that the Shareholders' Meeting cast a binding vote on the first section of the report and an advisory vote on the second section. In 2020, the Issuers' Regulations - in the part relating to the report on the remuneration policy and the compensation paid - was also amended in implementation of the Shareholders' Rights Directive, with the aim of enhancing transparency vis-à-vis shareholders. Also in terms of self-governance of listed companies, remuneration is the subject of the provisions laid down in the Corporate Governance Code, merged into the new "Corporate Governance Code" in January 2020, which must be applied by the companies intending to adopt it starting from the first financial year after 31 December 2020.

In the banking sector, remuneration and incentive policies and practices are the subject of specific regulations at European and national level. These regulations have changed significantly over time. More specifically, and among other things, in implementation of the so-called CRD III (Directive 2010/76/EU) and taking into account the guidelines and criteria defined internationally (including the principles and standards of the Financial Stability Board, the methodologies of the Basel Committee on Banking Supervision, and the Guidelines issued by CEBS), the Bank of Italy, with a measure dated 30 March 2011, issued Supervisory Provisions containing a harmonised set of regulations of remuneration policies, systems and practices in banks and banking groups, relating to the processing and control process, the remuneration structure and the disclosure obligations to the public, thereby requiring, among other things, the approval of the remuneration and incentive policies by the shareholders' meeting, in order to achieve remuneration systems in line with the long-term corporate strategies and objectives connected with company results, appropriately adjusted to take into account all risks, consistently with the capital and liquidity levels required to fulfil the activities undertaken and, in any case, such as to avoid distorted incentives that could lead to regulatory violations or excessive risk-taking for the bank and the system as a whole. The Bank of Italy intervened once again in the matter with the two recommendations contained in the communications dated 2 March 2012 and 13 March 2013, highlighting in general the need for banks to establish a strategy that is aligned to the objective of preserving the stability of the business, also from a forward-looking perspective, as well as maintaining the conditions of capital strength and prudent management of liquidity risk. Subsequently, in 2014 the Supervisory Provisions on remuneration policies and practices - contained in Bank of Italy Circular no. 285/13 - were revised to implement the regulations contained in the so-called CRD IV (Directive 2013/36/EU). In implementation of CRD IV, in 2014, the European Commission issued the Regulatory Technical Standards (RTS) relating to qualitative and quantitative criteria for the identification of categories of personnel whose professional activities have a material impact on the institution's risk profile (so-called "Risk Takers"). In December 2015, the EBA, based on the provisions contained in CRD IV, published the update of the "Guidelines on sound remuneration policies", previously drawn up by CEBS, defining in detail the rules relating to the remuneration structure, remuneration policies and the related governance and implementation processes. The indications of these Guidelines were implemented by the Bank of Italy which, in 2018, updated the regulations on remuneration policies and practices referred to in Circular 285. Lastly, in 2019 the so-called CRD V (Directive 2019/878/EU) was issued, which the Bank of Italy shall implement as part of the next update of Circular 285/2013, in addition to Regulation (EU) 2019/876 (so-called CRR II). Moreover, in application of the provisions of CRD V, the EBA revised the regulatory technical standards (RTS) that specify the criteria for identifying Risk Takers, and also prepared an update of the Guidelines on remuneration policies.

With regard to the insurance sector, ISVAP (now IVASS), with regulation No. 39 of 9 June 2011, laid down the principles regarding the decision-making processes, structure and disclosure obligations for the remuneration policies of insurance companies. Regulation No. 39 was subsequently replaced by IVASS Regulation No. 38 of 3 July 2018 on corporate governance of insurance companies and groups, which implements the so-called Solvency II (Directive 2009/138/EU) and the guidelines adopted by the European Insurance and Occupational Pensions Authority (so-called EIOPA) on the corporate governance system, and incorporates the provisions of ISVAP Regulation No. 39 of 9 June 2011 concerning remuneration policies. Furthermore, on 5 July 2018 IVASS sent a Letter to the market regarding the guidelines on the application of the principle of proportionality in the corporate governance system.

Finally, with regard to the asset management sector, the provisions of the Joint Bank of Italy/Consob Regulation on remuneration (issued pursuant to article 6, paragraph 2-bis, of the Consolidated Law on Finance) – updated on 27 April 2017 to transpose the rules on remuneration and incentive policies and practices set out in Directive 2014/91/EU (UCITS V Directive) into the Italian regulations and included, from December 2019, in the Bank of Italy Regulation implementing Articles 4-undecies and 6, paragraph 1, sub-paragraph b) and c-bis) of the Consolidated Law on Finance – also apply to asset management companies belonging to banking groups, to varying degrees according to whether or not the asset management company (Società di Gestione del Risparmio) is classed as significant.

That being said, Intesa Sanpaolo has always extensively focused its attention on remuneration matters, on complying with the related regulation and on maximum transparency to the market.

## Procedures for adoption and implementation of the remuneration policies

### The role of corporate bodies

#### The Shareholders' Meeting

The Articles of Association require the Shareholders' Meeting to approve the Board Members' and personnel's remuneration policies, as well as the plans based on financial instruments.

In this context, it shall also approve the criteria for determining the severance payments to be granted in the event of early termination of the employment agreement or early termination of office, including the limits set for such payments as provided by the regulations currently in force and shall determine, with the qualified majority threshold defined by the supervisory regulations in force, a ratio between the variable and fixed individual remuneration of the personnel above the ratio of 1:1, but in any case not exceeding the maximum established by the same regulations.

The Shareholders' Meeting determines the remuneration for the members of the Board of Directors and the Management Control Committee and the remuneration for the offices of Chairman and Deputy Chairperson of the Board of Directors and Chairman of the Management Control Committee.

In addition, the Shareholders' Meeting resolves with a non-binding vote on the annual disclosure of the compensation paid pursuant to Article 123-ter Consolidated Law on Finance.

#### The Board of Directors

The Board of Directors may determine, in addition to the fixed remuneration determined by the Shareholders' Meeting and in compliance with the remuneration policies approved by the Shareholders' Meeting, the remuneration of the Board Members to whom the Board itself assigns further special duties in compliance with the Articles of Association, including the office of Managing Director and General Manager.

The Board of Directors is responsible for the drafting of the remuneration and incentive policy to be submitted to the Shareholders' Meeting and the definition of the remuneration and incentive systems for persons for whom the supervisory regulations require that this task be performed by the body with strategic supervision functions, including the identification of parameters used to evaluate performance objectives and the definition of the variable remuneration deriving from the application of said systems.

The Board of Directors is tasked with determining the remuneration due to the Manager responsible for preparing the Company's financial reports pursuant to Article 154 bis of Legislative Decree 58 of 24 February 1998, as well as of all other Top Risk Takers and the higher-level personnel from the corporate control functions, in accordance with the provisions of the legislation currently in force.

#### Remuneration Committee

The Remuneration Committee was set up by the Board of Directors in order to support with all activities concerning remuneration.

The Committee supports the Board of Directors in preparing proposals to submit to the Shareholders' Meeting.

The Committee is responsible for formulating remuneration proposals for the Managing Director and CEO and for the members of the Board of Directors to whom additional special offices are assigned pursuant to the Articles of Association, as well as with regard to the remuneration systems for the Group Top Risk Takers and the higher-level Executives of the Company Control Functions, also taking into account the proposal of the Risks Committee and the Management Control Committee insofar as within their competence.

#### Risks Committee

Without prejudice to the responsibilities of the Remuneration Committee, the Risks Committee supports the Board of Directors by analysing the Remuneration and Incentive Policies to verify their link with current and prospective risks and the capital strength and levels of liquidity of the Group, with specific regard to the performance targets (KPIs) assigned by the Incentive System to the Top Risk Takers not belonging to the Company Control Functions and similar roles.

In order to strengthen the independence of the Company Control Functions, the Risks Committee, (together with the Management Control Committee) expresses its opinion on the Incentive System for the Chief Risk Officer and the Head of the Internal Validation and Controls Head Office Department.

#### The Management Control Committee

In order to strengthen the independence of the Company Control Functions, the Management Control Committee expresses its opinion on the Incentive System for the Top Risk Takers belonging to the Company Control Functions, the higher-level personnel and similar roles. This opinion is expressed jointly with the Risks Committee with regard to the Incentive System for the Chief Risk Officer and the Head of the Internal Validation and Controls Head Office Department.

#### The Chief Operating Officer and the Corporate Control Functions

As mentioned above, the Shareholders' Meeting is responsible for approving remuneration policies for employees upon proposal of the Board of Directors and with the involvement of the Remuneration Committee.

The Chief Operating Officer is responsible for drawing up the aforementioned remuneration policies, that undergo the relative approval procedure, involving the following, to the extent of their responsibilities, as envisaged by the Regulations:

- the Chief Risk Officer Governance Area, in order to ensure consistency of the remuneration policies and resulting incentive systems with the Group's Risk Appetite Framework (RAF);
- the Planning and Control Head Office Department, in order to ensure consistency of the remuneration policies and resultant incentive systems with:
  - o the strategic short-and medium-long term objectives of the Companies and of the Group;
  - o the level of capitalisation and liquidity of the Companies and of the Group;
- The Chief Compliance Officer Governance Area, in order to verify compliance of the remuneration policies and resulting incentive systems with rules, regulations, codes of ethics and standards of conduct applicable to the Group.

The Chief Audit Officer, in accordance with the guidelines of the Supervisory Authority, verifies compliance of the remuneration implementation procedures with the relevant policies, informing the Board of Directors and the Shareholders' Meeting on the results of the verifications conducted.

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## Remuneration of the members of the Board of Directors

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### Remuneration of Board Members

The Bank's Articles of Association envisage that the members of the Board of Directors be entitled, in addition to the reimbursement of expenses incurred due to their office, to a fixed remuneration for the services rendered, which is determined for the entire period of their office by the Shareholders' Meeting at the time of their appointment. Upon appointment, the Shareholders' Meeting also determines the supplementary remuneration of the offices of Chairman and Deputy Chairperson of the Board of Directors.

An insurance policy for administrative liability is signed in favour of the members of the Board of Directors according to the terms submitted to the Shareholders' Meeting.

### Remuneration of the Managing Director and CEO

Pursuant to the Articles of Association, the Managing Director also acts as the General Manager of Intesa Sanpaolo.

The Managing Director and General Manager is entitled to receive a fixed and variable remuneration determined by the Board of Directors in line with the remuneration policies approved by the Shareholders' Meeting.

The Board of Directors, upon the proposal of the Remuneration Committee, determined the remuneration of the Managing Director. This amount is in addition to the amount due as a Board Member. The Managing Director, in his capacity as General Manager, is entitled to receive the gross annual remuneration, the short and long-term incentive system and the supplementary pension scheme, and to receive the additional fringe benefits for the position determined by the Board of Directors in accordance with the Remuneration and Incentive Scheme Policies for employees.

### Remuneration for participation in the Management Control Committee

Pursuant to the Articles of Association, the Shareholders' Meeting has the duty to determine, at the time of the appointment of the Management Control Committee and for the entire term of office, specific remuneration for the Board Members of said Committee, consisting of an equal amount for each Member, but with a special addition for the Chairman.

### Remuneration for participation in the other Board Committees

In terms of the activities that the Board Members are called upon to carry out as members of the Committees established within the Board, the Board of Directors, pursuant to the Articles of Association, determines an additional fixed remuneration for these Members, in line with the remuneration policies approved by the Shareholders' Meeting. The Board of Directors supplemented the remuneration for the position of Board Member with an attendance fee in relation to the actual participation of the members in the activities of the Committees, with a further annual gross fixed remuneration for the Chairmen of such Committees.

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## Remuneration policy for employees and staff not bound by an employment agreement

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The remuneration policies of the Intesa Sanpaolo Group are based on the following principles:

- a) alignment of the conduct held by management and personnel to the interests of all Stakeholders, with a focus on creating value for Shareholders, as well as on the social impact generated on the Communities;
- b) correlation between remuneration and risks undertaken, through:
  - direction of management and personnel conduct towards the achievement of objectives within a framework of rules aimed at controlling corporate risks;
  - remuneration systems aligned with prudent financial and non-financial risk management policies (including legal and reputational risks), in line with what is defined in the Group's Risk Appetite Framework;
  - the definition of a sufficiently high fixed component to allow the variable portion to decline significantly, even down to zero, upon occurrence of pre-defined conditions.
- c) orientation towards medium-long term objectives, taking into account the Group Risk Tolerance through the definition of a set of Incentive Systems that allow performance to be oriented over a period of accrual longer than one year and to share the medium-long term results consequent to the implementation of the Business Plan;
- d) merit, to guarantee better matching with actual performance and the managerial quality identified, through:
  - remuneration flexibility via the variable component linked to the results achieved and to the risks undertaken;
  - focus on key staff members with high managerial skills, to whom competitive salary brackets, compared with the reference market, are reserved;
  - differentiation of the best performances to which variable bonus levels significantly in excess of the average are to be assigned;

- e) equity, in order to promote proper conduct and standardise treatment in terms of remuneration, through:
  - the correlation between the person's fixed remuneration and the level of responsibility managed, measured through the adoption of a Global Banding system<sup>13</sup>, certified by a leading consultancy firm or the seniority/professional role;
  - differentiation of salary brackets and the ratio of the variable component to the total remuneration according to the relevant professional category and/or geographical market, with the Banding bracket being equal;
  - focus on the gender pay gap;
- f) sustainability, to limit expense deriving from application of the policy to values compatible with the available economic and financial means, through:
  - mechanisms to adjust allocations to the overall incentive provisions according to the company's profitability and the results achieved;
  - selective reviews of fixed remuneration based on strict market benchmarks;
  - determination of appropriate caps regarding both total incentives and the amount of individual bonuses;
- g) compliance with legal and regulatory provisions, with codes of conduct and other self-regulation provisions with focus on the Group Risk Takers (and among these, on Key Managers, so-called Top Risk Takers), on Legal Entity Risk Takers and on the Corporate Control Functions;
- h) fairness in customer relations.

Employee remuneration is broken down into the following:

- a) fixed component;
- b) variable component.

#### Fixed remuneration

The fixed component is defined on the basis of pre-established and non-discretionary criteria such as the contractual framework, the role held, the responsibilities assigned, the specific experience and the skills gained by the employee.

In full compliance with the provisions of law, the fixed component includes:

- the gross annual salary which reflects the level of professional experience and seniority of the personnel;
- allowances tied to the role held, not connected to any type of performance indicator and assigned in a non-discretionary manner to the Risk Takers<sup>14</sup> and to the Middle Management<sup>15</sup> belonging to the Corporate Control Functions and to the heads of commercial roles within the scope of the Banca dei Territori Division local network;
- allowances paid to expatriate personnel in order to cover for any differences in cost, quality of life and/or remuneration levels of the target reference market;
- allowances and/or fees deriving from offices held in corporate bodies, provided that these are not reversed to the companies to which they belong;
- any benefits designed to increase employee motivation and loyalty of the resources and assigned not on a discretionary basis. The benefits paid to Group employees may be of a contractual nature (e.g., supplementary pension, health benefits, etc.) or the result of remuneration policy decisions (e.g., company car) and, therefore, have different treatment with respect to different categories of personnel.

#### Variable remuneration

The variable component is linked to employee's performance and aligned to the results actually achieved and the risks prudentially assumed, and consists of:

- short-term variable component, paid through the annual Incentive Systems and the Broad-based Short-Term Plan (PVR);
- long-term variable component, paid through the POP (Performance-based Option Plan) Plan, targeted at the Top Management, Risk Takers and Key Managers<sup>16</sup>, and the LECOIP 2.0 Plan, targeted at Middle Managers (not included in the POP Plan) and the remaining Personnel<sup>17</sup>;
- the carried interest, i.e. the share in the profits of the UCITS or AIF received by personnel as compensation for the management of the UCITS or AIF<sup>18</sup>;
- any variable short- and long-term components, tied to the period of employment in the company (stability, non-competition, one-off retention agreements) or extraordinary agreements (entry bonus);
- any discretionary benefits.

The assignment of guaranteed bonuses is not envisaged, with the sole exception of limited cases of recently hired employees (entry bonus), without prejudice to thorough assessment and analysis of market practice, solely for the first year.

The distinction of the variable remuneration in a short-term and a long-term component promotes both attraction and retention of resources, allows performance to be oriented over a period of accrual longer than one year and to share the medium-long term results consequent to the implementation of the Business Plan;

In accordance with the regulatory guidelines, the Intesa Sanpaolo Group traditionally adopts a pay mix that is appropriately balanced between the aforementioned components, in order to:

<sup>13</sup> The Global Banding System adopted by the Intesa Sanpaolo Group is based on the grouping in homogeneous categories of managerial positions that are similar by levels of complexity/responsibility managed, measured using the international IPE (International Position Evaluation) methodology.

<sup>14</sup> Italy, Slovakia and Croatia.

<sup>15</sup> Italy and Egypt.

<sup>16</sup> Italy Perimeter.

<sup>17</sup> Italy Perimeter.

<sup>18</sup> The portion of *pro rata* profit assigned to personnel by virtue of any investments made by them in the UCITS or AIF, provided that they are proportional to the actual percentage of participation in the UCITS or AIF and not exceeding the return recognised to the other investors. For a proper implementation of the regulation, asset management companies must therefore be able to clearly identify the portions of profit which exceed the *pro rata* profit of the investments and that qualify as carried interest.



- allow flexible management of labour costs, as the variable portion may significantly decline, even down to zero, depending on the performance actually achieved during the year in question;
- discourage behaviour focused on the achievement of short-term results, particularly if these involve taking on greater risk.

In order to achieve the above objectives, it is standard Group practice to establish ex ante limitations in terms of balanced maximums for variable remuneration, through the definition of specific caps on the increase of bonuses in relation to any over-performance.

As a general rule of thumb, the aforesaid cap to the variable remuneration was determined:

- at 100% of fixed remuneration for roles not included amongst Corporate Control Functions, save as otherwise specified in the Report on Remuneration;
- at 33% of fixed remuneration for roles included amongst Corporate Control Functions.

The calculation of the variable remuneration takes into account both the short-term component relating to the Incentive System or PVR and the long-term component assigned through the long-term Incentive Plans (POP Plan and LECOIP 2.0 Plan), as well as any variable components linked to seniority or exceptional components. In particular, the POP and LECOIP 2.0 Plans have an impact on the pro-rata variable remuneration for the entire accrual period.

The maximum limit established by the general criteria (1:1) was increased to 2:1, as provided by CRD IV, permitted by the Bank of Italy, and approved by the 2018 Shareholders' Meeting, for Risk Takers not included amongst Corporate Control Functions and for specific and limited professional sectors and business segments (investment banking, asset management, private banking, treasury).

Furthermore, starting from 2019, in accordance with the option granted by the recent update of the Supervisory Provisions, the maximum limit on variable remuneration has been increased beyond 2:1 and up to a maximum of 4:1 for personnel belonging to the "Investments" category of the Group's asset management companies, which conduct their business exclusively for the same Asset Management Company.

Finally, the Shareholders' Meeting of 27 April 2020 approved the increase to 2:1 of the variable-to-fixed remuneration cap to the Global Relationship Managers operating in the Global Corporate Department and in the Financial Institutions Department, to the Heads of the Corporate and Financial Institution Desks of the Hubs in the International Department of the IMI Corporate & Investment Banking Division as well as to the Mortgage Specialists, Personal Bankers and Senior Customer Advisors belonging to the Všeobecná Úverová Banka (VUB) Network.

However, in terms of cap compliance between fixed and variable remuneration (1:1), appropriate pay mix differentiations were identified with reference to the various professional or business segments, in line with the results obtained by means of specific benchmark analyses related to the leading European global banks that also ensure compliance with the internal equity principle, given the use of common benchmarks for each cluster.

The adequacy of the amounts is further verified in comparison to market practices, with ongoing participation in national and international remuneration surveys; for management roles and other particular business positions, the comparison is based on specific peer groups, in order to evaluate the competitive alignment with the most appropriate reference market.

In relation to market data, the Intesa Sanpaolo Group aims to align the overall remuneration with median values, notwithstanding the possibility to make the appropriate differentiations for particularly critical positions and/or resources with high management skills.

The correlation between remuneration, risk and performance is ensured for all employees through:

- the use of a balanced pay mix, as the fixed component is sufficiently high to allow the variable portion, which is never guaranteed, to decline significantly, even down to zero, upon occurrence of the conditions specified below;
- the application of the principle of selectivity, which differentiates the best performances and, in return, assigns significantly higher-than-average bonuses;
- the introduction, on the basis of the "financial sustainability principle", of a structured mechanism for funding the variable component (bonus pool), which correlates the amount to be allocated to incentives for all company segments to the performance of a Group parameter, currently identified as Gross Income;
- the use of a solidarity mechanism between Group and Division/Business Unit results, according to which the amount of total bonuses paid to the employees of each Business Unit depends in part on the Group's overall performance (reflected in the size of the bonus pool) and in part on the performance of the specific Organisational Unit, measured in terms of the degree of expected contribution to the Group's Gross Income;
- the observance of the access conditions provided for in international and national regulations, namely:
  - at Group level, the achievement of capital adequacy and liquidity levels and, in any event, compliance with the limits envisaged by the Supervisory Review and Evaluation Process (SREP);
  - at individual level, the propriety of conduct (absence of disciplinary measures resulting in one or more days of suspension);
- the measurement of performance from multiple perspectives, both quantitative (profitability, growth, productivity, cost of risk/sustainability - including, among the latter, also Corporate Social Responsibility, CSR, and/or Environmental, Social and Governance, ESG indicators) and qualitative (strategic actions or projects and managerial qualities), as well as extending to different scopes (Group/Department/Individual). The following are some examples of indicators for performance drivers:
  - Profitability: Operating Income / Risk Weighted Assets, Revenues / Assets, Income from Insurance Business/Mathematical Reserves;
  - Growth: Net Inflows, Gross Banking Product (Loans + Direct Customer Deposits + Indirect Customer Deposits), Insurance Operating Margin;
  - Productivity: Cost/Income, Reduction in operating costs, Full Combined Ratio;
  - Cost of risk/sustainability: Gross NPL Ratio, Gross flows from performing to NPE, Operating Losses / Operating Income, Concentration Risk, Maintaining Liquidity Coverage Ratio target levels;
- the use of an additional mechanism that measures the residual risk level of each business unit (Q-Factor) and that acts as a possible de-multiplier of the bonus achieved in the event of failure to reach the target.

It is expressly prohibited for individual employees to undertake personal hedging or insurance strategies on the remuneration or other aspects that may alter or undermine the effects of the alignment with company risk inherent in the remuneration mechanisms described. Remuneration may not be paid in forms, instruments or methods aimed at avoiding provisions of law.

The termination of the employment agreement involving personnel with state pension or seniority pension rights and/or A.G.O. pension treatment does not result in loss of the right to payment of the entitled amounts, even deferred.

In all other cases, the Bank has the right to award any amounts, depending on the specific situations, upon termination of the employment agreement, also through individual mutual termination settlement agreements.

In any case, in compliance with the principles contained in the Group's Code of Ethics, the Intesa Sanpaolo Group does not enter into individual agreements with its managers and employees in advance (i.e. prior to termination of the employment agreement) that govern compensation to be granted in the event of early termination of the employment agreement.

In recent years, the Bank has signed specific agreements with the trade unions with regard to the "solidarity fund", applied to employees of all levels, including executives, which also govern the treatment of sums payable to personnel upon termination of the employment agreement in the event of extraordinary transactions and/or company reorganisations.

According to the Supervisory Provisions on remuneration, the severance payment agreed in view of or upon early termination of the employment agreement or early termination of office for the amount exceeding the provisions of the National Collective Bargaining Agreement concerning payments related to the indemnity for failed notice constitutes the so-called severance, including any compensation paid according to the non-competition agreement limited to the portion exceeding the last year of fixed remuneration.

In the Intesa Sanpaolo Group, the principles for the definition of these payments - inspired to both the correlation between severance pay and ongoing performance criteria and the control of potential litigations – are:

- regulatory capital adequacy requirements maintenance;
- no reward for failure;
- irreproachability of individual behaviour (consistency with the absence of compliance breaches' criteria).

Pursuant to these criteria and the Supervisory Provisions on remuneration, when negotiating this kind of remunerations, the Group defined that those payments:

- are equal, as a maximum amount, to 24 months of fixed salary, and is determined in a different manner depending on each cluster, in order to take into due consideration the overall evaluation of the work of the person and having particular regard to the levels of capitalization, liquidity and profitability of the Group and the presence or absence of individual sanctions imposed by the Supervisory Authority;
- are paid according to the methods set for short-term variable remuneration, for each cluster;
- are included in the calculation of the ratio between the respective variable remuneration and the fixed remuneration of the last year of employment in the company, not including the sums agreed upon and paid:
  - o under a non-competition agreement, for the portion that, for each year of the pact's duration, does not exceed the last year of fixed remuneration;
  - o within an agreement between the Bank and its personnel, wherever reached, for the settlement of an actual or potential dispute (wherever reached), if calculated on the basis of a predefined formula approved by the Shareholders' Meeting in advance.



# Intesa Sanpaolo stock

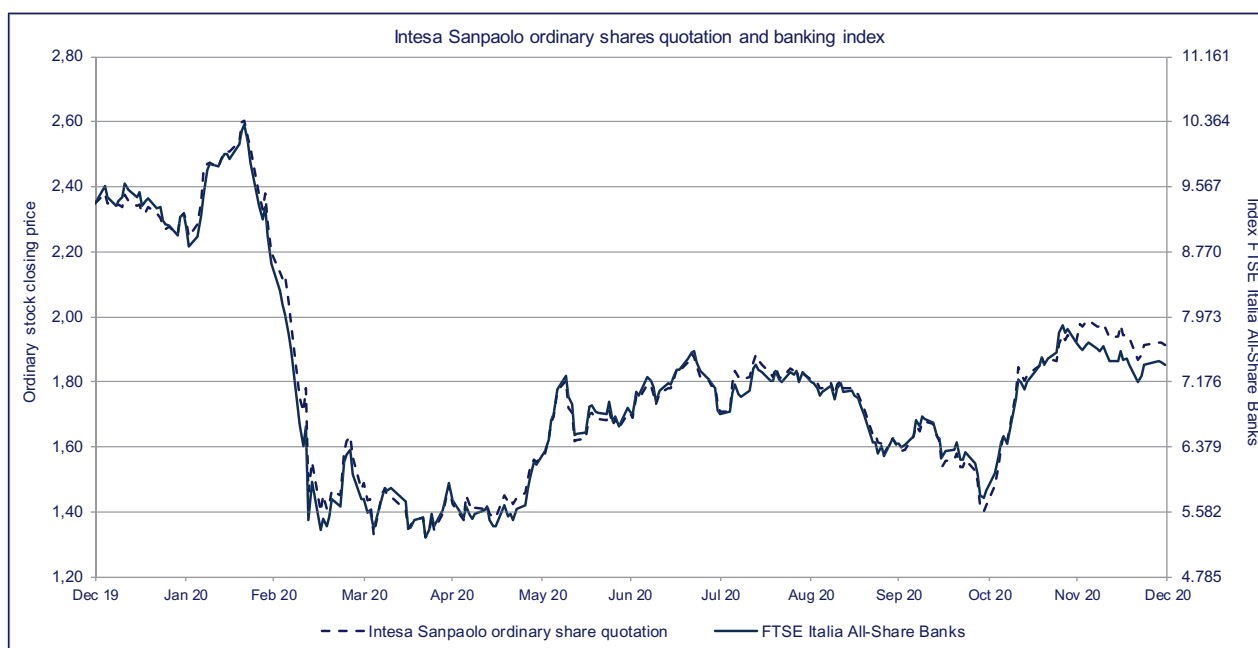
## Stock price performance

In 2020, after the first two months of positive performance, the sudden onset of the health emergency and the resulting rapid and severe deterioration in macroeconomic expectations led the European banking sector index to record a drop of 50% since the beginning of the year in mid-March. Subsequently, the announcement of major economic support plans by national governments and the EU, the highly expansionary measures implemented by the ECB, the positive news on the availability of vaccines and the resumption of the consolidation process in Europe, helped the European banking index to partially recover, and close 2020 with a decrease of 23.7%. Compared to the Eurostoxx 50 index, the European banking index performance was down by 19% in 2020.

Within this scenario, the Italian banking index performed slightly better than the European sector index: after starting the year with gains of 11.7% on 2019, the index then retreated to the point of losing 46% in mid-March, following the outbreak of the health emergency. In the following months stock prices recovered partially, benefiting from the interventions of the government and the ECB to support the economy, news about the availability of vaccines and the start of the consolidation process, allowing the Italian banking index to limit its drop in 2020 to 21.1% on the end of 2019. In 2020, the Italian banking index underperformed the FTSE MIB by 15.7% but outperformed the European banking index by 2.6%.

The performance of Intesa Sanpaolo ordinary shares in 2020 mirrored that of the banking sector indices, showing a substantially stagnant trend in January, an upward trend in February, up to the third week, when it reached its peak, followed by a sharp decline until April, when the share price reached its low, followed by a recovery until early June, fluctuating performance until mid-September, a period of decline until the end of October and a recovery in the last two months of the year, with the share price closing down 18.6% on the end of 2019.

Intesa Sanpaolo's capitalisation dropped to 37.2 billion euro at the end of 2020, from 41.1 billion euro at the end of 2019.



**Earnings per share**

Intesa Sanpaolo's share capital now consists solely of ordinary shares.

Net income attributable to ordinary shares was determined considering the dividends proposed and then allocating the residual portion of net income, in the hypothetical assumption of its total distribution, in equal weight to all outstanding shares. The Earnings Per Share (EPS) indicator is presented both in the "basic" and in the "diluted" formula: basic EPS is calculated by dividing income theoretically attributable to holders of shares by the weighted average number of the shares outstanding; diluted EPS takes into account the effect of any future issues.

	Ordinary Shares				
	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Weighted average number of shares	18,240,491,151	17,474,056,021	16,772,376,006	15,837,253,005	15,841,479,283
Income attributable to the various categories of shares (millions of euro)	3,277	4,182	4,050	6,900	2,929
Basic EPS (euro)	0.18	0.24	0.24	0.44	0.18
Diluted EPS (euro)	0.18	0.24	0.24	0.44	0.18

**Price/book value**

The index reflects the value attributed by the market to the share capital of a listed company, and hence indirectly to the company's overall assets. The index, while measuring the confidence which financial analysts and the financial community have in the company's income prospects and capital strength, is affected significantly by the external factors that influence stock prices. Also for the Intesa Sanpaolo Group, the performance of the index – as at 31 December 2020 indicated in relation to both average figures and year-end figures – was impacted by the dynamics of the market.

	(millions of euro)					
	31.12.2020	2020	2019	2018	2017	2016
Market capitalisation	37,163	34,961	36,911	44,947	44,820	37,152
Group's shareholders' equity	65,871	60,920	54,996	53,646	52,558	48,344
<b>Price / book value</b>	<b>0.56</b>	<b>0.57</b>	<b>0.67</b>	<b>0.84</b>	<b>0.85</b>	<b>0.77</b>

**Pay-out ratio**

This ratio is the relationship between the amount allocated for the remuneration of shareholders and the total amount of net income produced.

For 2020, it was decided to submit a proposal to the Shareholders' Meeting for the distribution of 0.0357 euro per share, partly from the share premium reserve, for a total dividend payout of 694 million euro, equal to the maximum allowed by the European Central Bank Recommendation of 15 December 2020, within the limit of 20 basis points of the consolidated Common Equity Tier 1 ratio at 31 December 2020. In addition, subject to the developments in the recommendations from the Supervisory Authority after 30 September 2021, and in line with the 2018-2021 Business Plan, a cash distribution from reserves is envisaged, against the 2020 results, which when added to the above-mentioned dividends will lead to the payment of a total amount corresponding to a payout ratio of 75% of the 3,505 million euro adjusted consolidated net income<sup>19</sup>. For more details see the Proposals to the Shareholders' Meeting in the Intesa Sanpaolo financial statements.

With regard to 2019, you are reminded that following the revision on 31 March 2020 of the Proposals to the Shareholders' Meeting approved by the Board of Directors on 25 February 2020, the net income for the year 2019 – net of the allocation to the Allowance for charitable, social and cultural contributions – was assigned to the extraordinary reserve, in accordance with the Recommendation of the European Central Bank of 27 March 2020 regarding dividend policies during the COVID-19 epidemic. For more details see the Proposals to the Shareholders' Meeting in the 2019 Intesa Sanpaolo financial statements.

	(millions of euro)				
	2020	2019	2018	2017	2016
Net income	3,277	4,182	4,050	7,316	3,111
Dividends (*)	694	-	3,449	3,419	2,999
<b>Pay-out ratio</b>	<b>21%</b>	<b>-</b>	<b>85%</b>	<b>47%</b>	<b>96%</b>

(\*) For 2020, 2017 and 2016, the amounts were partially assigned from reserves.

<sup>19</sup>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.

**Dividend yield**

This indicator measures percentage return on the shares, calculated as the ratio between dividends allocated for the year and market price in the reference year. This return, determined on the basis of average annual stock prices, maintained sustainable levels over time, also in view of financial market trends. The dividend yield for the years 2020 and 2019 was affected – as noted above – by the Recommendations of the European Central Bank in the aftermath of the COVID-19 epidemic.

As previously pointed out, since 2018 the share capital has consisted solely of ordinary shares.

	2020	2019	2018	2017	(in euro) 2016
Ordinary share					
Dividend per share	0.036	-	0.197	0.203	0.178
Average stock price	1.799	2.108	2.567	2.678	2.220
Dividend yield	1.98%	-	7.67%	7.58%	8.02%
Savings share					
Dividend per share	-	-	-	0.214	0.189
Average stock price	-	-	-	2.517	2.084
Dividend yield	-	-	-	8.50%	9.07%

**Rating**

During 2020 the rating agencies revised Intesa Sanpaolo's ratings to incorporate the impacts of the pandemic. Specifically:

- on 26 April 2020, Moody's confirmed Intesa Sanpaolo's senior unsecured debt rating of "Baa1", changing the outlook from stable to "negative", due to the worsening of the business environment in Italy;
- on 12 May 2020, DBRS Morningstar confirmed its "BBB (high)"/"R-1 (low)" ratings for Intesa Sanpaolo, while modifying the trend on both ratings from stable to "negative". The revision of the trend followed the similar action on Italy's rating of 8 May 2020.
- on 12 May 2020, Fitch Ratings downgraded Intesa Sanpaolo's rating to "BBB-/F3" with stable outlook following the same action on Italy's rating on 28 April;

S&P Global Ratings confirmed Intesa Sanpaolo's rating of "BBB/A-2" with negative outlook.

	RATING AGENCY			
	DBRS Morningstar	Fitch Ratings	Moody's	S&P Global Ratings
Short-term debt	R-1 (low) <sup>(1)</sup>	F3	P-2	A-2
Long-term senior debt	BBB (high)	BBB-	Baa1 <sup>(2)</sup>	BBB
Outlook / Trend	Negative	Stable	Negative	Negative
Viability	-	bbb-	-	-

(1) Negative trend.

(2) Senior debt rating. The rating on deposits is "Baa1" with stable outlook.

It is noted that on 11 March 2021, S&P Global Ratings confirmed the long-term senior preferred (unsecured) rating of the Bank at 'BBB' and upgraded its outlook from negative to stable, aligning it with that of Italy. The short-term rating was confirmed at "A-2".

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# Alternative Performance Measures

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## Introduction

Pursuant to Article 16 of Regulation 1095/2010/EU, the European Securities and Markets Authority (ESMA) has issued specific Guidelines<sup>20</sup> on the presentation criteria for Alternative Performance Measures (APMs) included by European issuers in regulated information, and therefore including the Report on operations in the Financial Statements, where such measures are not defined or provided for in the financial reporting framework. These guidelines are designed to promote the utility and transparency of APMs by confirming a shared approach to the use of such measures, with improvements to their comparability, reliability and comprehensibility and the resulting benefits for financial reporting users. Consob<sup>21</sup> has transcribed the Guidelines in Italy and incorporated them into its supervisory practices.

According to the definition provided in the ESMA Guidelines, an Alternative Performance Measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. APMs are typically based on financial statement line captions prepared in accordance with applicable financial reporting rules. What sets them apart is that APMs are not defined in the financial reporting framework, yet their use is still widespread, with the role of conveying a view of the entity's performance that is closer to the management's perspective than would be possible using only the defined measures.

Measures published in application of prudential rules, including the rules laid down in the Regulation and Directive on capital requirements (CRR/CRD IV), physical or non-financial measures and social and environmental measures do not come within the narrow definition of APMs.

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## Intesa Sanpaolo's Alternative Performance Measures

In accordance with Legislative Decree 38 of 28 February 2005, Intesa Sanpaolo prepares its financial statements in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as provided for by EC Regulation 1606 of 19 July 2002, based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy (Circular 262/2005 as amended), and disclosed in detail in Part A of the Notes to the financial statements. Intesa Sanpaolo also uses various Alternative Performance Measures (APMs) to provide a clear, concise and immediate account of operating results, financial position and financial performance, driven by the conviction that such measures provide a truthful, accurate representation of financial information and are useful metrics for investors in facilitating the understanding of financial performance and position dynamics.

However, it bears emphasising that Alternative Performance Measures are complementary to the measures defined within the IFRS framework and in no way are intended as replacements of the latter.

Intesa Sanpaolo's APMs – commonly used in banking and finance – are also used by the management in decision-making processes of both an operational and strategic nature and are presented below in accordance with the aforementioned specific Guidelines provided by ESMA, the European Securities and Markets Authority.

The measures used are thoroughly reconciled with the related measures defined in the IFRS framework through the disclosures provided in the Report on operations and reconciliation statements included in the Attachments to the Financial Statements.

The measures used include the margins of the reclassified income statement and the aggregates of the reclassified balance sheet, in addition to other measures calculated on the basis of the figures presented in the financial statements.

For each measure published, its value in the comparative is also provided, restated as appropriate to ensure a uniform comparison where such restatement is necessary and material in amount.

In the aftermath of the COVID-19 epidemic, no new measures have been added, nor have any changes been made to the measures normally used.

## Margins of the reclassified income statement and the aggregates of the reclassified balance sheet

The APMs described below relate to the margins of Intesa Sanpaolo's reclassified income statement.

*Operating income*, which includes core income and other income and expenses strictly correlated with operating activity. The margin is calculated as the sum of the following captions of the reclassified income statement:

- Net interest income
- Net fee and commission income
- Income from insurance business
- Profits (Losses) on financial assets and liabilities designated at fair value
- Other operating income (expenses)

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<sup>20</sup> Guidelines on Alternative Performance Measures (APMs) - ESMA/2015/1415en

<sup>21</sup> Consob Communication No. 0092543 of 3 December 2015

*Operating costs*, a measure that includes costs and expenses relating to the operating activity presented in the following captions of the reclassified income statement:

- Personnel expenses
- Other administrative expenses
- Adjustments to property, equipment and intangible assets

*Operating margin*, which presents the operating margin as the difference between Operating income and Operating costs, as described above.

*Gross income*, which determines the operating margin in a manner that takes account of unrealised and realised gains on loans and receivables and other assets, calculated by subtracting or adding the following captions to Operating margin:

- Net adjustments to loans
- Other net provisions and net impairment losses on other assets
- Other income (expenses)
- Income (Loss) from discontinued operations

Finally, net income or loss includes income components outside the company management (taxes, levies and expenses aimed at maintaining the stability of the banking system), components of an “accounting” nature (effects of the purchase price allocation and impairment of goodwill and other intangible assets), as well as expenses related to restructuring/reorganisation processes. The following captions of the reclassified income statement are included:

- Taxes on income
- Charges (net of tax) for integration and exit incentives
- Effect of purchase price allocation (net of tax)
- Levies and other charges concerning the banking industry (net of tax)
- Impairment (net of tax) of goodwill and other intangible assets
- Minority interests

For detailed information on the composition of the individual captions of the reclassified income statement cited above, see the specific chapter of the Report on operations on financial performance. Reconciliations of the individual captions of the reclassified income statement with the captions of the financial statements are presented in an attachment to the financial statements, as also required by Consob in its Communication 6064293 of 28 July 2006.

The following aggregates of the reclassified balance sheet, which are primarily intended to provide an overview of financial position compared to the financial statement schemes, have been identified as Alternative Performance Measures; see the specific chapter of this Report on operations for an explanation of the remaining captions of the reclassified balance sheet derived directly from the financial statements.

#### *Due from banks*

The aggregate includes the captions typical of lending business with banks.

In particular, it includes the portion of loans to banks presented among Financial assets measured at amortised cost. It also includes any portions of loans to banks presented among Financial assets held for trading, Financial assets designated at fair value, Financial assets mandatorily measured at fair value and Financial assets measured at fair value through other comprehensive income.

#### *Loans to customers*

The aggregate includes the captions typical of lending business with customers. In particular, it includes the portion of loans to customers presented among Financial assets measured at amortised cost, inclusive of the portion of loans represented by securities. It also includes portions of loans to customers presented among Financial assets held for trading, Financial assets designated at fair value, Financial assets mandatorily measured at fair value and Financial assets measured at fair value through other comprehensive income.

#### *Financial assets measured at amortised cost which do not constitute loans*

The aggregate includes portions of financial assets measured at amortised cost (banks and customers) not held for financing purposes. Essentially, these are debt securities of banks, governments, financial institutions and insurance companies.

#### *Financial assets at fair value through profit or loss*

These include Financial assets held for trading, designated at fair value and mandatorily measured at fair value, except for portions that represent loans to customers and due from banks, respectively, which are classified to the aggregates of the same names described above. The details of the aggregate are provided in the table included in the comment on balance sheet aggregates.

#### *Financial assets measured at fair value through other comprehensive income*

These include Financial assets measured at fair value through other comprehensive income, except for portions that represent loans to customers and due from banks, respectively, which are classified to the aggregates of the same names described above.

#### *Direct deposits from banking business*

The aggregate includes captions relating to funding from customers. In addition to amounts due to customers at amortised cost and securities issued, it includes funding classified to the captions Financial liabilities held for trading and Financial liabilities designated at fair value.

*Direct deposits from insurance business and technical reserves*

The aggregate, which is composed of the funding captions relating to the insurance business, includes the Financial liabilities of the insurance segment designated at fair value pursuant to IAS 39 (given the application of the deferral approach by the Group's insurance companies). Direct deposits from insurance business also include Technical reserves, which represent the amount due to customers who have purchased traditional policies or policies with significant insurance risk. Finally, it includes Subordinated liabilities pertaining to insurance companies measured at amortised cost (pursuant to IAS 39, in respect of the aforementioned application of the deferral approach).

*Indirect customer deposits*

The aggregate refers to investment and distribution activity for securities, mutual funds, portfolio management schemes and insurance carried out on behalf of third parties or in connection with the management of securities portfolios. The assets are measured at market value. Indirect customer deposits are broken down into Assets under administration (all securities under administration and custody not attributable to assets under management: government bonds, equities, third-party bonds, etc.) and Assets under management (mutual funds, portfolio management schemes, pension funds, individual pension policies, and insurance products).

*Customer financial assets*

The aggregate is the sum of Direct deposits from banking business and Direct deposits from insurance business – as defined above – net of components of Indirect customer deposits which are also included in Direct customer deposits (Financial liabilities of the insurance business and technical reserves).

For all the Alternative Performance Measures indicated above, detailed disclosures regarding the aggregates are provided in the text and tables in the Report on operations and attachments to the financial statements, together with a statement reconciling the official financial statements prescribed by the Bank of Italy with the reclassified financial statements. Where the comparative figures have been restated, a thorough reconciliation is provided in the attachments to the financial statements.

**Other Alternative Performance Measures**

Intesa Sanpaolo publishes the following measures of this latter type, conventionally represented by the APMs used in the Report on operations other than the margins of the Reclassified income statement and the aggregates of the Reclassified balance sheet.

*Profitability ratios**Cost/income ratio*

The measure is calculated as the ratio of operating costs (personnel expenses, administrative expenses and amortisation and depreciation) to the operating income presented in the Reclassified income statement and provides an overview of operating efficiency. For further information regarding the composition of the captions included in the numerator and denominator of the ratio, see the above and the attachments to the financial statements for a thorough reconciliation.

*ROE – Return On Equity*

The measure is calculated as the ratio of the net income or loss to shareholders' equity and represents the profitability generated by the shareholders' equity available. In particular:

- the net income or loss presented in the Income statement is used in the numerator; in exceptional cases only, net income or loss may be adjusted to account for any non-recurring components, which are thoroughly identified within the framework of each of the measures affected. In interim situations, net income or loss is annualised, net of any non-recurring components;
- in the denominator, period-end shareholders' equity is used, without taking account of AT1 capital instruments and the net income or loss for the period.

*ROA – Return On Assets*

The measure is calculated by comparing the net income or loss to total assets and provides an overview of the profitability of company assets. In particular:

- the net income or loss presented in the Income statement is used in the numerator; in exceptional cases only, net income or loss may be adjusted to account for any non-recurring components, which are thoroughly identified within the framework of each of the measures affected. In interim situations, net income or loss is annualised, net of any non-recurring components;
- in the denominator, period-end total assets are used.

*Price/Book value*

The measure, which reflects the value attributed by the market to the Bank, and thus indirectly to its overall assets, is calculated by comparing the market capitalisation to shareholders' equity. It is published on the basis of an historical series using data from five periods, in addition to the calculation on the basis of period-end values at the reporting date. Specifically:

- the average capitalisation for the reporting period or year is used in the numerator. Average capitalisation is calculated on the basis of the average price of the shares (annual arithmetic average of the daily closing prices of trading on Borsa Italiana), multiplied by the weighted number of shares during the period/year.

In addition to average capitalisation, the period-end value is also published; it is used to calculate the price/book value on the basis of period-end figures. Period-end capitalisation is calculated by multiplying the closing price of trading on Borsa Italiana on the final day of the period or year, multiplied by the number of shares at the end of the period or year.



- the average shareholders' equity attributable to the Group, calculated as the semi-sum of shareholders' equity at the beginning and end of the period, is used in the denominator. In addition to average shareholders' equity, the value of shareholders' equity as at the end of the period or year is also published in order to calculate the price/book value on the basis of period-end figures.

#### *Payout ratio*

This indicator is the ratio between the amount allocated for the remuneration of shareholders and the total amount of the net income produced. In particular:

- the amount of cash dividends that have been proposed or approved for distribution to the shareholders, inclusive of any amounts arising from the distribution of available reserves, is used in the numerator;
- the net income or loss presented in the Income statement is used in the denominator.

#### *Dividend Yield*

This measure refers to percentage return on the shares, calculated as the ratio between the dividend and market price. In particular:

- the amount of the dividend per share proposed/approved is used in the numerator;
- the average price of the share, calculated as the annual arithmetic average of the daily closing prices of trading on Borsa Italiana, is used in the denominator.

### **Risk ratios**

#### *Net bad loans/Loans to customers*

The measure is calculated as the ratio of bad loans to customers to total loans to customers, thus providing an overview of the loan portfolio quality. The figures are drawn from the financial statements, i.e. net of the related adjustments, and do not include loans soon to be sold that are recognised as assets held for sale. For the definition of the aggregate Loans to customers, see the above.

#### *Cumulated adjustments on bad loans/Gross bad loans to customers*

The measure is calculated as the ratio of the total amount of cumulated adjustments on Loans to customers to the amount of Bad loans to customers gross of the related cumulated adjustments, thus providing an overview of the coverage ratio for bad loans. The values do not include loans soon to be sold that are recognised as assets held for sale. For the definition of the aggregate Loans to customers, see the above.

#### *Cost of credit/Cost of risk*

The measure is calculated as the ratio of the amount of adjustments for the period in the reclassified income statement to the amount of Loans to customers at period-end, thus providing an overview of the incidence of adjustments on the portfolio. For the definition of the aggregate Loans to customers, see the above.

### **Other measures**

#### *Loan-to-deposit ratio*

The measure is calculated as the ratio of Loans to customers to the amount of Direct deposits from banking business, thus providing an overview of the liquidity level. For the definitions of the aggregates Loans to customers and Direct deposits from banking business, see the above.

## Other information

With regard to information to be included in the annual report as required by specific provisions note that:

- the list of Group companies and subsidiaries is provided in the Notes to the consolidated financial statements (Part A and Part B - Assets - Section 7), in accordance with the provisions of the Bank of Italy;
- the Notes to the consolidated financial statements also contain (Part E – Information on risks and relative hedging policies – Introduction) information concerning obligations under Art. 15 of the Consob Market Regulation 20249/2017 (as amended), with respect to subsidiaries established and regulated under the laws of non-EU countries;
- information on compensation and transactions with related parties carried out by the Bank or by the Group is provided in Part H of the Notes to the financial statements;
- information on the Corporate Governance system and the ownership structure of Intesa Sanpaolo, pursuant to Art. 123 bis of the Consolidated Law on Finance and information on the remuneration paid to Management and control bodies members, General Managers and Key Managers and on the Parent Company's shares held, as well as on the assignment of financial instruments to board members and general managers or employees pursuant to Article 123 ter of the Consolidated Law on Finance, is provided in brief in a specific chapter of this Report, in the Report on Corporate Governance and Ownership Structures, and in the Report on remuneration policy and compensation paid, published in the "Governance" section of the Bank's website at: [www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com);
- the public disclosure concerning Basel 3 Pillar 3 contained in a special separate file, is made available after its approval on the Bank's above-mentioned website;
- the country-by-country reporting as required by Article 89 of the Directive 2013/36/EU of the European Parliament and of the Council (CRD IV) is published on the Bank's above-mentioned website;
- the Consolidated non-financial statement, governed by Legislative Decree 254 of 30 December 2016 implementing Directive 2014/95/EU, is contained in a separate document, available for consultation in the "Sustainability" section of the Bank's above-mentioned website.

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## Forecast for 2021

The launch of vaccination campaigns has improved the prospects for recovery in the second half of 2021. However, the autumn and winter wave of the pandemic will adversely affect economic activity, at least in the first half of the year, particularly in Europe. From a sector perspective, trade and services will continue to be more affected than manufacturing and construction, but they should also recover quickly as restrictive measures are eased and infection rates fall. Fiscal policies will still be geared towards supporting the sectors affected by the pandemic and mitigating the negative impact on household incomes. No further monetary policy easing is expected in either the US or the Eurozone. Short-term interest rates will remain close to recent lows.

In the absence of new waves of COVID-19 infections during the year (and renewed adoption of strict lockdown measures) and with effective vaccine distribution, emerging economies are expected to recover significantly in 2021, with the IMF forecasting an overall GDP growth rate of around 6% for the emerging economies. Among the countries with Intesa Sanpaolo subsidiaries, in the CEE/SEE area, the recovery will be adversely affected, in the first half of the year, by a fall in the growth rate due to the second wave of the pandemic and, subsequently, by the effects of the crisis in 2020, in terms of job losses and cessation of production activities. On the other hand, in addition to the positive effects of overcoming the health emergency, the entire region will benefit from the launch of investment projects linked to the Next Generation EU fiscal plan.

Outside the CEE/SEE region, GDP growth is expected to pick up moderately in Russia, also thanks to the expected recovery in hydrocarbon prices, and more strongly in Egypt, driven by the launch of the impressive infrastructure projects announced by the local authorities, towards a rate of over 5% estimated by the IMF over the long term.

The economic outlook everywhere remains subject to prevailing downside risks associated with the possibility of new waves of SARS-CoV-2 infections, especially if they have a negative impact on the effectiveness of current vaccination plans.

With regard to the Italian banking system, the worsening of credit risk and the expected emergence of non-performing exposures will affect lending in 2021. For loans to businesses, after the large volumes disbursed in 2020, a slowdown in momentum is expected, especially as government liquidity and credit support measures are phased out. The outlook for mortgages is influenced by the residential real estate sector scenario, which weakened in 2020 and saw a deterioration in both short-term and medium-to-long-term forecasts. More generally, the performance of household lending is being affected by the reduction in disposable income, the fragile employment situation, together with uncertainty and the resulting precautionary savings, which are holding back spending decisions. On the other hand, interest rates are still very low and the supply from banks has not been particularly restricted for lending to households.

Customer deposits will see continued growth, particularly for the on-demand component, although gradually slowing down from the strong momentum in 2020. The preference for liquidity, risk aversion and low market yields will continue to fuel balances on current accounts. The use of the extensive refinancing offered by the ECB will reduce the medium- to long-term funding needs, to the extent that the stock of bonds is expected to decline throughout 2021. The continued inflow to current accounts and the substantial contribution from the TLTRO III operations, both in terms of negative rates and large volumes, will reduce the cost of funding. Minor haircuts may be seen on current account rates, but without falling into negative territory. As a result, interest rates on loans will still be very low, despite the foreseeable deterioration in credit risk.

In 2021, the Intesa Sanpaolo Group, including the acquisition of UBI Banca, is expected to record a net income exceeding 3.5 billion euro, with a cost of risk below 70bps.

As regards the Group's dividend policy, in addition to 694 million euro in cash dividends for 2020 to be paid out this May, in line with the 2018-2021 Business Plan it is envisaged, subject to ECB indications in respect of dividend policies after 30 September 2021 - the deadline for the recommendation of 15 December 2020:

- for the 2020 results, a cash distribution from reserves, possibly by the end of 2021, 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<sup>22</sup>,
- for the 2021 results, the payment of an amount of cash dividends corresponding to a payout ratio of 70%, to be partially distributed as interim dividend this year<sup>23</sup>.

Taking into account the Group's aforementioned dividend policy for 2020 and 2021 results, capital ratios remain strong, with a pro-forma fully loaded Common Equity Tier 1 ratio minimum at 13%<sup>24</sup> in 2021 (at 12% fully phased-in<sup>25</sup>).

Based on the current level of completion of the integration process of UBI Banca, synergies are expected to grow to over 1,000 million euro - fully implemented in 2024 and at a level above 80% in 2023 from around 700 million euro estimated when the Public Purchase and Exchange Offer was launched. Of this, over 700 million euro, from around 550 million, relates to costs and over 300 million euro, from around 150 million, to revenues.

The Board of Directors

Torino, 23 March 2021

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<sup>22</sup>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.

<sup>23</sup>Subject to approval by the ECB and the Shareholders' Meeting of the amendment to the Articles of Associations allowing the Board of Directors to pass resolution in respect of interim dividend distribution.

<sup>24</sup> Estimated by applying the fully loaded parameters, taking into account the total absorption of deferred tax assets (DTAs) related to goodwill realignment, loan adjustments, the first time adoption of IFRS 9 and the non-taxable public cash contribution of 1,285 million euro covering the integration and rationalisation charges relating to the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, as well as the expected absorption of DTAs on losses carried forward and DTAs on the acquisition of UBI Banca deriving from PPA, integration charges and the sale of the going concern to BPER Banca.

<sup>25</sup> When not taking into account the DTA absorption mentioned in note above.

**Intesa Sanpaolo Group  
Consolidated financial  
statements**

## Consolidated balance sheet

		(millions of euro)			
Assets		31.12.2020	31.12.2019	Changes amount	%
10.	Cash and cash equivalents	9,814	9,745	69	0.7
20.	Financial assets measured at fair value through profit or loss	58,246	49,414	8,832	17.9
	<i>a) financial assets held for trading</i>	53,165	45,152	8,013	17.7
	<i>b) financial assets designated at fair value</i>	3	195	-192	-98.5
	<i>c) other financial assets mandatorily measured at fair value</i>	5,078	4,067	1,011	24.9
30.	Financial assets measured at fair value through other comprehensive income	57,858	72,410	-14,552	-20.1
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	177,170	168,202	8,968	5.3
40.	Financial assets measured at amortised cost	615,260	467,815	147,445	31.5
	<i>a) due from banks</i>	110,095	49,027	61,068	
	<i>b) loans to customers</i>	505,165	418,788	86,377	20.6
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,211	612	599	97.9
50.	Hedging derivatives	1,134	3,029	-1,895	-62.6
60.	Fair value change of financial assets in hedged portfolios (+/-)	2,400	1,569	831	53.0
70.	Investments in associates and companies subject to joint control	1,996	1,240	756	61.0
80.	Technical insurance reserves reassured with third parties	93	28	65	
90.	Property and equipment	10,850	8,878	1,972	22.2
100.	Intangible assets	8,194	9,211	-1,017	-11.0
	<i>of which:</i>				
	- <i>goodwill</i>	3,154	4,055	-901	-22.2
110.	Tax assets	19,503	15,467	4,036	26.1
	<i>a) current</i>	2,326	1,716	610	35.5
	<i>b) deferred</i>	17,177	13,751	3,426	24.9
120.	Non-current assets held for sale and discontinued operations	28,702	494	28,208	
130.	Other assets	10,183	7,988	2,195	27.5
<b>Total assets</b>		<b>1,002,614</b>	<b>816,102</b>	<b>186,512</b>	<b>22.9</b>

## Consolidated balance sheet

Liabilities and Shareholders' Equity		31.12.2020	31.12.2019	(millions of euro)	
				Changes	
				amount	%
10.	Financial liabilities measured at amortised cost	630,146	519,382	110,764	21.3
	<i>a) due to banks</i>	115,947	103,324	12,623	12.2
	<i>b) due to customers</i>	422,365	331,181	91,184	27.5
	<i>c) securities issued</i>	91,834	84,877	6,957	8.2
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,935	826	1,109	
20.	Financial liabilities held for trading	59,033	45,226	13,807	30.5
30.	Financial liabilities designated at fair value	3,032	4	3,028	
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	77,207	75,935	1,272	1.7
40.	Hedging derivatives	7,088	9,288	-2,200	-23.7
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	733	527	206	39.1
60.	Tax liabilities	3,029	2,321	708	30.5
	<i>a) current</i>	284	455	-171	-37.6
	<i>b) deferred</i>	2,745	1,866	879	47.1
70.	Liabilities associated with non-current assets held for sale and discontinued operations	35,676	41	35,635	
80.	Other liabilities	14,439	12,070	2,369	19.6
90.	Employee termination indemnities	1,200	1,134	66	5.8
100.	Allowances for risks and charges	5,964	3,997	1,967	49.2
	<i>a) commitments and guarantees given</i>	626	482	144	29.9
	<i>b) post-employment benefits</i>	324	232	92	39.7
	<i>c) other allowances for risks and charges</i>	5,014	3,283	1,731	52.7
110.	Technical reserves	96,811	89,136	7,675	8.6
120.	Valuation reserves	-515	-157	358	
125.	Valuation reserves pertaining to insurance companies	809	504	305	60.5
130.	Redeemable shares	-	-	-	
140.	Equity instruments	7,441	4,103	3,338	81.4
150.	Reserves	17,461	13,279	4,182	31.5
160.	Share premium reserve	27,444	25,075	2,369	9.4
170.	Share capital	10,084	9,086	998	11.0
180.	Treasury shares (-)	-130	-104	26	25.0
190.	Minority interests (+/-)	450	247	203	82.2
200.	Net income (loss) (+/-)	3,277	4,182	-905	-21.6
<b>Total liabilities and shareholders' equity</b>		<b>1,002,614</b>	<b>816,102</b>	<b>186,512</b>	<b>22.9</b>



## Consolidated income statement

(millions of euro)

	2020	2019	Changes amount	%
10. Interest and similar income	10,183	10,193	-10	-0.1
<i>of which: interest income calculated using the effective interest rate method</i>	10,277	10,565	-288	-2.7
20. Interest and similar expense	-2,451	-3,269	-818	-25.0
<b>30. Interest margin</b>	<b>7,732</b>	<b>6,924</b>	<b>808</b>	<b>11.7</b>
40. Fee and commission income	10,312	9,658	654	6.8
50. Fee and commission expense	-2,334	-2,159	175	8.1
<b>60. Net fee and commission income</b>	<b>7,978</b>	<b>7,499</b>	<b>479</b>	<b>6.4</b>
70. Dividend and similar income	86	117	-31	-26.5
80. Profits (Losses) on trading	628	506	122	24.1
90. Fair value adjustments in hedge accounting	71	-61	132	
100. Profits (Losses) on disposal or repurchase of:	633	1,385	-752	-54.3
<i>a) financial assets measured at amortised cost</i>	-193	97	-290	
<i>b) financial assets measured at fair value through other comprehensive income</i>	870	1,218	-348	-28.6
<i>c) financial liabilities</i>	-44	70	-114	
Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	-9	123	-132	
<i>a) financial assets and liabilities designated at fair value</i>	57	-103	160	
<i>b) other financial assets mandatorily measured at fair value</i>	-66	226	-292	
Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,463	3,991	-528	-13.2
<b>120. Net interest and other banking income</b>	<b>20,582</b>	<b>20,484</b>	<b>98</b>	<b>0.5</b>
130. Net losses/recoveries for credit risks associated with:	-4,364	-2,201	2,163	98.3
<i>a) financial assets measured at amortised cost</i>	-4,356	-2,175	2,181	
<i>b) financial assets measured at fair value through other comprehensive income</i>	-8	-26	-18	-69.2
135. Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-81	-9	72	
140. Profits (Losses) on changes in contracts without derecognition	-29	-6	23	
<b>150. Net income from banking activities</b>	<b>16,108</b>	<b>18,268</b>	<b>-2,160</b>	<b>-11.8</b>
160. Net insurance premiums	10,842	10,147	695	6.8
170. Other net insurance income (expense)	-12,802	-12,673	129	1.0
<b>180. Net income from banking and insurance activities</b>	<b>14,148</b>	<b>15,742</b>	<b>-1,594</b>	<b>-10.1</b>
190. Administrative expenses:	-12,160	-9,692	2,468	25.5
<i>a) personnel expenses</i>	-7,562	-5,825	1,737	29.8
<i>b) other administrative expenses</i>	-4,598	-3,867	731	18.9
200. Net provisions for risks and charges	-793	-73	720	
<i>a) commitments and guarantees given</i>	4	23	-19	-82.6
<i>b) other net provisions</i>	-797	-96	701	
210. Net adjustments to / recoveries on property and equipment	-578	-523	55	10.5
220. Net adjustments to / recoveries on intangible assets	-818	-692	126	18.2
230. Other operating expenses (income)	3,347	774	2,573	
<b>240. Operating expenses</b>	<b>-11,002</b>	<b>-10,206</b>	<b>796</b>	<b>7.8</b>
Profits (Losses) on investments in associates and companies subject to joint control	-16	53	-69	
260. Valuation differences on property, equipment and intangible assets measured at fair value	-42	-13	29	
270. Goodwill impairment	-981	-	981	
280. Profits (Losses) on disposal of investments	101	96	5	5.2
<b>290. Income (Loss) before tax from continuing operations</b>	<b>2,208</b>	<b>5,672</b>	<b>-3,464</b>	<b>-61.1</b>
300. Taxes on income from continuing operations	-59	-1,564	-1,505	-96.2
<b>310. Income (Loss) after tax from continuing operations</b>	<b>2,149</b>	<b>4,108</b>	<b>-1,959</b>	<b>-47.7</b>
320. Income (Loss) after tax from discontinued operations	1,136	64	1,072	
<b>330. Net income (loss)</b>	<b>3,285</b>	<b>4,172</b>	<b>-887</b>	<b>-21.3</b>
340. Minority interests	-8	10	-18	
<b>350. Parent Company's net income (loss)</b>	<b>3,277</b>	<b>4,182</b>	<b>-905</b>	<b>-21.6</b>
<b>Basic EPS - Euro</b>	<b>0.18</b>	<b>0.24</b>		
<b>Diluted EPS - Euro</b>	<b>0.18</b>	<b>0.24</b>		

## Statement of consolidated comprehensive income

	2020	2019	(millions of euro)	
			Changes amount	%
<b>10. Net income (Loss)</b>	<b>3,285</b>	<b>4,172</b>	<b>-887</b>	<b>-21.3</b>
<b>Other comprehensive income (net of tax) that may not be reclassified to the income statement</b>	<b>-354</b>	<b>227</b>	<b>-581</b>	
20. Equity instruments designated at fair value through other comprehensive income	-284	-15	269	
30. Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-103	-	103	
40. Hedging of equity instruments designated at fair value through other comprehensive income	-	-	-	
50. Property and equipment	46	279	-233	-83.5
60. Intangible assets	-	-	-	
70. Defined benefit plans	-13	-37	-24	-64.9
80. Non current assets classified as held for sale	-	-	-	
90. Share of valuation reserves connected with investments carried at equity	-	-	-	
<b>Other comprehensive income (net of tax) that may be reclassified to the income statement</b>	<b>340</b>	<b>997</b>	<b>-657</b>	<b>-65.9</b>
100. Hedges of foreign investments	-	-	-	
110. Foreign exchange differences	-239	64	-303	
120. Cash flow hedges	180	-95	275	
130. Hedging instruments (not designated elements)	-	-	-	
140. Financial assets (other than equities) measured at fair value through other comprehensive income	142	549	-407	-74.1
145. Financial assets measured at fair value through other comprehensive income, pertaining to Insurance companies	273	477	-204	-42.8
150. Non-current assets held for sale and discontinued operations	-	-	-	
160. Share of valuation reserves connected with investments carried at equity	-16	2	-18	
<b>170. Total other comprehensive income (net of tax)</b>	<b>-14</b>	<b>1,224</b>	<b>-1,238</b>	
<b>180. Total comprehensive income (captions 10 + 170)</b>	<b>3,271</b>	<b>5,396</b>	<b>-2,125</b>	<b>-39.4</b>
<b>190. Total consolidated comprehensive income pertaining to minority interests</b>	<b>46</b>	<b>-35</b>	<b>81</b>	
<b>200. Total consolidated comprehensive income pertaining to the Parent Company</b>	<b>3,225</b>	<b>5,431</b>	<b>-2,206</b>	<b>-40.6</b>

## Changes in consolidated shareholders' equity as at 31 December 2020

(millions of euro)

	31.12.2020												
	Share capital		Share premium reserve	Reserves		Valuation reserves	Valuation reserves attributable to insurance companies	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity	Group shareholders' equity	Minority interests
	ordinary shares	other shares		retained earnings	other								
AMOUNTS AS AT 31.12.2019	9,455	-	25,095	12,462	779	-251	504	4,103	-104	4,172	56,215	55,968	247
Changes in opening balances	-	-	-	-	-	-	-	-	-	-	-	-	-
AMOUNTS AS AT 1.1.2020	9,455	-	25,095	12,462	779	-251	504	4,103	-104	4,172	56,215	55,968	247
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)													
Reserves	-	-	-	4,160	-	-	-	-	-	-4,160	-	-	-
Dividends and other allocations	-	-	-	-29	-	-	-	-	-	-12	-41	-12	-29
CHANGES IN THE PERIOD													
Changes in reserves	-	-	5	-	213	-	-	-	-	-	218	218	-
Operations on shareholders' equity													
Issue of new shares	999	-	2,364	-	-	-	-	-	15	-	3,378	3,378	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-41	-	-41	-41	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in equity instruments	-	-	-	-	-	-	-	3,338	-	-	3,338	3,338	-
Derivatives on treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock options	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in equity investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-213	-	-1	197	-	-	-	-	-	-	-17	-203	186
Total comprehensive income for the period	-	-	-	-	-	-319	305	-	-	3,285	3,271	3,225	46
SHAREHOLDERS' EQUITY AS AT 31.12.2020	10,241	-	27,463	16,790	992	-570	809	7,441	-130	3,285	66,321	65,871	450
- Group	10,084	-	27,444	16,469	992	-515	809	7,441	-130	3,277	65,871		
- minority interests	157	-	19	321	-	-55	-	-	-	8	450		

(a) Includes dividends and amounts allocated to the charity allowance of the Parent Company, as well as those relating to consolidated companies, pertaining to minorities.

## Changes in consolidated shareholders' equity as at 31 December 2019

	31.12.2019												(millions of euro)	
	Share capital		Share premium reserve	Reserves		Valuation reserves	Valuation reserves attributable to insurance companies	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity	Group shareholders' equity	Minority interests	
	ordinary shares	other shares		retained earnings	other									
AMOUNTS AS AT 31.12.2018	9,473	-	24,789	12,390	578	-980	9	4,103	-84	4,072	54,350	54,024	326	
Changes in opening balances	-	-	-	-	-	-	-	-	-	-	-	-	-	
AMOUNTS AS AT 1.1.2019	9,473	-	24,789	12,390	578	-980	9	4,103	-84	4,072	54,350	54,024	326	
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)														
Reserves				587						-587	-	-	-	
Dividends and other allocations				-9						-3,485	-3,494	-3,463	-31	
CHANGES IN THE PERIOD														
Changes in reserves			307	-322	199						184	184	-	
Operations on shareholders' equity														
Issue of new shares	-		-	-					17		17	17	-	
Purchase of treasury shares		-							-37		-37	-37	-	
Dividends				-							-	-	-	
Changes in equity instruments											-	-	-	
Derivatives on treasury shares											-	-	-	
Stock options											-	-	-	
Changes in equity investments											-	-	-	
Other	-18		-1	-184	2						-201	-188	-13	
<b>Total comprehensive income for the period</b>						729	495			4,172	5,396	5,431	-35	
<b>SHAREHOLDERS' EQUITY AS AT 31.12.2019</b>	<b>9,455</b>	<b>-</b>	<b>25,095</b>	<b>12,462</b>	<b>779</b>	<b>-251</b>	<b>504</b>	<b>4,103</b>	<b>-104</b>	<b>4,172</b>	<b>56,215</b>	<b>55,968</b>	<b>247</b>	
- Group	9,086	-	25,075	12,500	779	-157	504	4,103	-104	4,182	55,968			
- minority interests	369	-	20	-38	-	-94	-	-	-	-10	247			

(a) Includes dividends and amounts allocated to the charity allowance of the Parent Company, as well as those relating to consolidated companies, pertaining to minorities.

## Consolidated statement of cash flows

(millions of euro)

	2020	2019
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Cash flow from operations</b>	<b>7,210</b>	<b>9,813</b>
Net income (loss) (+/-)	3,285	4,172
Gains/losses on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit and loss (-/+)	-5,174	271
Gains/losses on financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (-/+)	-2,356	-2,711
Gains/losses on hedging activities (-/+)	-71	61
Gains/losses on hedging activities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (-/+)	-	-
Net losses/recoveries for credit risk (+/-)	4,957	2,673
Adjustments to/net recoveries on property, equipment and intangible assets (+/-)	2,377	1,215
Net provisions for risks and charges and other costs/revenues (+/-)	793	73
Net insurance premiums to be collected (-)	-	1
Other insurance revenues/charges to be collected (-/+)	3,508	5,954
Taxes, duties and tax credits to be paid/collected (+/-)	-370	-160
Net adjustments to/recoveries on discontinued operations net of tax effect (+/-)	-	-
Other adjustments (+/-)	261	-1,736
<b>2. Cash flow from / used in financial assets</b>	<b>-56,815</b>	<b>-15,270</b>
Financial assets held for trading	-5,206	-4,912
Financial assets designated at fair value	203	16
Other financial assets mandatorily measured at fair value	252	-740
Financial assets measured at fair value through other comprehensive income	28,421	-9,924
Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	-5,786	-9,426
Financial assets measured at amortised cost	-73,160	6,792
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-462	340
Other assets	-1,077	2,584
<b>3. Cash flow from / used in financial liabilities (*)</b>	<b>47,433</b>	<b>9,890</b>
Financial liabilities measured at amortised cost	29,528	3,679
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,108	7
Financial liabilities held for trading	12,769	2,403
Financial liabilities designated at fair value	2,609	-106
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	150	1,969
Other liabilities	1,269	1,938
<b>Net cash flow from (used in) operating activities</b>	<b>-2,172</b>	<b>4,433</b>
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash flow from</b>	<b>1,520</b>	<b>359</b>
Sales of investments in associates and companies subject to joint control	102	10
Dividends collected on investments in associates and companies subject to joint control	23	9
Sales of property and equipment	96	340
Sales of intangible assets	5	-
Sales of subsidiaries and business branches	1,294	-
<b>2. Cash flow used in</b>	<b>-1,877</b>	<b>-1,647</b>
Purchases of investments in associates and companies subject to joint control	-52	-182
Purchases of property and equipment	-430	-497
Purchases of intangible assets	-1,006	-968
Purchases of subsidiaries and business branches	-389	-
<b>Net cash flow from (used in) investing activities</b>	<b>-357</b>	<b>-1,288</b>
<b>C. FINANCING ACTIVITIES</b>		
Issues/purchases of treasury shares	-26	-20
Share capital increases	2,749	-234
Dividend distribution and other	-41	-3,494
Disposal/acquisition of minority interests in subsidiaries	-1	-14
<b>Net cash flow from (used in) financing activities</b>	<b>2,681</b>	<b>-3,762</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>152</b>	<b>-617</b>
<b>RECONCILIATION</b>		
<b>Financial statement captions</b>		
Cash and cash equivalents at beginning of period	9,745	10,350
Net increase (decrease) in cash and cash equivalents	153	-617
Cash and cash equivalents: foreign exchange effect	-84	12
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>9,814</b>	<b>9,745</b>

LEGEND: (+) from (-) used in

(\*) With regard to the disclosure required by par. 44 B of IAS 7, it is noted that the changes in liabilities deriving from financing activities amount to 47.4 billion euro (cash flow from financing activities) and comprise 40 billion euro in cash flows, 5.1 billion euro in fair value changes and 2.3 billion euro in other changes.

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# Part A – Accounting policies

## A.1 – GENERAL CRITERIA

### SECTION 1 – DECLARATION OF COMPLIANCE WITH IAS/IFRS

As set forth by Legislative Decree 38 of 28 February 2005, the Intesa Sanpaolo Group's consolidated financial statements have been prepared in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by EC Regulation 1606 of 19 July 2002.

The consolidated financial statements as at 31 December 2020 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Article 43 of Legislative Decree 136/2015<sup>(\*)</sup>, with Regulation of 22 December 2005, which issued Circular 262/05, and with the subsequent updates of 18 November 2009, 21 January 2014, 22 December 2014, 15 December 2015, 22 December 2017 and 30 November 2018<sup>26</sup>. These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the financial statements.

The financial statements have been prepared using the IAS/IFRS in force as at 31 December 2020 (including the SIC and IFRIC interpretation documents) as listed in the attachments to these financial statements.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which came into force in 2020.

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<sup>(\*)</sup> Art. 43 of Legislative Decree 136/2015 confirmed to the Bank of Italy the powers concerning the layouts of financial statements already previously attributed to the same Authority by Legislative Decree 38/2005.

<sup>26</sup> The provisions governing the financial statements of Banks (Circular. 262/05) were supplemented with regard to the impacts of COVID-19, measures in support of the economy and amendments to IAS/IFRS by communication from the Bank of Italy dated 15 December 2020.



## IFRS endorsed as at 31.12.2020 in force since 2020

Regulation endorsement	Title	Effective date
2075/2019	Amendments to References to the Conceptual framework in IFRS Standards (*)	01/01/2020 First financial year starting on or after 01/01/2020
2014/2019	Amendments to IAS 1 Presentation of Financial Statements - Definition of Material	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material	01/01/2020 First financial year starting on or after 01/01/2020
34/2020	Amendments to IFRS 9 Financial Instruments - Interest Rate Benchmark Reform (**)	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Interest Rate Benchmark Reform (**)	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform (**)	01/01/2020 First financial year starting on or after 01/01/2020
551/2020	Amendments to IFRS 3 Business Combinations: Definition of a business combination	01/01/2020 First financial year starting on or after 01/01/2020
1434/2020	Amendments to IFRS 16 Leasing - Leases Covid 19-Related Rent Concessions	01/06/2020 First financial year starting on or after 01/01/2020

(\*) The document amends references to Conceptual Framework in: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32.

(\*\*) Regulation n. 34/2020, approved on 15 January 2020, application of which is compulsory from 1 January 2020, with an option of early adoption that the Intesa Sanpaolo Group decided to use for Financial Statement 2019.

As may be seen from the foregoing table, some amendments to existing accounting standards, endorsed by the European Commission in 2019 and 2020, are applicable on a mandatory basis for the first time starting in 2020, but none of them is particularly significant for the Intesa Sanpaolo Group.

The specific endorsing Regulations were as follows:

- Regulation 2075/2019 of 29 November 2019, which adopted several amendments to the IFRS relating to references to the Conceptual Framework. The amendments are designed to update the references – in the various IAS/IFRS and interpretations – to the previous framework, by replacing them with the references to the framework revised in March 2018. The Conceptual Framework is not an accounting standard and is therefore not subject to endorsement, whereas this particular document was subject to endorsement because it amends some IAS/IFRS;
- Regulation 2104/2019 of 29 November 2019, which adopted several amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which clarifies the definition of material information. The materiality depends on the nature and significance of the information or both. An entity shall also verify whether an item of information, either individually or in combination with other information, is material in the overall context of the financial statements;
- Regulation 551/2020 of 21 April 2020 – Amendments to IFRS 3, which adopts the amendments introduced with the IASB publication of 22 October 2018 "Definition of a Business (Amendments to IFRS 3)", which provides clarification and further elements for analysis regarding the definition of the term "business" in the framework of business combinations. With the amendments introduced, aimed at facilitating practical application, a definition of "business" is provided, according to the meaning of "a set of activities and assets" that may be performed and managed to provide goods or services to customers and that generates investment income (such as dividends or interest) or other income from ordinary activities. It is also clarified that a business – for the purposes of application of par. 3 of IFRS 3 for the identification of a business combination – consists of factors of production and processes applied to such factors that are capable to contributing to the creation of production. The changes made also include an optional concentration test, which should help companies determine whether an acquired set of activities and assets is a business or a group of assets. The clarifications provided do not entail any changes to the practices already followed by the Intesa Sanpaolo Group with regard to the definition of a business.

With [Regulation 1434/2020](#) of 9 October 2020, the European Commission endorsed the Amendment to IFRS 16 “COVID-19-Related Rent Concessions”, published by the IASB on 28 May 2020 in order to provide a practical expedient to lessees, i.e. the option not to apply the rules of accounting for lease modifications in the event of rent concessions due to causes attributable to COVID-19.

In the current economic scenario, and given the large number of contracts affected by the relief measures provided for in the various pieces of legislation, it could be very burdensome for lessees to apply the current provisions of IFRS 16 concerning lease modification. The practical expedient, optional and temporary, applies solely to rent concessions that occur as a direct consequence of the COVID-19 pandemic and only if all the following conditions are met:

- the revised consideration is substantially equal to or less than the original consideration;
- the rent reduction refers to payments originally due by 30 June 2021 or earlier;
- no other substantial modifications have been made to the terms of the lease contract.

Lessees that apply the practical expedient are required to provide disclosure in their financial statements and interim reports:

- whether they have applied the practical expedient to all eligible rent concessions or, if not, the nature of the contracts to which they have applied the practical expedient; and
- the amount taken to the income statement during the reporting period as a result of the application of the practical expedient.

The resulting accounting entries will depend on the various types of rent concessions (for example, reduction of rent, deferral of payment of some instalments or forgiveness of rent), but in any event will entail the recognition of the benefit of the concession in the income statement.

No exemptions are provided for lessors, which are required to assess whether rent concessions constitute modifications of the lease contract and to account for them accordingly.

As provided for in Article 2 of the Regulation, the amendments are applicable from 1 June 2020 for financial years starting on or after 1 January 2020. The IASB set the date of entry into force of the amendments to IFRS 16 on 1 June 2020 and the European Commission deemed it appropriate to apply the provisions of the Regulation with retroactive effect to ensure the certainty of the law for the affected issuers and in accordance with other accounting standards.

The Intesa Sanpaolo Group does not apply this practical expedient, taking into consideration the immateriality of its impacts on the Group.

Finally, the Intesa Sanpaolo Group has exercised the option of early adoption of [Regulation \(EU\) 34/2020](#) of 15 January 2020 for the 2019 Financial Statements, which adopted the document issued by the IASB in September 2019 on “Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)”, application of which is mandatory with effect from 1 January 2020. This regulation introduced several amendments regarding hedge accounting designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform resulting in the discontinuation of existing hedges and difficulties in designating new hedging relationships.

These changes are part of the project to analyse the accounting effects of the Interest Rate Benchmark Reform or IBOR Reform. This relates to the developments concerning the revision or replacement of certain interest rate benchmarks used to set interest rates in various jurisdictions, such as LIBOR, TIBOR and, in Europe, EONIA, based on the indications from the G20 and the Financial Stability Board.

The IASB dealt with the possible accounting impacts of the IBOR Reform through a project divided into two phases: the first phase focused on the possible accounting impacts in the period prior to the replacement of the existing benchmark rates with new rates (pre-replacement issues); and the second phase of the project, which concluded with the publication in August 2020 of the document “Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IAS 16”, endorsed by Regulation 25/2021 of 13 January 2021, instead involves the analysis of the possible accounting impacts deriving from the application of the new rates and other less urgent issues (replacement issues).

Phase 1 of the project, which ended with the publication of the above-mentioned Regulation 34/2020, introduced several changes to prevent the discontinuation of existing hedges. The IASB considers that, in this scenario, the discontinuation of hedges solely due to the effect of uncertainty does not provide useful information for the users of financial statements and has therefore decided to make some temporary exceptions to the existing regulations to prevent these distortions, which can be applied until the reform of the interest rate benchmarks has been completed.

In this regard, the IASB has identified the following hedge accounting provisions that may be affected by the interest rate benchmark reform in the pre-replacement phase:

- 1) *Highly probable requirement*: IAS 39 and IFRS 9 require that forecast transactions must meet the highly probable requirement in order to be designated as the hedged item.
- 2) *Prospective and retrospective assessment of hedge effectiveness* concerning the passing of the effectiveness tests required by IFRS 9 and IAS 39 to allow the application of hedge accounting.
- 3) *Designation of risk components*: IFRS 9 and IAS 39 allow the designation of a non-contractually specified risk component when it can be separately identified and reliably measured.

For each of these provisions, the IASB has introduced a simplification, which assumes that the interest rate benchmarks used to set existing interest rates will not be changed as a result of the interbank rate reform.

The amendments are applicable on a mandatory basis from 1 January 2020, with the option of early application, which the Intesa Sanpaolo Group has exercised for the purposes of preparation of the 2019 financial statements.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which will become mandatory on 1 January 2021 – for financial statements reflecting the calendar year – or after this date, and for which Intesa Sanpaolo has not exercised the option of early adoption.

## IFRS endorsed as at 31.12.2020 applicable subsequent to 31.12.2020

Regulation endorsement	Title	Effective date
2097/2020	Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9	01/01/2021 First financial year starting on or after 01/01/2021
25/2021 (*)	Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	01/01/2021 First financial year starting on or after 01/01/2021

(\*) Regulation n. 25/2021 has been approved on 13 January 2021.

The publication of Regulation 2097/2020 of 15 December 2020 endorsed the extension of the temporary exemption from applying IFRS 9 (amendments to IFRS 4 Insurance Contracts) published by the IASB on 25 June 2020. In view of the IASB's decision to postpone the date of first-time adoption of IFRS 17 until 1 January 2023 – also taken on 25 June 2020 – the authorisation to postpone the application of IFRS 9 (the “Deferral Approach”) was also extended until 1 January 2023 in order to remedy the temporary accounting consequences of the mismatch between the date of entry into force of IFRS 9 Financial Instruments and that of the future IFRS 17 Insurance Contracts.

Finally, Regulation 25/2021 of 13 January 2021 endorsed “Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16” published by the IASB on 27 August 2020 regarding issues pertaining to phase two of the interest rate reform project.

The main amendments implemented relate to:

- Modification/derecognition

The issue concerns the accounting treatment of amendments to existing contracts to reflect the new interest rates and whether they are to be accounted for - pursuant to IFRS 9 - as a modification or a derecognition. In this regard, the legislation aims to safeguard the amendments relating to the IBOR reform:

- o it is clarified that amendments - following the IBOR reform - relating to the replacement of the existing IBOR rate with the new risk-free rate, even in the absence of amendments to the contractual conditions, do not constitute a derecognition event but are to be considered a modification from an accounting standpoint; and
- o a practical expedient is proposed allowing such amendments, applied on equivalent economic bases, to be represented with a prospective adjustment of the effective interest rate, with impacts on net interest income in future periods (and not by applying modification accounting pursuant to IFRS 9).

Similar changes regarding contract amendments were also made to IFRS 16 Leasing and IFRS 4 Insurance Contracts, in line with the provisions regarding financial instruments summarised above.

- Hedge accounting

In phase two of the project, the IASB analysed the impact on hedging relationships of amendments caused by the IBOR reform on financial instruments part of a hedging relationship and which may constitute potential new triggers for the discontinuation of the hedges, establishing several exceptions to IAS 39 (and to IFRS 9 for those who have also adopted it for hedges) that make it possible not to apply discontinuation following an update of the documentation of the hedging relationship (due to modification of the hedged risk, the hedged underlying or the hedging derivative, or of the method for verifying hedge effectiveness). Any cases of ineffectiveness must nonetheless be recognised in the income statement.

In addition, some amendments were applied with regard to the designation of separately identifiable risk components. When a hedging relationship is modified as a result of the reform or new hedging relationships are designated, an alternative interest rate designated as a non-contractually specified risk component might not meet the separately identifiable requirement since the alternative interest rate market might not be sufficiently developed on the designation date. In this regard, it has been established that an alternative interest rate meets this requirement if the entity reasonably expects that the designation will become separately identifiable within 24 months. The amendments introduced by the IASB thus aim at not discontinuing existing hedge relationships as a result of the reform. Accordingly, no impacts on the Intesa Sanpaolo Group are foreseen.

- Disclosure

Disclosure is to be further enhanced, in addition to the supplements to IFRS 7 already implemented within the framework of the phase one amendments, with the addition of qualitative and quantitative disclosure requirements to be met in the financial statements with regard to the nature and risks associated with the IBOR reform, the management of such risks and progress in the process of transitioning to the new rates.

Adoption of these amendments will be mandatory for financial statements for periods beginning on or after 1 January 2021, with the possibility of optional early adoption. Following the analyses, the Group did not deem it necessary to utilise the possibility of early application of the amendments for the 2020 financial statements.

The table below shows the new international financial reporting standards or amendments to existing standards that have not yet been endorsed by the European Commission.

## IFRS not endorsed as at 31.12.2020

Standard/ Interpretation	Title	Date of issue
IFRS 17	Insurance Contracts	18/05/2017
Standard/ Interpretation	Amendments	Date of issue
IAS 1	Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	23/01/2020
IAS 1	Presentation of Financial Statements: Classification of Liabilities as Current or Non-current - Deferral of Effective Date	15/07/2020
IFRS 3	Business Combination	14/05/2020
IAS 16	Property, Plant and Equipment	14/05/2020
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	14/05/2020
IFRS 17	Insurance Contracts	25/06/2020

In this context, given its significance, details are provided regarding IFRS 17 - Insurance Contracts, published by the IASB in May 2017 and still not yet endorsed by the European Commission.

On 25 June 2020, the IASB published the final version of "Amendments to IFRS 17 Insurance Contracts", which introduces several amendments to IFRS 17 aimed at achieving the following macro-objectives:

- reducing implementation costs relating to the adoption of the new Standard incurred by insurance companies through the introduction of several simplifications;
- rendering the financial statement results presented on the basis of the provisions of IFRS 17 more easily explicable than the original formulation of the Standard;
- postponing the first-time adoption of IFRS 17 until 1 January 2023, with the resulting extension of the IFRS 9 Deferral Approach, in order to allow insurance companies to complete project activities in due time.

Descriptions are provided below of the main elements of IFRS 17:

- initial recognition of the insurance liability: when the contract is signed with the policyholder, the insurance entity recognises a liability whose amount represents the sum of the present value of the expected contractual cash flows (discounted also taking account of an appropriate risk margin, for non-financial risks) and the contractual service margin or CSM (representing the present value of the future profits);
- subsequent measurement of the insurance liability: IFRS 17 requires the measurement at each reporting period of the above elements (cash flows and contractual service margin), to verify the consistency of the estimates with the current market conditions. The effects of any mismatches must be immediately recorded in the financial statements: in profit or loss for changes relating to events that have already occurred in the past or as a reduction of the contractual service margin when the changes relate to future events;
- grouping of contracts: the application of IFRS 17 involves the identification of "portfolios" of insurance contracts (units of account, or groups of contracts that are subject to similar risks and managed together) broken down into groups composed of contracts signed by policyholders in the same years (cohorts, or annual generations of insurance contracts) and similar characteristics of expected profitability. In this regard, the standard establishes clear separations (also in terms of disclosure) between the contracts defined as "onerous"<sup>27</sup> and the remaining contracts;
- measurement of the insurance revenue: IFRS 17 requires the presentation in profit or loss of the earnings "by margins" achieved during the life of the policies, i.e. when the entity actually earns the profits estimated with respect to the exposure of the insurance premiums received by the insurance company;
- measurement of the performance: with a view to improving (and harmonising) the disclosure of the performance of the insurance companies, a distinct and separate presentation is required of the two main components that typically contribute to making up the earnings of insurance undertakings: the first, which represents the profit from the "coverage" provided (the "technical margin") and the second, which brings together all the financial components (results of investments, effects of financial variables used in the valuations of the contracts, etc.);
- contract modifications: following contract modifications (agreed between the parties or due to regulatory changes) whose presence at inception would have resulted in the exclusion of the contract from the insurance area, IFRS 17 requires the derecognition and accompanying recognition of a new entry, measured according to the accounting standards that refer to it;
- approach for contracts with direct participation features: a specific approach is established for contracts that give the policyholders direct participation in the results of (some) assets held by the insurance company, according to which the entities have the option of recognising those changes in liabilities (due to variations in the yields of the hedging assets, and therefore essentially related to the variable component of revenue) in other comprehensive income.

<sup>27</sup> Contracts where the costs on exit are greater than the estimated benefits.

IFRS 17 therefore introduces new criteria for determining the earnings of insurance companies, also with a view to achieving better comparability of the financial disclosure produced by the competitors in the sector. These new criteria will lead to potential impacts in the design of new insurance products, as well as their pricing, and to new risk management approaches in relation to asset and liability management. The financial disclosure will see the introduction of new key performance indicators based on product margins compared to the current collected premiums used as a reference at both national and international level.

Lastly, the insurance companies will need to design a new target operational model that will enable the management of the new earnings measurements established by the standard, with significant investments both in terms of internal processes and information technology.

With regard to the endorsement process for IFRS 17, in September 2020 the EFRAG published the draft of its “Endorsement Advice” in which it expresses a positive opinion of endorsement of the Standard, with the exception of the annual cohort requirement, with regard to which the Board did not arrive at a common position. The draft advice is subject to consultation for four months prior to transmission to the ARC (Accounting Regulatory Committee) and the European Commission for a vote in Parliament (expected, indicatively, for March 2021).

According to this annual cohort criterion, contracts may be aggregated into groups for the purposes of recognition and measurement in the financial statements, but each group cannot include contracts issued at intervals of more than one year from one another. In fact, this aspect is not contemplated by the amendments introduced by the IASB in June 2020 and is the main critical point of the new Standard. In this regard, in response to the observations made by the insurance companies, the EFRAG emphasised that this accounting technique appears particularly burdensome for companies. In addition, a study conducted by the EFRAG purportedly indicates that the application of this accounting rule does not provide useful information to analysts.

The Intesa Sanpaolo Group and Intesa Sanpaolo Vita, in particular, took an active part in the issue of the annual cohorts, participating in various initiatives at national and European level.

The project to implement IFRS 17 in the companies of the Insurance Division began in June 2019 and is divided into several streams:

- definition of the methodological framework: the key topics have been identified, corresponding to the related methods (defined in the Technical Papers) in terms of product classification, determination of future cash flows and calculation of the “contractual service margin” or CSM;
- evolution of information systems: the migration to the new SAP accounting system was completed in 2020. Analysis, preparation of business requirements and implementation are in progress, aimed at including the part of the processes relating to the calculation of the forward-looking measures introduced by IFRS 17 (mainly cash flow, risk adjustment and CSM) into the accounting and financial reporting process. The analyses for the establishment of the new technical accounting system in all the insurance companies are underway;
- development of training activities for the entire duration of the project allocated across the technical and operational areas and top management;
- changes to processes and internal procedures: design work began on the new processes that are to be established in view of IFRS 17 and identification of the corporate functions involved.

In order to assess the impacts on financial position upon FTA and the impacts on financial performance and representation of the results in each period, the Insurance Division is conducting preliminary/sensitivity simulations (financial impact assessments or “FIAs”) with quarterly frequency. Each quarter a higher degree of complexity and adherence to the new Standard is achieved, so as to be able to assess the impact of the methodological choices being consolidated. The results of the simulations cannot currently be considered predictive of the effects that will result on the income statement and equity, since they do not include methodological decisions that remain to be evaluated at the project level and possible management actions to be taken prior to FTA.

In addition, analyses have been launched for the extension of the project activities to the new insurance companies that became a part of the Insurance Division during financial year 2020 (RBM Salute and former UBI insurance companies).

Among the documents pending endorsement, mention should also be made of the following amendments to accounting standards published during the year:

- Amendments to IAS 1 “Classification of Liabilities as Current or Non-Current”, published on 23 January 2020 to propose certain narrow-scope amendments to IAS 1 Presentation of Financial Statements in order to clarify how to classify payables and other liabilities as current or non-current. The proposal in question clarifies - without amending - the current requirements of IAS 1; the clarifications aim to promote consistency in applying IAS 1 across companies to determine whether, in the statement of financial position, payables and other liabilities with an uncertain settlement date are to be classified as current (due or potentially to be paid within one year) or non-current. A subsequent publication dated 15 July 2020 postponed the date of entry into force of the amendments by one year, until 1 January 2023 instead of 2022, without introducing additional amendments;
- Narrow-scope amendments to IFRS Standards (Amendments to IFRS 3 Business combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, Annual Improvements 2018-2020), published on 14 May 2020 and which introduce a series of less significant amendments to several IFRS Standards:
  - o Onerous contracts – cost of fulfilling a contract – Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: it is clarified that to assess whether a contract is onerous, all directly related costs, rather than marginal costs only, must be included in the estimate (*i.e. directly related cost approach*). Accordingly, the assessment of whether a contract is onerous includes not only the incremental costs (for example, the cost of the direct materials used in processing), but also all costs that the entity cannot avoid as a consequence of stipulating the contract (for example, the portion of personnel expenses and depreciation of the machinery employed to fulfil the contract);
  - o Property, Plant, Equipment: Proceeds before Intended Use – Amendment to IAS 16: introduces a prohibition on deducting the amounts received from the sale of articles produced while the company was preparing the asset for



the intended use from the cost of property, plant and equipment. The company must recognise such proceeds from sales and the related costs in the income statement;

- o Reference to Conceptual Framework – Amendments to IFRS 3 Business Combination: the reference to the new version of the 2018 Conceptual Framework was updated and an exception added to the requirements for recognising contingent liabilities pursuant to IFRS 3, in order to avoid modifications to pre-existing accounting methods. In addition, the prohibition on recognising contingent assets (i.e., assets whose existence will only be confirmed by uncertain future events) in business combinations was explicitly stated (previously, this prohibition was explicitly stated only in the Basis for Conclusion).

The set of amendments issued by the IASB also contains the customary annual improvements, the Annual Improvements to IFRS Standards 2018-2020, which clarify the formulation or correct errors, oversights or conflicts between the requirements of the Standards. These minor amendments apply limited modifications to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments and IFRS 16 Leasing.

All of the proposed amendments are set to apply with effect from 1 January 2022.

## SECTION 2 – GENERAL PREPARATION PRINCIPLES

The Consolidated financial statements are made up of the Balance sheet, the Income statement, the Statement of comprehensive income, the Changes in shareholders' equity, the Statement of cash flows, the Notes to the consolidated financial statements and the related comparative information; the Report on operations prepared by the Directors, on the economic results achieved and on the Intesa Sanpaolo Group's balance sheet and financial position has also been included. In compliance with the provisions of Article 5 of Legislative Decree 38/2005, the financial statements have been drawn up in euro as functional currency.

The amounts indicated in the Consolidated financial statements and in the Notes to the consolidated financial statements as well as those in the Report on operations are expressed in millions of euro, unless otherwise specified.

The financial statements are prepared with the application of the general principles set out by IAS 1 and the specific financial reporting standards endorsed by the European Commission and illustrated in Part A.2 of these Notes to the consolidated financial statements, as well as in compliance with the general assumptions set forth by the Conceptual Framework for the preparation and presentation of Financial Statements issued by IASB.

No exceptions to the application of IAS/IFRS have been made.

The Report on operations and the Notes to the consolidated financial statements contain all information required by the IAS/IFRS, by current regulations, by the Bank of Italy and by Consob (Italian Securities and Exchange Commission), in addition to other information which is not compulsory but is nonetheless deemed to be necessary in order to give a true and fair presentation of the Group's situation. In addition, account was taken of documents providing interpretation and support with the application of accounting standards in relation to the impacts of COVID-19 issued by European regulatory and supervisory authorities and the standard-setters illustrated in further detail in Section 5 – Other Aspects below.

The balance sheets and the related details in the notes present, in accordance with IFRS 5, among components related to discontinued operations, in addition to several real properties, the assets and liabilities relating to the Custodian Bank and Fund Administration business line, which will be sold in 2021 by Fideuram Bank Luxembourg, the bad loans and UTP portfolios subject to sale in 2021 and assets and liabilities relating to the branches subject to sale to BPER and third parties within the framework of the UBI Banca acquisition.

The financial statement forms and the Notes to the consolidated financial statements show, in addition to the figures for the reference period, the comparative figures as at 31 December 2019. With reference to the UBI Group entering the scope of consolidation in August, it is noted that, in line with the provisions of Circular 262 of the Bank of Italy, the balance sheet, income statement and statement of comprehensive income accounts, as well as the tables of the notes to the financial statements referring to the previous year were not restated to include the amounts of the UBI Group, and, therefore, are not readily comparable.

The Attachments include the reconciliation statements to the balance sheet and income statement originally published in the 2019 financial statements, together with specific reconciliations between the 2019 financial statements and the reclassified statements included in the Report on operations accompanying these financial statements.

### Contents of financial statement forms

#### Balance sheet and income statement

The compulsory forms of the balance sheet and income statement are made up of captions, subcaptions and further detailed information (specified as the "of which" items in the captions and subcaptions).

Following the Group's decision to exercise the option of adopting the Deferral Approach, provided for by IFRS 9 "Financial Instruments" also for banking-led financial conglomerates, under which the financial assets and liabilities of subsidiary insurance companies continue to be recognised in the financial statements in accordance with IAS 39, specific balance sheet and income statement captions have been added to the consolidated financial statement layouts established in Circular 262 to present the valuation of assets and liabilities pertaining to insurance companies and the related profit or loss effects measured in accordance with IAS 39.

For completeness, it should be noted that with regard to the compulsory forms defined by the Bank of Italy, captions which do not have amounts for the reporting year and the previous year have also been shown. In the income statement revenues are indicated without sign, whereas costs are preceded by the minus sign.



#### Statement of comprehensive income

The statement of comprehensive income shows, starting from the net income/(loss) for the year, the income components recognised as a balancing entry in valuation reserves, net of the tax effect, in compliance with international financial reporting standards.

Consolidated comprehensive income is represented by providing separate recognition of the income components that will not be reversed to the income statement in the future and those which, conversely, could later be reclassified to income/(loss) for the year under specific conditions. The statement also distinguishes between the portion of income pertaining to the Parent Company and that pertaining to minority interests. Similarly to the balance sheet and the income statement, with respect to the compulsory forms defined by the Bank of Italy, captions which do not present amounts for the reporting year and the previous year are in any case included. Negative amounts are preceded by the minus sign.

#### Changes in shareholders' equity

The statement of changes in shareholders' equity presents shareholders' equity accounts and changes which occurred in the reference year and in the previous year, broken down in share capital, reserves, reserves from retained earnings, valuation reserves and net income. Treasury shares are deducted from shareholders' equity. The table is presented by inverting the rows and the columns with respect to the same form provided for by the updating of Bank of Italy Circular 262/2005.

#### Statement of cash flows

The statement of cash flows registered in the reference year and in the previous year is prepared using the indirect method, on the basis of which cash flows from operating activities are represented by net income adjusted for the effects of non-cash transactions.

Cash flows are broken down into flows from operating activities, from investing activities and from financing activities.

In the form, cash flows generated in the year are indicated without sign, whereas cash flows absorbed are preceded by the minus sign.

#### Contents of the Notes to the consolidated financial statements

The Notes to the consolidated financial statements include the information provided for by International Financial Reporting Standards and Circular 262 issued by the Bank of Italy on 22 December 2005 and subsequently amended, applicable for the preparation of these financial statements.

As already mentioned in relation to the financial statements, as a result of the application of the Deferral Approach by the Group's insurance companies, the disclosures in the explanatory notes envisaged by Circular 262 have been supplemented with the tables required by the previous 4th update of Circular 262 to present the information required by IAS 39.

## SECTION 3 – SCOPE OF CONSOLIDATION AND CONSOLIDATION METHODS

### Scope of consolidation

The Consolidated financial statements include Intesa Sanpaolo and the companies that it directly and indirectly controls and consider in the scope of consolidation – as specifically set out by IAS/IFRS – also the companies operating in dissimilar sectors from the Parent Company as well as private equity investments. Similarly, structured entities are included when the requisite of effective control recurs, even if there is no stake in the company.

Companies are considered subsidiaries where Intesa Sanpaolo is exposed to, or has rights to, variable returns from its involvement with them, and has the ability to affect those returns by exercising its own power over the entity in question.

Control only exists if all of the following conditions are met:

- the power to direct the relevant activities of the subsidiary;
- the exposure, or rights, to variable returns from the involvement with the investee;
- the ability to use the power over the investee to affect the amount of the investor's returns.

Companies are considered as subject to joint control if control is directly or indirectly contractually shared by the Parent Company with one or more other parties external to the Group, or where the decisions about the relevant activities require the unanimous consent of all the parties sharing control.

Companies are considered associates, that is subject to significant influence, when Intesa Sanpaolo, directly or indirectly, holds 20% or more of the voting rights (including "potential" voting rights) or when the Parent Company – despite a lower percentage of voting rights due to specific legal agreements such as the participation of voting syndicates – has the power of participating in the determination of the financial and operating policies of the company.

Certain companies in which the Parent Company holds an equity stake exceeding 20% of voting share capital, and in any case of limited absolute amount, are excluded from the scope of consolidation and are classified based on the provisions of IFRS 9, since Intesa Sanpaolo, directly or indirectly, exclusively holds rights on a portion of the rewards of the investment, does not have access to management policies and may exercise limited governance rights to safeguard its economic interests.

Equity investments held, directly or through funds, in companies involved in the venture capital business are also excluded from the line-by-line scope of consolidation. These equity investments are included in the category of Financial assets measured at fair value through profit or loss.

Companies for which the shares have been received as pledges with voting rights exceeding 20% are not consolidated, in consideration of the substance underlying the pledge, which has the purpose of guaranteeing loans and not of exercising control and direction over financial and economic policies in order to benefit from the economic return on the shares.

Intesa Sanpaolo does not perform management and coordination activity over Risanamento S.p.A. and its subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.

With regard to the changes in the scope of consolidation that occurred in 2020, the most important additions related to, in addition to RBM Assicurazione Salute (subsequently renamed Intesa Sanpaolo RBM Salute), UBI Banca and its subsidiaries:

- Fondo Immobiliare Porta Nuova Gioia;
- BancAssurance Popolari;
- BPB Immobiliare;
- IW Bank;
- KEDOMUS;
- Prestitalia;
- UBI Factor;
- UBI Leasing;
- UBI Sicura (renamed Intesa Sanpaolo Insurance Agency);
- UBI Sistemi e Servizi;
- Pramerica SGR;
- UBI Finance CB 2;
- UBI Finance;
- Pramerica Management Company.

Intesa Sanpaolo (Qingdao) Service Company Limited and, at year-end, Intesa Sanpaolo Forvalue, Intesa Sanpaolo Rent ForYou and Intesa Sanpaolo Value Services were also included.

The most important company that was eliminated was Autostrade Lombarde, the sale of which was closed in October. In the interest of completeness, it should also be noted that Trade Receivables Investment Vehicle, Morval Vonwiller Asset Management and Cib Factor Financial Service LTD under voluntary liquidation were also deconsolidated due to sale. With regard to entities under common control – and thus without any impact at the consolidated level – Banca IMI (merged into the Parent Company), Neva Finventures (merged into Intesa Sanpaolo Innovation Center), PBZ Nekretnine D.O.O. (merged into PBZ Card D.O.O. within the framework of the PBZ group) and, within the Risanamento Group, Etoile Actualis S.a.r.l. (merged into Etoile Francois Premier S.a.r.l.) also are no longer included in the scope of line-by-line consolidation.

The following table lists the investments in exclusively controlled companies at 31 December 2020.

### 1. Exclusively controlled companies

Companies	Place of business	Registered office	Type of relationship (a)	INVESTMENT		Votes available (b)
				Direct ownership	% held	
1 Banca 5 S.p.A. Capital 30,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
2 Banca Comerciala Eximbank S.A. Capital MDL 1,250,000,000	Chişinău	Chişinău	1	Intesa Sanpaolo	100.00	
3 Banca Intesa AD Beograd Capital RSD 21,315,900,000	Novi Beograd	Beograd	1	Intesa Sanpaolo Holding International	100.00	
4 BancAssurance Popolari S.p.A. Capital 61,080,900 euro	Milano	Milano	1	Unione Banche Italiane	100.00	
5 Bank of Alexandria Capital EGP 800,000,000	Cairo	Cairo	1	Intesa Sanpaolo	80.00	
6 Banka Intesa Sanpaolo d.d. (d) Capital 22,173,218 euro	Koper	Koper	1	Intesa Sanpaolo Privredna Banka Zagreb d.d.	48.13 51.00	
7 BPB Immobiliare S.r.l. Capital 185,680,000 euro	Bergamo	Bergamo	1	Unione Banche Italiane	99.13 100.00	
8 Cib Bank Ltd Capital HUF 50,000,000,003	Budapest	Budapest	1	Intesa Sanpaolo	100.00	
9 CIB Insurance Broker Ltd Capital HUF 10,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
10 CIB Investment Fund Management Ltd Capital HUF 600,000,000	Budapest	Budapest	1	Eurizon Asset Management Slovakia Sprav. Spol. A.S.	100.00	
11 CIB Leasing Ltd Capital HUF 53,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
12 CIB Rent Operative Leasing Ltd Capital HUF 5,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
13 Compagnia Italiana Finanziaria - CIF S.r.l. Capital 10,000 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	61.45	
14 Consorzio Studi e ricerche fiscali Gruppo Intesasanpaolo (i) Capital 258,228 euro	Roma	Roma	1	Fideuram IntesaSanpaolo Private Banking Eurizon Capital SGR Intesa Sanpaolo vita Intesa Sanpaolo	7.50 5.00 7.50 80.00	
15 Duomo Funding Plc (e)	Dublin	Dublin	2	Intesa Sanpaolo	-	
16 Epsilon SGR S.p.A. Capital 5,200,000 euro	Milano	Milano	1	Eurizon Capital SGR	100.00	
17 Etoile François Premier S.a.r.l (c) Capital 5,000 euro	Paris	Paris	1	Risanamento Europa	100.00	
18 Eurizon Asset Management Slovakia Sprav. Spol. A.S. Capital 4,093,560 euro	Bratislava	Bratislava	1	Eurizon Capital	100.00	
19 Eurizon Asia Capital limited (formerly Eurizon Capital (HK) limited) (h) Capital HKD 58,000,000	Hong Kong	West Kowloon	1	Eurizon Capital SGR	100.00	
20 Eurizon Capital Real Asset SGR S.p.a.(h) Capital 2,500,000 euro	Milano	Milano	1	Eurizon Capital SGR Intesa Sanpaolo vita	51.00 49.00	
21 Eurizon Capital S.A. Capital 7,557,200 euro	Luxembourg	Luxembourg	1	Eurizon Capital SGR	100.00	
22 Eurizon Capital SGR S.p.A. Capital 99,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
23 Eurizon Sij Capital Ltd Capital GBP 1,001,000	London	London	1	Eurizon Capital SGR	65.00	
24 Exelia S.r.l.(h) Capital RON 8,252,600	Brasov	Brasov	1	Intesa Sanpaolo Holding International	100.00	
25 Exetra S.p.a.(h) Capital 158,000 euro	Milano	Milano	1	Intesa Sanpaolo	85.00	

Companies	Place of business	Registered office	Type of relationship (a)	INVESTMENT		Votes available (b)
				Direct ownership	% held	
26 Fideuram - Intesa Sanpaolo Private Banking S.p.A. Capital 300,000,000 euro	Roma	Torino	1	Intesa Sanpaolo	100.00	
27 Fideuram Asset Management (Ireland) DAC (formerly Fideuram Asset Management (Ireland) Ltd) Capital 1,000,000 euro	Dublin	Dublin	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
28 Fideuram Bank (Luxembourg) S.A. Capital 40,000,000 euro	Luxembourg	Luxembourg	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
29 Fideuram Investimenti S.G.R. S.p.A. Capital 25,850,000 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	99.50	
30 Fideuram Vita S.p.A. Capital 357,446,836 euro	Roma	Roma	1	Intesa Sanpaolo Fideuram - Intesa Sanpaolo Private Banking	80.01 19.99	
31 Financière Fideuram S.A. Capital 346,761,600 euro	Paris	Paris	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
32 IMI Capital Markets USA Corp. Capital USD 5,000	New York	New York	1	IMI Investments	100.00	
33 IMI Finance Luxemburg S.A. (h) Capital 100,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International S.A.	100.00	
34 IMI Investments S.A. Capital 21,660,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
35 IMMIT - Immobili Italiani S.r.l. (h) Capital 100,000 euro	Torino	Torino	1	Intesa Sanpaolo	100.00	
36 Immobiliare Cascina Rubina S.r.l.(c) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
37 IN.FRA - Investire nelle Infrastrutture S.r.l. Capital 10,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
38 Iniziative Logistiche S.r.l. Capital 10,000 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	60.02	
39 Intesa Invest AD Beograd (h) Capital RSD 236,975,800	Beograd	Beograd	1	Banca Intesa AD Beograd	100.00	
40 Intesa Leasing (Closed Joint-Stock Company) Capital RUB 3,000,000	Moscow	Moscow	1	Banca Intesa Joint-Stock Company	100.00	
41 Intesa Leasing d.o.o. Beograd Capital RSD 960,374,301	Beograd	Beograd	1	Banca Intesa Beograd	100.00	
42 Intesa Sanpaolo (Qingdao) Service Company Limited Capital CNY 60,000,000	Qingdao	Qingdao	1	Intesa Sanpaolo	100.00	
43 Intesa Sanpaolo Agents4you S.p.A. (h) Capital 120,000 euro	Torino	Torino	1	Intesa Sanpaolo	100.00	
44 Intesa Sanpaolo Assicura S.p.A. Capital 27,912,258 euro	Torino	Torino	1	Intesa Sanpaolo Vita	100.00	
45 Intesa Sanpaolo Bank Albania Sh.A. Capital ALL 5,562,517,674	Tirana	Tirana	1	Intesa Sanpaolo	100.00	
46 Intesa Sanpaolo Bank Ireland Plc Capital 400,500,000 euro	Dublin	Dublin	1	Intesa Sanpaolo	100.00	
47 Intesa Sanpaolo Bank Luxembourg S.A. Capital 1,389,370,555 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
48 Intesa Sanpaolo Banka d.d. Bosna I Hercegovina Capital BAM 44,782,000	Sarajevo	Sarajevo	1	Privredna Banka Zagreb	99.99	100.00
49 Intesa Sanpaolo Brasil S.A. - Banco Multiplo Capital BRL 334,114,545	Sao Paulo	Sao Paulo	1	Intesa Sanpaolo Intesa Sanpaolo Holding International	99.90 0.10	
50 Intesa Sanpaolo Casa S.p.a.(h) Capital 1,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
51 Intesa Sanpaolo Expo Institutional Contact S.r.l (h) Capital 50,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
52 Intesa Sanpaolo Formazione società consortile per azioni (h) Capital 174.600 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	

Companies	Place of business	Registered office	Type of relationship (a)	INVESTMENT		Votes available (b)
				Direct ownership	% held	
53 Intesa Sanpaolo Forvalue S.p.a. Capital 2,000,000 euro	Milano	Torino	1	Intesa Sanpaolo	100.00	
54 Intesa Sanpaolo Funding LLC (formerly Intesa Funding LLC) Capital USD 25,000	New York	Wilmington	1	Intesa Sanpaolo	100.00	
55 Intesa Sanpaolo Harbourmaster III S.A. Capital 5,500,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
56 Intesa Sanpaolo Highline S.r.l. (h) Capital 500,000 euro	Torino	Torino	1	Intesa Sanpaolo	100.00	
57 Intesa Sanpaolo Holding International S.A. Capital 2,157,957,270 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
58 Intesa Sanpaolo Imi Securities Corp Capital USD 44,500,000	New York	New York	1	Imi Capital Market Usa Corp	100.00	
59 Intesa Sanpaolo Innovation Center S.c.p.a. Capital 9,254,940 euro	Torino	Torino	1	Intesa Sanpaolo Intesa Sanpaolo Vita	99.99 0.01	
60 Intesa Sanpaolo Insurance Agency S.p.a. Capital 200,000 euro	Milano	Milano	1	Unione Banche Italiane	100.00	
61 Intesa Sanpaolo International Value Services LTD Capital HRK 100.000	Zagreb	Zagreb	1	Intesa Sanpaolo Holding International	100.00	
62 Intesa Sanpaolo Life Designed activity company (formerly Intesa Sanpaolo Life Ltd) Capital 625,000 euro	Dublin	Dublin	1	Intesa Sanpaolo Vita	100.00	
63 Intesa Sanpaolo Private Argentina S.A. (h) Capital ARS 13,404,506	Buenos Aires	Buenos Aires	1	Fideuram IntesaSanpaolo Private Banking Intesa Sanpaolo Private Bank (Suisse) Morval S.A.	4.97 95.03	100.00
64 Intesa Sanpaolo Private Bank (Suisse) Morval S.A. (f) Capital CHF 22,217,000	Geneva	Geneva	1	Fideuram - Intesa Sanpaolo Private Banking	96.91	
65 Intesa Sanpaolo Private Banking S.p.A. Capital 105,497,424 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
66 Intesa Sanpaolo Private Monaco S.A.(h) Capital 1,200,000 euro	Monaco	Monaco	1	Intesa Sanpaolo Private Bank (Suisse) Morval S.A.	100.00	
67 Intesa Sanpaolo Provis S.p.A. Capital 6,425,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
68 Intesa Sanpaolo RBM Salute S.P.A. (i) Capital 160,000,000 euro	Preganziol	Venezia	1	Intesa Sanpaolo Vita	50.00	
69 Intesa Sanpaolo RE.O.CO. S.p.A. Capital 13,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
70 Intesa Sanpaolo Rent FORYOU S.P.A. (l) Capital 630,000 euro	Torino	Torino	1	Intesa Sanpaolo Forvalue	60.00	
71 Intesa Sanpaolo Romania S.A. Commercial Bank Capital RON 1,156,639,410	Bucharest	Bucharest	1	Intesa Sanpaolo Intesa Sanpaolo Holding International	99.73 0.27	100.00
72 Intesa Sanpaolo Servicos e empreendimentos LTDA EM Liquidacao (h) Capital BRL 3,283,320	Sao Paulo	Sao Paulo	1	Intesa Sanpaolo	100.00	
73 Intesa Sanpaolo Servitia S.A. Capital 1,500,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
74 Intesa Sanpaolo Smart Care S.r.l. Capital 1,633,000 euro	Torino	Torino	1	Intesa Sanpaolo Intesa Sanpaolo Vita	51.01 48.99	100.00
75 Intesa Sanpaolo Vita S.p.A. Capital 320,422,509 euro	Milano	Torino	1	Intesa Sanpaolo	99.99	
76 ISP CB Ipotecario S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
77 ISP CB Pubbico S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
78 ISP OBG S.r.l. Capital 42,038 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
79 IW BANK S.P.A. Capital 67,950,000 euro	Milano	Milano	1	Unione Banche Italiane	100.00	

Companies	Place of business	Registered office	Type of relationship (a)	INVESTMENT		Votes available (b)
				Direct ownership	% held	
80 Joint-Stock Company Banca Intesa Capital RUB 10,820,180,800	Moscow	Moscow	1	Intesa Sanpaolo Holding International Intesa Sanpaolo	53.02 <u>46.98</u>	100.00
81 Kedomus S.r.l. Capital 300,000 euro	Brescia	Brescia	1	Unione Banche Italiane	100.00	100.00
82 Lux Gest Asset Management S.A. Capital 200,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Bank Luxembourg	100.00	100.00
83 Mecenate S.R.L. in liquidazione (h) Capital 10,000 euro	Arezzo	Arezzo	1	Unione Banche Italiane	95.00	100.00
84 Milano Santa Giulia S.p.A. (c) Capital 139,041 euro	Milano	Milano	1	Risanamento	100.00	100.00
85 Morval Bank & Trust Cayman Ltd Capital 7,850,000 euro	George Town	George Town	1	Intesa Sanpaolo Private Bank (Suisse) Morval	100.00	100.00
86 Morval Vonwiller Advisors S.A. (h) Capital UYU 495,000	Montevideo	Montevideo	1	Intesa Sanpaolo Private Bank (Suisse) Morval	100.00	100.00
87 MSG Comparto Quarto S.r.l. (c) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	100.00
88 MSG Comparto Secondo S.r.l. (c) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	100.00
89 MSG Comparto Terzo S.r.l. (c) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	100.00
90 Neva S.G.R S.p.A. (formerly Imi Fondi Chiusi S.p.a.) (h) Capital 2,000,000 euro	Torino	Bologna	1	Intesa Sanpaolo Innovation Center	100.00	100.00
91 OOO Intesa Realty Russia (h) Capital RUB 10,000	Moscow	Moscow	1	Intesa Sanpaolo	100.00	100.00
92 Oro Italia Trading S.P.A. in liquidation (h) Capital 500,000 euro	Arezzo	Arezzo	1	Unione Banche Italiane	100.00	100.00
93 PBZ Card d.o.o. Capital HRK 43,422,200	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	100.00
94 PBZ Invest d.o.o. Capital HRK 5,000,000	Zagreb	Zagreb	1	Eurizon Asset Management Slovakia Sprav. Spol. A.S.	100.00	100.00
95 PBZ Leasing d.o.o. Capital HRK 15,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	100.00
96 PBZ Stambena Stedionica d.d. Capital HRK 115,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	100.00
97 Porta Nuova Gioia Capital 500,000 euro	Milano	Milano	1	Unione Banche Italiane	100.00	100.00
98 Pramerica Management Company S.A. Capital 125,000 euro	Luxembourg	Luxembourg	1	Pramerica SGR	100.00	100.00
99 Pramerica SGR S.p.A. Capital 19,955,465 euro	Bergamo	Bergamo	1	Unione Banche Italiane	65.00	100.00
100 Pravex Bank Public Joint-Stock Company Capital UAH 979,089,724	Kiev	Kiev	1	Intesa Sanpaolo	100.00	100.00
101 Prestitalia S.p.A. Capital 205,722,715 euro	Bergamo	Bergamo	1	Unione Banche Italiane	100.00	100.00
102 Private Equity International S.A. (g) Capital 107,000,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	94.39	100.00
103 Privredna Banka Zagreb d.d. Capital HRK 1,907,476,900	Zagreb	Zagreb	1	Intesa Sanpaolo Holding International	97.47	100.00
104 Qingdao Yicai Fund Distribution Co. Ltd. Capital CNY 371,000,000	Qingdao	Qingdao	1	Intesa Sanpaolo	100.00	100.00
105 Recovery Property Utilisation and Services ZRT. Capital HUF 20,000,000	Budapest	Budapest	1	Cib Bank	100.00	100.00
106 Ri. Rental S.r.l. (c) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	100.00
107 Risanamento Europa S.r.l. (c) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	100.00



Companies	Place of business	Registered office	Type of relationship (a)	INVESTMENT		Votes available (b)
				Direct ownership	% held	
108 Risanamento S.p.A. (c) Capital 197,951,784 euro	Milano	Milano	1	Intesa Sanpaolo	48.88	
109 Romulus Funding Corporation (e)	New York	New York	2	Intesa Sanpaolo	-	
110 Sanpaolo Invest SIM S.p.A. Capital 15,264,760 euro	Roma	Torino	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
111 Società Benefit Cimarosa 1 S.p.a. (h) Capital 100,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
112 Società Italiana di Revisione e Fiduciaria – S.I.R.E.F. S.p.A. Capital 2,600,000 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
113 Southern Group Limited (h) Capital USD 50,000	George Town	George Town	1	Intesa Sanpaolo Private Bank (Suisse) Morval S.A.	100.00	
114 SRM Studi e Ricerche per il Mezzogiorno (h) Capital 90,000 euro	Napoli	Napoli	1	Intesa Sanpaolo	60.00	25.00
115 Sviluppo Comparto 3 S.r.l.(c) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
116 UBI Academy SOC. CONS A R L. (h) Capital 100,000 euro	Bergamo	Bergamo	1	Unione Banche Italiane	88.00	
				IW Bank	3.00	
				Prestitalia	1.50	
				UBI Factor	1.50	
				UBI Leasing	1.50	
				UBI Sistemi e Servizi	3.00	
				Pramerica SGR	1.50	
					100.00	
117 UBI Factor SPA Capital 36,115,820 euro	Milano	Milano	1	Unione Banche Italiane	100.00	
118 UBI Finance CB 2 SRL Capital 10,000 euro	Milano	Milano	1	Unione Banche Italiane	60.00	
119 UBI Finance S.R.L. Capital 10,000 euro	Milano	Milano	1	Unione Banche Italiane	60.00	
120 UBI Leasing SPA Capital 383,714,623 euro	Brescia	Brescia	1	Unione Banche Italiane	100.00	
121 UBI Sistemi e Servizi S.C.P.A. Capital 36,149,949 euro	Brescia	Brescia	1	Unione Banche Italiane	91.93	
				Banca Assurance Popolari	0.07	
				IW Bank	4.31	
				Prestitalia	0.07	
				UBI Academy	0.01	
				UBI Factor	0.72	
				Intesa Sanpaolo Insurance Agency	0.01	
				Pramerica SGR	1.44	
					98.56	
122 UBI Trustee S.A. (h) Capital 250,000 euro	Luxembourg	Luxembourg	1	Unione Banche Italiane	100.00	
123 Unione di Banche Italiane SPA Capital 2,843,177,160 euro	Bergamo	Bergamo	1	Intesa Sanpaolo	100.00	
124 Vseobecna Uverova Banka a.s. Capital 430,819,064 euro	Bratislava	Bratislava	1	Intesa Sanpaolo Holding International	97.03	
125 VUB Leasing a.s. Capital 46,600,000 euro	Bratislava	Bratislava	1	Vseobecna Uverova Banka	100.00	

(a) Type of relationship:

- 1 - majority of voting rights at Ordinary Shareholders' Meeting;
- 2 - other forms of control.

(b) Where different from the % portion, the availability of the votes in the Ordinary Shareholders' Meeting is indicated, distinguishing between the effective and potential voting rights, where applicable.

(c) Company not subject to the management and coordination activities pursuant to art. 2497 and following of the Italian Civil Code.

(d) Minority shareholders are subject to a legal commitment to purchase the remaining 0.8% of share capital.

(e) Company controlled pursuant to IFRS 10, although the Group does not hold any equity stake in the company capital.

(f) Please note that there are put and call option agreements on 3.09% of share capital held by minority shareholders.

(g) On 23 December 2016, the subsidiary Private Equity International issued a new category of class C shares, equal to 5.6% of the company's capital. These shares do not carry the right to vote in the shareholders' meeting and their return is dependent on the financial performance of certain investments held by Private Equity International.

(h) Company consolidated using the equity method given its limited materiality.

(i) Please note that there are put and call option agreements on 50% of share capital held by minority shareholders.

(l) Please note that there are put and call option agreements on 40% of share capital held by minority shareholders.

## 2. Significant evaluations and assumptions in determining the scope of consolidation

As stated above, companies are considered subsidiaries where Intesa Sanpaolo is exposed to, or has rights to, variable returns from its involvement with them, and has the ability to affect those returns by exercising its own power over the entity in question.

Control only exists if all of the following conditions are met:

- the power to direct the relevant activities of the subsidiary;
- the exposure, or rights, to variable returns from the involvement with the investee;
- the ability to use the power over the investee to affect the amount of the investor's returns.

In particular, the Group considers the following factors in evaluating the existence of control:

- the purpose and the structure of the investee in order to identify its aims and relevant activities, or the activities that significantly affect the investee's returns, and how those activities are governed;
- power, in order to understand whether the Group has the contractual right to manage the relevant activities;
- the exposure to variable returns from the investee in order to evaluate whether the return recognised by the Group is subject to variations depending on the investee's returns.

Furthermore, in order to evaluate the existence of control, potential principal-agent relationships are taken into consideration.

In order to evaluate whether the investee is acting as a principal or an agent, the Group takes account of the following factors:

- the decision-making power on the relevant activities of the subsidiary;
- the rights of other parties;
- the payments to which the Group is entitled;
- the Group's exposure to variable returns resulting from any investment in the investee.

IFRS 10 identifies relevant activities as activities of the investee that significantly affect the investee's returns.

In general terms, when the relevant activities are managed through voting rights, the following factors determine evidence of control:

- direct ownership, or indirect ownership through its subsidiaries, of more than half the voting rights of an entity, unless in exceptional circumstances it can be clearly demonstrated that such ownership does not constitute control;
- ownership of half, or less, of the votes which can be cast at the shareholders' meeting, and the practical ability unilaterally to govern the relevant activities through:
  - o the control of more than half the voting rights as enshrined in an agreement with other investors;
  - o the power to determine the financial and operational policies of the entity, as conferred by the Articles of Association or by contract;
  - o the power to nominate or remove the majority of the members of the Board of Directors or of the equivalent corporate governance body;
  - o the power to cast the majority of the votes at meetings of the Board of Directors or of the equivalent corporate governance body.

In order to exercise power, it is necessary for the rights that the Group has over the investee to be material; to be material, the Group must have the ability to use its rights when decisions relating to relevant activities are taken. The existence and the effect of potential voting rights, where material, are taken into consideration in evaluating whether power exists to shape the managerial and financial policies of another entity.

Sometimes the Group has "de facto" control over certain entities when it possesses rights to determine unilaterally the relevant activities of the investee, even though it does not have the majority of the voting rights.

On the contrary, cases may emerge where the Group, though holding more than half of the voting rights, does not control the investee since, consequently to agreements with other investors, the exposure to variable returns from the involvement with the investees is not considered significant.

Subsidiaries can also include "structured entities" in which the voting rights are not the dominant factor in deciding who controls the entity; this includes special purpose vehicles (SPEs/SPVs) and investment funds. Structured entities are considered to be controlled where:

- the Group has powers enshrined in contractual rights allowing it to govern the relevant activities; and
- the Group is exposed to the variable returns deriving from such activities.

### 3. Investments in subsidiaries with minority interests

#### 3.1 Minority interests, minority voting rights and dividends distributed to minorities

Companies	Minority interests %	Minority voting rights % (1)	Dividends distributed to minority shareholders
1 Bank of Alexandria	20,00	20,00	23
2 Banca Intesa Sanpaolo D.D.	0,87	0,87	
3 Compagnia Italiana Finanziaria - CIF S.r.l.	38,55	38,55	
4 Eurizon SLJ Capital Limited	35,00	35,00	
5 Fideuram Investimenti SGR S.p.A.	0,50	0,50	
6 Iniziative Logistiche S.r.l.	39,98	39,98	
7 Intesa Sanpaolo Banka D.D. Bosna I Hercegovina	0,01		
8 Intesa Sanpaolo Private Bank (Suisse) Morval S.A.	3,09	3,09	
9 Intesa Sanpaolo RBM Salute S.p.A.	50,00	50,00	
10 Intesa Sanpaolo Rent FORYOU S.p.A.	40,00	40,00	
11 Intesa Sanpaolo Vita S.p.A.	0,01	0,01	
12 ISP CB Ipotecario S.r.l.	40,00	40,00	
13 ISP CB Pubblico S.r.l.	40,00	40,00	
14 ISP OBG S.r.l.	40,00	40,00	
15 Pramerica SGR S.p.A.	35,00	35,00	
16 Private Equity International S.A.	5,61		6
17 Privredna Banka Zagreb DD	2,23	2,23	
18 Risanamento S.p.A.	51,12	51,12	
19 UBI Finance CB 2 S.r.l.	40,00	40,00	
20 UBI Finance S.r.l.	40,00	40,00	
21 UBI Sistemi e Servizi S.C.P.A.	1,44	1,44	
22 Vseobecna Uverova Banka A.S.	2,97	2,97	

(1) Available voting rights at Ordinary Shareholders' Meeting.

## 3.2 Investments in companies with significant minority interests: financial highlights

Companies		Total assets	Cash and cash equivalents	Financial assets	Property, equipment and intangible assets	Financial liabilities	Shareholders' equity	Interest margin	Net interest and other banking income	Operating expenses	Income (loss) before tax from continuing operations	Income (loss) after tax from continuing operations	Income (loss) after tax from discontinued operations	Net income (loss) (1)	Other comprehensive income (net of tax) (2)	Consolidated comprehensive income (3) = (1) + (2)
1	Bank of Alexandria	5,462	79	5,057	211	4,479	683	331	377	-192	164	125	-	125	-4	121
2	Pramerica SGR S.p.a.	471	-	69	111	15	245	-16	104	-21	83	57	-	57	-	57
3	Gruppo Risanamento S.p.a.	740	6	2	699	185	124	-10	-12	-13	-24	-26	-	-26	2	-24
4	Vseobecna Uverova Banka A.S.	20,169	161	18,157	234	17,695	1,691	277	434	-268	110	85	-	85	6	91

## 4. Significant restrictions

The following are significant restrictions on the transfer of resources within the Intesa Sanpaolo Group.

On 23 December 2016, the subsidiary Private Equity International issued a new category of class C shares, equal to 5.6% of the company's capital. These shares do not have voting rights at the shareholders' meeting and their yield is related to the economic results of certain investments held by the same Private Equity International.

Moreover, the Intesa Sanpaolo Group is subject to supervisory rules provided by Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) and controls financial institutions subject to the same or similar regulations aiming to maintain an adequate level of regulatory capital in relation to risks taken; therefore, the ability of subsidiary banks or financial institutions to distribute capital or dividends is dependent on the fulfilment of the regulatory thresholds set in those regulations. In this respect, in line with the measures already taken in March 2020 (ECB/2020/19) and the recommendation issued in July (ECB/2020/35), on 15 December the ECB renewed its guidance to banks to exercise extreme prudence on dividends and share buybacks, recommending in particular that:

- they consider not distributing any cash dividends or to limit such distributions until 30 September 2021;
- if they still intend to distribute dividends or carry out share buybacks, they apply the lower of 15% of the cumulated profit for 2019-2020 and 20 bps in terms of CET 1 as a criterion;
- they be profitable and have robust capital trajectories if they intend to distribute dividends, and they are expected to contact their JST in advance to discuss whether the level of intended distribution is prudent;
- they refrain from distributing interim dividends out of their 2021 profits.

Lastly, within the Group, there are insurance companies subject to the Solvency Capital Requirements of Insurance companies established by the Solvency II legislation.

## 5. Other information

In preparing the Intesa Sanpaolo consolidated financial statements, the financial statements of all subsidiaries have the same financial year-end.

## Consolidation methods

## Full consolidation

This method involves the "line by line" aggregation of the individual amounts reported in the balance sheets and income statements of the subsidiary companies concerned. Following the allocation to minority shareholders of their interests, in a specific caption, in equity and in the result for the period, the residual value is eliminated against the book value of the subsidiaries concerned.

Any positive differences arising on consolidation, after the allocation to the assets and liabilities of the consolidated subsidiary, are recorded under Intangible assets as goodwill or other intangible assets. Negative differences are recognised in the income statement.

Assets, liabilities, income and expenses between consolidated companies are totally eliminated.

Business combinations must be accounted for using the "acquisition method" in accordance with IFRS 3, whereby identifiable assets acquired or liabilities assumed (including contingent liabilities) are recognised at their fair value at the acquisition date. Moreover, for each business combination, any minority interest in the acquired company can be recognised at fair value or in proportion to the minority investment in the net identifiable assets of the acquired company. Any excess of the consideration transferred (being the fair value of the assets sold, the liabilities incurred and the equity instruments issued) over the fair value recognition of minority interests with respect to the fair value of the assets acquired and the liabilities assumed is recognised as goodwill. If the consideration is lower, the difference is taken to the income statement.

The "acquisition method" is applied starting from the acquisition date, that is from the moment in which control of the acquired company is obtained. Therefore, the economic results of a subsidiary acquired in the reference period are included in the Consolidated financial statements starting from the acquisition date. Likewise, economic results of a subsidiary sold are included in the Consolidated financial statements until the date in which control ceased.

The difference between sale price and book value at the date of disposal (including foreign exchange differences recorded in shareholders' equity on consolidation, over time) is accounted for in the income statement.

Where necessary – and without prejudice to absolutely marginal cases – the financial statements of companies which are drawn up using different accounting criteria are restated to be compliant with the standards used by the Group.

#### *Measurement using the equity method*

Associates and companies subject to joint control are consolidated with the equity method.

The equity method requires the initial recognition of the equity investment at cost and its subsequent value adjustment based on the stake in the shareholders' equity of the company.

Any difference between the value of the equity investment and the shareholders' equity of the company involved is recorded in the book value of the company.

The valuation of the portion of shareholders' equity does not consider any potential voting rights.

The portion of the company's results for the period pertaining to the Group is recorded in a specific caption of the consolidated income statement.

If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value. If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement.

For consolidation of companies subject to joint control and investments in associates, the most recent approved (annual or interim) figures have been used. In certain marginal cases, the companies do not apply IAS/IFRS and, therefore, for such companies it was verified that the adoption of IAS/IFRS would not have produced significant effects on the Intesa Sanpaolo Group's Consolidated financial statements.

#### *Conversion of financial statements in currencies other than the euro*

The financial statements of the companies which do not operate in the eurozone are translated into euro applying to the assets and liabilities in the balance sheet the spot exchange rate at period-end and to the income statement the average exchange rate.

Foreign exchange differences from the conversion of the financial statements of such companies, deriving from the application of different foreign exchange rates to assets and liabilities and the income statement, are recorded in Valuation reserves under shareholders' equity. Foreign exchange differences on the shareholders' equity of the subsidiaries are also recorded in Valuation reserves.

All foreign exchange differences are reversed to the income statement of the year in which the foreign operation is sold.

## **SECTION 4 – SIGNIFICANT EVENTS AFTER THE REPORTING DATE**

After the end of the financial year, the transfer to BPER Banca of the former UBI Banca going concern - including a business line owned by UBISS (a consortium company controlled by UBI Banca) essentially focused on services to the branches subject to acquisition - became effective on 22 February 2021.

For further details on the transaction and information on other minor developments, please refer to Report on operations, chapter "Overview of 2020".

## **SECTION 5 - OTHER ASPECTS**

### **RISKS, UNCERTAINTIES AND IMPACTS OF THE COVID-19 EPIDEMIC**

In its communication of 15 December 2020 concerning the "impacts of COVID-19 and measures to support the economy and amendments to IAS/IFRS", the Bank of Italy, supplemented the provisions governing bank financial statements set out in "Circular 262 - Bank financial statements: layouts and preparation", with the aim of providing the market information on the effects that the COVID-19 outbreak and the consequent measures to support the economy have had on the strategies, objectives and risk management policies, and on the operating performance and financial position of intermediaries.

In defining the additions, the Bank of Italy took into account, where applicable, the documents published in recent months by the European regulatory and supervisory bodies and by the standard setters aimed at clarifying the methods of application of the IAS/IFRS in the current context, with particular reference to IFRS 9, as well as to the required information for the amendment to IFRS 16 COVID-19-Related Rent Concessions.

In fact, during 2020, in line with the evolution of the health and economic situation, regulatory measures were put in place, mainly providing interpretation and support for the application of accounting standards in relation to the impacts of COVID-19. The following table shows the most relevant documents and their scope of application.

Issuing body	Date	Title	Main topic		
			Classifications	Measurement	Financial reporting
EBA	25.3.20	Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID 19 measures	X		
ESMA	25.3.20	Public Statement. Accounting implications of the COVID 19 outbreak on the calculation of expected credit losses in accordance with IFRS 9		X	
IFRS Foundation	27.3.20	IFRS 9 and Covid-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the covid-19 pandemic		X	
ECB	1.4.20	IFRS 9 in the context of the coronavirus (COVID 19) pandemic		X	
EBA	2.4.20	Guidelines on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis	X		
ESMA	20.5.20	Implications of the COVID-19 outbreak on the half-yearly financial reports			X
EBA	2.6.20	Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID 19 crisis	X		X
ESMA	28.10.20	European common enforcement priorities for 2020 annual financial reports			X
EBA	2.12.20	Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis	X		
ECB	4.12.20	Identification and measurement of credit risk in the context of the coronavirus (COVID 19) pandemic	X	X	

The measures adopted by the regulators, aimed essentially at clarifying the treatment of moratoria, indicating the minimum conditions for clear financial reporting in this context, uniformly guiding the definition of prospective scenarios and allowing flexibility in defining credit assessments, have gradually strengthened and adapted the regulatory framework - that was already being developed in the first months of 2020 and was progressively fine-tuned during the year - to the evolving situation. It should be noted, however, that the guidelines provided by the regulators allow / invite the intermediaries to exercise flexibility and their own expert judgment in making decisions, bearing in mind that the guidelines provided do not constitute a "relaxation" of the rules but rather the granting of further necessary discretion in the current difficult context. For the Financial Statements at 31 December 2020, the Group has therefore decided to maintain the approaches adopted starting from the 2020 Half-yearly Report, summarised in the following paragraphs and further detailed in Part E, with the appropriate refinements and adjustments stemming from the longer time frame available for their implementation as well as the evolution of the related health and economic situation.

In these circumstances, it should be stressed that from the very beginning of the dramatic public health and social emergency that swept Italy, Intesa Sanpaolo has been fully committed to tackle the difficult situation effectively, whilst ensuring the continuity of its processes and services, in spite of considerable operating costs and additional investments. As illustrated in more detail in the Report on operations, the main solutions successfully adopted to deal with the emergency, mitigate the risk, and ensure continuity of service, related to remote working, measures adopted at the branches, process digitisation, and actions taken on the systemic processes.

Although the COVID-19 outbreak did not lead to the suspension of the Group's activities or the disappearance of the reference markets in which it operates, it nevertheless contributed to creating a climate of extreme uncertainty. In this regard, it bears recalling that the preparation of the consolidated financial statements in accordance with IFRS requires - as usual - that the management make estimates and assumptions that affect the amount reported in the financial statements concerning assets, liabilities, income and expenses recognised in the financial year, as well as other comprehensive income. As indicated in greater detail in the specific paragraph of these Notes (Part A - A2 – Main financial statement captions - Use of estimates and assumptions in preparing financial reports), the estimates made by the management are based on historical experience and other reasonable assumptions. The main areas of uncertainty in the estimate include those relating to loan losses, the fair value of financial instruments (including derivatives), corporate income taxes, employee benefits, goodwill and intangible assets, the fair value of identifiable assets and liabilities following business combinations (in this regard, the acquisition of the UBI Group completed at the beginning of August should be recalled), impairment of non-financial assets, derecognition of financial assets and liabilities and provisions for risks and charges. COVID-19, as the first global pandemic in over a century, continues to significantly affect the markets in which our Group operates. Governments around the world have imposed on the one hand a series of specific measures to contain the epidemic, including company closures, travel restrictions and



quarantines and, on the other hand, they are trying to avoid the economic slowdown and favour a rapid recovery once the health crisis is over. This has caused and continues to cause greater volatility and uncertainty in the financial sector and markets, which has also been reflected in key areas for determination of estimates. The Bank therefore used estimates, assumptions and judgments that reflect this uncertainty. In the current situation of uncertainty, the Group's assessments are also supported, as detailed below, by sensitivity analyses, subject to specific disclosure, to provide users of the financial statements a more complete and transparent understanding of these phenomena.

#### *Intesa Sanpaolo Group macroeconomic scenarios for the valuation of loans in the 2020 financial statements*

To partially reduce this picture of uncertainty, the regulators intervened (ECB first and foremost: *IFRS 9 in the context of the coronavirus - COVID 19 - pandemic*), calling on credit institutions to base their prospective scenarios for the valuation of loans according to IFRS 9 on the macroeconomic forecasts made by the ECB itself and by the national central banks. Consequently, for the purposes of loan valuation, the Parent Company's Research Department, in cooperation with the Chief Risk Officer Area, has produced IFRS 9 scenarios consistent with the scenarios (baseline, mild and severe) published on 10 December 2020 by the ECB and the Bank of Italy, in line with the guidance provided by the ECB in its letter of 4 December 2020 "*Identification and measurement of credit risk in the context of the coronavirus pandemic*". The scenarios were produced using the current model (Oxford Economics multi-country model) to reconstruct the paths of the variables not provided by the Eurosystem. In fact, the Central Banks specifically projected the trend of the main macroeconomic variables (punctually incorporated in the scenario) and provided an accompanying commentary that was used as the basis for completing the projection of all the variables used in the satellite models in a consistent manner.

In particular, only the ECB and some National Central Banks (e.g. the Bundesbank) also provided alternative scenarios (one less optimistic and one more optimistic), but only for a few fundamental variables (real GDP growth, inflation, unemployment), while the Bank of Italy only provided a sensitivity analysis of GDP to several worst case scenarios. Accordingly, the reconstruction of the alternative scenarios for the Italian economy has been carried out in a way that makes them as consistent as possible with the description of the alternative scenarios from the Eurosystem and the real growth projection for the Eurozone provided by the ECB for each of those scenarios.

For the international subsidiary banks of the International Subsidiary Banks Division and Banca Intesa Russia, the assessments were made in line with the approach adopted centrally, taking into account the lower sophistication of some of the entities. In particular, the banks that adopt internal satellite models for the purposes of estimating the Point in Time (PIT) Forward Looking PD introduced local scenarios in line with that of the ECB of December 2020 or with the scenarios issued by the local Regulator.

For a table illustration of the scenarios actually used in the valuation of loans, please refer to the specific section of Part E of these Notes which also contains, as specified below, further details on the sensitivity of the ECL to changes in macroeconomic scenarios.

#### *Sensitivity analysis in the light of alternative scenarios*

As already done in previous years and as also recommended in the recent ESMA guidelines (document "*European common enforcement priorities for 2020 annual financial reports*"), in its Notes to the financial statements the Group provides sensitivity analyses on the issues indicated below in order to allow users of the financial statements a better understanding of the Group's valuation choices in this particular context. In particular, reference should be made to the following parts of these Notes regarding:

- the effects of a change in one or more non-observable parameters used in the valuation techniques adopted to determine the fair value, the financial assets and liabilities measured at fair value level 3 (Part A - A.4.2 Valuation processes and sensitivity);
- sensitivity analysis for real estate assets measured at fair value. The analysis essentially concerned the properties of the Parent Company Intesa Sanpaolo and UBI, which represent the Core perimeter of the Group's real estate assets (Part A - A.4.5 Fair value hierarchy - Sensitivity of property valuations);
- sensitivity of the Value in use of Cash Generating Units for which intangible assets with indefinite useful lives remain (Part B – Assets: Section 10 Intangible assets);
- sensitivity to changes in interest rates of net defined benefit liabilities (Part B - Liabilities: Section 10.5 Post-employment defined benefit plans);
- sensitivity analysis of IFRS 9 ECL in order to analyse the variability with respect to individual alternative scenarios (Part E - Section 2 Credit risk management and policies);
- sensitivity of net interest income, assuming a change in interest rates, and sensitivity analysis of the banking book to price risk for listed assets recognised in the HTCS category (Part E - Banking book: interest rate risk and e price risk);
- scenario analysis relating to the evolution of stock prices, interest rates, credit spreads, foreign exchange rates and commodity prices for trading activity (Part E - Trading book: interest rate risk and price risk);
- sensitivity of the fair value of the portfolio of financial assets of insurance companies with respect to interest rate movements, credit spreads and equity prices (Part E - Insurance risks: Financial risks).

#### *Measurement of goodwill in the COVID-19 scenario*

In the current volatile market environment, measuring the recoverable amount of intangible assets is also particularly difficult. The COVID-19 pandemic and the related restrictions adopted by the various governments in an effort to contain its spread had a significant impact on the GDP of both the Eurozone and Italy in 2020. As a result, the growth estimates originally envisaged in the Business Plan for 2020 and 2021 have proved to be no longer sustainable. The continued challenging environment for growth in industrial production and the expectation that monetary authorities will prolong their expansionary measures suggest that a scenario of very low interest rates is likely for quite some time.

This situation has affected the impairment tests pursuant to IAS 36, which must be carried out at least once a year to verify the recoverable amount of the intangible assets with indefinite useful lives recognised on the balance sheet, which consist of the brand name and goodwill for Intesa Sanpaolo. In line with the ESMA guidance, which consider the effects resulting from the COVID-19 pandemic as an indicator of impairment and require particular attention during the verification activities, during preparation of the financial statements as at 31 December 2020, when conducting the annual impairment testing of goodwill,

the effects of the COVID-19 pandemic were carefully considered. For more details of impairment test on goodwill and brand name, reference is made to Part B - Information on the consolidated balance sheet.

#### *Loan classification and valuation in the COVID-19 scenario*

As shown by the relevant legislation on the subject, reported above, COVID-19 had a particular impact on the issues of classification of credit exposures, specifically the aspects linked to payment moratoria, as well as for the purpose of determining the Expected Credit Losses (ECL) pursuant to IFRS 9.

In terms of classification of credit exposures, the COVID-19 outbreak primarily resulted in the need, also recognised by the banking system and institutions (governments and regulators), to offer general payment suspension measures (moratoria) to already performing customers, using simplified procedures and without any penalties for the parties involved – both banks and customers. These measures, partly governed by national regulations and partly decided autonomously by the banks, were the subject of a specific regulation, summarised in the EBA Guidelines (“*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*”). In summary, the granting by banks and financial intermediaries - according to the aforementioned Guidelines - of legislative moratoria, or even private ones (as long as in relation to an objective context-related need that affects several financed parties and not the individual loan), does not automatically constitute a default event, with consequent classification of the loan as non-performing, or a forbearance measure, with transfer to Stage 2. The EBA sets out the conditions for the qualification of general payment moratoria, as well as the terms for the granting and the duration of the moratoria and for the applicability of the exemption.

With regard to loan valuation, the ISP Group has adopted a prudential approach since the quarterly report at 31 March 2020 regarding the adjustment of the ECL results stemming from the IFRS 9 models in use, in the context of the uncertain but expected further worsening of economic conditions - even dramatic in the short term - while taking into account the effects of the public support measures made promptly available by the national authorities and supported by the accommodative policy of the ECB.

This approach was gradually rendered more sophisticated and consistent by defining management overlays, which were gradually enriched following the improved perception of the evolution of the crisis (partly drawn up in the ECL estimates starting from the updates of the macroeconomic forecasts previously described), the definition of new frameworks to assess expected vulnerabilities (e.g. updating the CRA framework, introducing micro-sector vulnerabilities), as well as the results of the operational responses adopted by the Group (e.g. re-rating campaigns, campaigns to revitalise and restructure the Businesses segment, priority analysis of the portfolio of moratoria, etc.). All the initiatives were characterised by timeliness and intensity and were supported by adequate monitoring of prospective risk in the set up and managerial decision phase.

For a more in-depth discussion of the aspects briefly summarised herein, in particular for management overlay issues adopted by the Group in the context of the COVID pandemic, please refer to Part E - Section 2: Credit risk management policies of these financial statements.

#### *Economic impacts resulting from COVID-19 on the 2020 consolidated financial statements*

Please refer to the specific paragraph in the Report on Operations for a detailed explanation of the "Impacts of the epidemic on operating results, business activities and risk profile"; it is specified that given the above, for the purposes of the 2020 Financial Statements, the overall COVID-19-related impacts with regards to loan valuation resulted in 2,164 million euro of greater provisions. The effects are attributable to performing loans for an amount of 986 million euro, and non-performing loans for 1,178 million euro. With reference to non-performing loans, it is specified that, in addition to the effect given by the updating of the scenario, there are also the negative effects of the greater specific provisions for non-performing exposures whose recovery prospects were deemed particularly impacted by the worsening context induced by the crisis. The worsening of the macroeconomic scenario and the uncertainty about the future prospects have also led, on the one hand, to accelerate the de-risking activities of the non-performing portfolio with the consequent negative impacts on the income statement, on the other hand they have registered an increased valuation of residual non-performing exposures as older vintage.

Among the indirect impacts resulting from COVID-19 there is also the write-down of the entire residual goodwill of the Banca dei Territori Division (981 million euro) carried out also as a result of the update of the macroeconomic scenario at the end of 2020, especially with reference to the expected trend in interest rates.

To complete the disclosure, in line with the provisions of said Communication of 15 December of the Bank of Italy, which supplements Circular 262, also see the quantitative information on the loans subject to COVID-19 support measures and the related net adjustments for credit risk published, respectively:

- in Part B – Information on the consolidated balance sheet – Assets, in the tables:
  - o 3.3a Loans measured at fair value through other comprehensive income subject to Covid-19 support measures: gross amount and total adjustments;
  - o 4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross amount and total adjustments;
- in Part C – Information on the consolidated income statement:
  - o 8.1a Net adjustments for credit risk associated with loans measured amortised cost subject to Covid-19 support measures: breakdown;
  - o 8.2a Net adjustments for credit risk associated with loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown;

Furthermore, refer to Part E of these Consolidated Financial Statements for qualitative information on the impacts of the COVID-19 pandemic on the issues of classification of credit exposures, specifically the aspects linked to payment moratoria, as well as on the measurement of the significant increase in credit risk (SICR) and the measurement of expected losses for the purpose of determining the Expected Credit Losses (ECL) pursuant to IFRS 9.

Lastly, for quantitative information on transfers between different stages of credit risk and loans subject to COVID-19 support measures broken down by category of non-performing exposures, refer to the following tables in Part E (Section 2 “Risks of the prudential consolidation”) in these Consolidated Financial Statements:

- A.1.3a Loans subject to Covid-19 support measures: transfers between stages of credit risk (gross amounts);
- A.1.5a Loans subject to Covid-19 support measures: gross and net amounts.

### CHANGES IN CONTRACTS DUE TO COVID-19

The detailed information required by the specific instructions of Circular 262 of the Bank of Italy on changes in contracts due to COVID-19 in light of the provisions of IFRS 9 and IFRS 16 is provided below.

#### *Changes in contracts and derecognition (IFRS 9)*

The moratoria granted by the Group, in line with the EBA guidelines, comply with some specific requirements. More specifically, they must:

- be offered without distinction to a large group of (performing) borrowers or following legislative provisions;
- not provide a waiver of contractual interest or principal but solely a deferral/extension of payments.

Since the granted moratoria provide solely a deferral/extension of the period in which payments are due, the application of a moratorium does not therefore entail the derecognition of the loan.

#### *Amendment to IFRS 16*

Although the subject in question is not relevant for the Group, it is specified that with reference to lease contracts (on the lessee side), having assessed the nature of the existing contracts and the active role played by the Bank in supporting the economy, Intesa Sanpaolo decided not to apply the “practical expedient” introduced under IFRS 16 - Leases on discounts and deferral of payments on existing lease contracts payables.

### OTHER ASPECTS

#### **Option for the national fiscal consolidation provisions**

Intesa Sanpaolo and the Group's Italian companies have adopted the "national fiscal consolidation", set forth by Articles 117-129 of the Combined Tax Regulations, introduced by Legislative Decree 344/2003. It provides an option, based on which the total net income or fiscal loss of every controlled subsidiary taking part in the fiscal consolidation procedure – together with withholding tax, tax deductions and tax credits – is transferred to the parent company, which determines a single taxable income or loss carried forward (that is the result of the sum of its own income/loss and of the income/loss of the participating subsidiaries) and, consequently, a sole tax debit/credit. Based on this option, Group companies that opted for the “national fiscal consolidation” determine the tax charge pertaining to them and the corresponding taxable income is transferred to the Parent Company. Taking into account that the national tax consolidation approach was also applied within the UBI Banca Group, the positive outcome of the Public Purchase and Exchange Offer promoted by Intesa Sanpaolo resulted in the simultaneous presence, in 2020, of two distinct tax consolidation schemes within the single Intesa Sanpaolo Group. This situation will be resolved in 2021 when, as a result of the incorporation of UBI Banca into Intesa Sanpaolo, the tax consolidation scheme coordinated by the incorporated company will be interrupted and the companies of the former UBI Group will enter the tax consolidation scheme of the incorporating company with effect from 1 January 2021.

#### **Set up of a VAT Group**

Intesa Sanpaolo and all of the Italian companies in the Group that meet the requirements for participation opted to set up the VAT Group, governed by Articles from 70-bis to 70-duodecies of Presidential Decree 633/1972.

This option takes effect from 1 January 2019 and has a duration of three years, automatically renewed each year, unless revoked.

As a result of this option, the tax will not apply to either the provision of services and sales of goods between participating parties, with a few exceptions. Sales of goods and provision of services by a participating party to an external party shall be considered made out by the group. Sales of goods and provision of services by an external party to a participating party shall be considered made to the group. Taking into account that a similar option was also exercised within the former UBI Group, the positive outcome of the Public Purchase and Exchange Offer promoted by Intesa Sanpaolo resulted in the simultaneous presence, in 2020, of two separate VAT groups within the single Intesa Sanpaolo Group; this situation should be resolved at the latest by the end of the 2021 financial year, also as a result of the planned incorporation of UBI Banca into Intesa Sanpaolo and the further rationalisation measures that will be implemented during 2021.

#### **“Cooperative compliance” regime**

Intesa Sanpaolo applied for and obtained from the Italian Revenue Agency admission to the “cooperative compliance” regime set out in Legislative Decree 128/2015. The admission is effective from the tax period 2017.

The purpose of this regime is to promote the use of enhanced forms of communication and cooperation based on the reciprocal trust between the tax authorities and the taxpayer, as well as favouring the prevention and resolution of tax disputes, in the common interest of the parties.

Under the regime, Intesa Sanpaolo is required to maintain an appropriate system of recognition, measurement and management of tax risk as well as act in a cooperative and transparent manner, and the Italian Revenue Agency is required to promote a relationship based on the principles of transparency, cooperation and fairness. The gradual adoption of this regime by the main Italian subsidiaries is now also under way.

In addition to Intesa Sanpaolo, the following companies applied for admission and were admitted to the regime: Fideuram (with effect from 2018), as well as Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Fideuram Vita, Eurizon SGR and Epsilon SGR (with effect from 2019).

Intesa Sanpaolo Private Banking, Fideuram Investimenti SGR (from 1 January 2021, Fideuram Asset Management SGR), Sanpaolo Invest SIM and S.I.RE.F applied for admission, which will presumably be granted in 2021 with effect from 2020.

### **Auditing**

KPMG S.p.A. audited the Consolidated financial statements, in execution of the Shareholders' Meeting resolution of 10 May 2011, which appointed the company as independent auditor for the years from 2012 to 2020, included.

### **Other aspects**

A reformulation of the rules on the transparency of government grants laid down in Article 1, paragraphs 125-129 of Law No. 124/2017 has been introduced in Article 35 of Decree Law 34/2019 (the "Growth Decree"), converted by Law 58/2019. This reformulation indicates that the scope of transparency obligations applies to information regarding grants, subsidies, advantages, contributions or aid, in cash or in kind, "not of a general character and which do not represent consideration, remuneration or compensation" effectively disbursed by public authorities and the entities indicated in Article 2-*bis* of Legislative Decree 33/2013.

In the light of this reformulation, additional interpretative clarification provided in Assonime Circular No. 32 of 23 December 2019 has confirmed that the transparency obligation applies to awards of economic benefits arising from a bilateral relationship between a public entity and a specific beneficiary. Sums received by a company as consideration for a service rendered, as remuneration for an assignment received or as compensation for damages are expressly excluded. Economic advantages received in application of a general regime, such as tax or contribution relief accessible to all parties who meet certain conditions, are also excluded.

In consideration of the above, there were no cases to report in 2020 for the Group's Italian companies.

In the interest of completeness, reference should also be made to the National State Aid Registry, available for public consultation on the relevant website, in which aid measures and the related individual aid packages granted and recorded in the system by the managing entities are published, although, given the foregoing, for the Group's Italian companies the circumstances indicated therein for the year 2020 are not subject to financial statement transparency obligations pursuant to paragraphs 125 and 125-bis.

## A.2 – MAIN FINANCIAL STATEMENT CAPTIONS

To ensure uniformity in the accounting policies used for the financial statements, the Intesa Sanpaolo Group has adopted an internal set of rules and policies for the various operational and organisational areas.

The methodological document used for the application of the accounting standards is the Group Accounting Policies, which describes the application models adopted by the Group, within the framework of the standards and the legislation applicable to the various companies/subsidiaries, and sets out the choices made when the regulations envisage alternative or optional accounting treatments.

With regard to the valuation processes, the Group, in the document “Guidelines for the valuation of Balance Sheet Items”, has drawn up the principles and regulatory framework for the valuation of the balance sheet items and the roles and responsibilities of the Corporate Bodies, the Manager responsible for preparing the Company’s financial reports and the Parent Company’s corporate functions involved in the valuation process; the prerequisites for the existing valuation processes and the control system necessary to ensure proper valuation; the general valuation processes based on accounting standards specific to the various categories of balance sheet items being measured (assets and liabilities); and the rules for guidance and coordination of Group Companies on the valuation of balance sheet items.

The guidelines and policies also include the Business Model Rules, the Rules on the measurement of expected credit loss in accordance with IFRS 9 (Impairment Policy), and the Fair Value Policy, in addition to more specific documents relating to non-performing loans, equity investments, and the management of hedging financial instruments.

Finally, with regard to prudential supervision, the Group has drawn up a specific document called Harmonised Prudential Supervision Rules.

In general, these documents are approved by the competent Corporate Bodies. They are updated by the management structures in response to needs arising both from external factors (e.g. changes in regulations) and from internal factors within the Group (e.g. new operations and products) and are subject to a specific approval process, based on the significance and scope of the changes made.

The criteria adopted by the subsidiary insurance companies are discussed in a specific chapter at the bottom of this section. In fact, as a result of the Intesa Sanpaolo Group’s decision, as a financial conglomerate primarily engaged in banking activities, to exercise the option of adopting the Deferral Approach, the financial assets and liabilities of the subsidiary insurance companies continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international financial reporting standard on insurance contracts, scheduled for 2023<sup>28</sup>.

### 1. Financial assets measured at fair value through profit or loss (FVTPL)

#### *Classification criteria*

This category contains the financial assets not classified as Financial assets measured at fair value through other comprehensive income or as Financial assets measured at amortised cost. This caption includes in particular:

- financial assets held for trading, essentially consisting of debt securities and equity instruments and the positive value of derivative contracts held for trading;
- financial assets mandatorily measured at fair value through profit or loss, consisting of financial assets that do not meet the requirements for measurement at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not solely envisage payments of principal and interest on the principal amount outstanding (SPPI Test not passed) or that are not held under a Hold to Collect business model or a Hold to Collect and Sell business model;
- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. In relation to this case, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss only if it eliminates or significantly reduces a measurement inconsistency.

This caption therefore includes:

- debt securities and loans that are included in an Other/Trading business model (i.e., that do not come under the Hold to Collect or Hold to Collect and Sell business models) or that do not pass the SPPI Test, including the portions of syndicated loans subscribed or other types of loans that are originally intended to be sold and are not part of a Hold to Collect and Sell business model.
- equity instruments – that do not qualify as investments in subsidiaries, associates or joint ventures – held for trading purposes or for which the option was not exercised, upon initial recognition, to designate them at fair value through other comprehensive income;
- quotas of UCI (Undertakings for Collective Investment).

This caption also includes the derivatives, recognised under financial assets held for trading, which are presented as assets if the fair value is positive and as liabilities if the fair value is negative. The positive and negative current values arising from transactions with the same counterparty – also between derivatives allocated to the trading book and hedging derivatives, as

<sup>28</sup> On 25 June 2020, the IASB published the final version of the “Amendments to IFRS 17 Insurance Contracts” which confirmed the deferral of the date of first-time adoption of the Standard to 1 January 2023 (instead of 1 January 2022 previously proposed in the ED 2019/4), with the concurrent possibility of an extension to the same date of the “Deferral approach” in the application of IFRS 9. This was endorsed by the European Commission with the publication of Regulation 2097/2020 “Extension of the Temporary Exemption from Applying IFRS 9 (amendments to IFRS 4)” on 15 December 2020.



envisaged by the Bank of Italy Circular 262 – may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.

Derivatives also include those embedded in combined financial contracts – where the host contract is a financial liability – which are subject to separate accounting when:

- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- the embedded instruments, even though separate, fully meet the definition of derivative;
- the combined instruments are not measured at fair value with changes in fair value recognised through profit or loss.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through profit or loss to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.

For more information regarding the classification criteria for the financial instruments see the paragraph below “Classification drivers for the financial assets”.

#### *Recognition criteria*

Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments, at disbursement date for loans and at trade date for derivative contracts.

On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or revenues directly attributable to the instrument.

#### *Measurement criteria*

After initial recognition, the financial assets measured at fair value through profit or loss are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.

For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc.. For equities and derivative instruments that have equities as underlying assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

For more information regarding the criteria for the determination of fair value, see the Section “A.4 – Information on Fair Value”.

#### *Derecognition criteria*

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity’s continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

## **2. Financial assets measured at fair value through other comprehensive income (FVOCI)**

#### *Classification criteria*

This category includes the financial assets that meet both the following conditions:

- the financial asset is held under a business model whose objective is achieved both through the collection of expected contractual cash flows and through sale (Hold to Collect and Sell business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI Test” passed).

This caption also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.

In particular, this caption includes:

- debt securities that can be attributed to a Hold to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income;



- loans that are attributable to a Hold to Collect and Sell business model and have passed the SPPI Test, including the portions of syndicated loans subscribed or other types of loans that are originally intended to be sold and are part of a Hold to Collect and Sell business model.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets.

In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from shareholders' equity to net income (loss).

For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

#### *Recognition criteria*

Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.

#### *Measurement criteria*

After initial recognition, the Assets classified at fair value through other comprehensive income, other than equity instruments, are measured at fair value, with the recognition in profit or loss of the impact resulting from the application of the amortised cost, the impairment effects and any exchange rate effect, whereas the other gains and losses resulting from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. Upon the total or partial sale, the cumulative gain or loss in the valuation reserve is transferred, in whole or in part, to the income statement.

Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in Other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold. The only component related to these equities that is recognised through profit or loss is their dividends.

Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.

For the equity instruments included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

For more information regarding the criteria for the determination of fair value, see the Section "A.4 – Information on Fair Value".

Financial assets measured at fair value through other comprehensive income – both in the form of debt securities and loans – are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, in the same way as Assets measured at amortised cost, with the consequent recognition through profit or loss of a value adjustment to cover the expected losses. More specifically, for instruments classified as stage 1 (i.e., financial assets at origination, when not impaired, and instruments for which there has not been a significant increase in credit risk since the initial recognition date), a 12-month expected loss is recognised on the initial recognition date and at each subsequent reporting date. For instruments classified as stage 2 (performing for which there has been a significant increase in credit risk since the initial recognition date) and as stage 3 (credit-impaired exposures), a lifetime expected loss for the financial instrument is recognised.

Equity instruments are not subject to the impairment process.

See the paragraph below "Impairment of financial assets" for more details.

#### *Derecognition criteria*

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

### 3. Financial assets measured at amortised cost

#### *Classification criteria*

This category includes the financial assets (in particular loans and debt securities) that meet both the following conditions:

- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Hold to Collect business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI Test” passed).

More specifically, the following are recognised in this caption:

- loans to banks in their various forms that meet the requirements referred to above;
- loans to customers in their various forms that meet the requirements referred to above;
- debt securities that meet the requirements referred to above.

This category also includes the operating loans and receivables connected to the provision of financial activities and services as defined by the Consolidated Law on Banking and the Consolidated Law on Finance (e.g. for the distribution of financial products and servicing activities).

According to the general rules established by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from the amortised cost category to one of the other two categories established by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised through profit or loss in the event of reclassification to Financial assets measured at fair value through profit or loss and under Shareholders' equity, in the specific valuation reserve, in the event of reclassification to Financial assets measured at fair value through other comprehensive income.

For more information regarding the classification criteria for the financial instruments see the paragraph below “Classification drivers for the financial assets”.

#### *Recognition criteria*

Initial recognition of the financial asset occurs at settlement date for debt securities and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.

In particular, for loans, the disbursement date is usually the same as the date of signing of the contract. Should this not be the case, a commitment to disburse funds is made along with the subscription of the contract, which will cease to exist upon disbursement of the loan. The loan is recognised based on its fair value, equal to the amount disbursed or subscription price, inclusive of the costs/revenues directly attributable to the single loan and determinable from inception, even when settled at a later date. Costs that, even with the aforementioned characteristics, are reimbursed by the borrower or are classifiable as normal internal administrative costs are excluded.

Repurchase agreements and reverse repurchase agreements are recognised as funding or lending transactions. Specifically, repurchase agreements are recognised as payables for the spot amount received, whereas reverse repurchase agreements are recognised as receivables for the spot amount paid.

#### *Measurement criteria*

After the initial recognition, these financial assets are measured at amortised cost, using the effective interest method. The assets are recognised in the balance sheet at an amount equal to their initial carrying amount less principal repayments, plus or minus the cumulative amortisation (calculated using the effective interest method) of the difference between this initial amount and the amount at maturity (typically attributable to costs/income directly attributable to the individual asset) and adjusted by any provision for losses. The effective interest rate is the rate that exactly discounts estimated future cash payments of the asset, as principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to that financial asset. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/income directly attributable to a financial asset over its expected lifetime.

The amortised cost method is not used for assets, measured at historical cost, whose short duration makes the effect of discounting negligible, or for assets without a definite maturity or revocable loans.

The measurement criteria, as described in more detail in the paragraph “Impairment of financial assets”, are closely linked to the inclusion of these instruments in one of the three stages of credit risk established by IFRS 9, the last of which (stage 3) consists of non-performing financial assets and the remaining (stages 1 and 2) of performing financial assets.

With regard to the accounting representation of the above measurement effects, the adjustments for this type of asset are recognised in profit or loss:

- on initial recognition, for an amount equal to the 12-month expected credit loss;
- on subsequent measurement of the asset, when the credit risk has not increased significantly since initial recognition, in relation to changes in the amount of adjustments for the 12-month expected credit losses;
- on subsequent measurement of the asset, when the credit risk has increased significantly since initial recognition, in relation to the recognition of adjustments for expected credit losses over the contractually agreed remaining lifetime of the asset;

- on subsequent measurement of the asset, where – after a significant increase in credit risk has occurred since initial recognition – the increase is no longer “significant” due to the alignment of the cumulative value adjustments to take account of the change from a lifetime expected credit loss to a 12-month expected credit loss for the instrument.

These financial assets, when they are performing, are subject to an assessment, aimed at establishing the value adjustments to be recognised in the financial statements, at the level of individual loan (or “tranches” of securities), according to the risk parameters consisting of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), derived from the AIRB models, and duly adjusted to take account of the provisions of IFRS 9.

If, in addition to a significant increase in credit risk, there is also objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset – classified as “non-performing”, like all the other relationships with the same counterparty – and the present value of the estimated future cash flows, discounted using the original effective interest rate. The amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and, as detailed in the paragraph “Impairment of financial assets”, takes account of forward-looking information and possible alternative recovery scenarios.

Non-performing assets include financial assets classified as bad, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/IFRS and EU Supervisory Regulations.

The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees.

The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest.

If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement. The size of the recovery must not lead the carrying value of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

Recoveries on impairment with time value effects are recognised in net interest income.

In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual conditions may be subsequently modified by the parties to the contract. When the contractual clauses are subject to change during the lifetime of an instrument, it is necessary to verify whether the original asset should continue to be recognised in the balance sheet or whether, instead, the original instrument needs to be derecognised and a new financial instrument needs to be recognised.

In general, changes to a financial asset lead to its derecognition and the recognition of a new asset when they are “substantial”. The assessment of the “substantial nature” of the change must be made using both qualitative and quantitative information. In some cases, in fact, it may be clear, without resorting to complex analysis, that the changes introduced substantially modify the characteristics and/or contractual flows of a particular asset while, in other cases, further analysis (including quantitative analysis) will need to be carried out to assess the effects of the changes and verify whether or not to derecognise the asset and recognise a new financial instrument.

The qualitative and quantitative analyses aimed at defining the “substantial nature” of contractual changes made to a financial asset must therefore consider:

- the purposes for which the changes were made: e.g. renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty:
  - o the former, aimed at “retaining” the customer, involve a borrower that is not in financial difficulty. This category includes all renegotiations aimed at aligning the cost of the debt to market conditions. These operations involve a change in the original conditions of the contract, usually requested by the borrower and relating to aspects concerning the cost of the debt, with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer could borrow from another intermediary and the bank would incur a decrease in expected future revenues;
  - o the latter, carried out for “reasons of credit risk” (forbearance measures), relate to the bank’s attempt to maximise the recovery of the cash flows of the original loan. The underlying risks and rewards, following the changes, are not normally substantially transferred and, consequently, the accounting representation that provides the most relevant information for the readers of the financial statements (apart from the triggers discussed below) is “modification accounting” – which involves the recognition through profit or loss of the difference between the carrying value and the present value of the modified cash flows discounted at the original interest rate – rather than derecognition;
- the presence of specific triggers that affect the contractual characteristics and/or cash flows of the financial instrument (such as, for example, a change in currency or a modification of the type of risk the financial instrument is exposed to, when correlated to equity and commodity parameters), which are considered to result in derecognition due to their impact (expected to be significant) on the original contractual cash flows.

#### *Derecognition criteria*

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity’s continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

#### 4. Hedging transactions

The Intesa Sanpaolo Group has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

##### *Classification criteria: type of hedge*

Hedging transactions are aimed at neutralising potential losses on a specific item or group of items, attributable to a certain risk, if such a risk should actually occur.

The following types of hedging transactions are used:

- fair value hedge, which has the objective of covering exposure to changes in the fair value (attributable to the different risk categories) of assets and liabilities in the balance sheet, or on a portion of these, of groups of assets/liabilities, of binding commitments and portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 endorsed by the European Commission. Fair value macro hedges are aimed at reducing fluctuations in the fair value, as a result of interest rate risk, of a sum of money flowing from a portfolio of financial assets or liabilities. Net amounts resulting from mismatches between assets and liabilities cannot be subject to macro hedges;
- cash flow hedge: which has the objective of covering exposure to variability in future cash flows attributable to particular risks associated with balance sheet captions. This type of hedge is essentially used to stabilise the interest flow on floating rate funding to the extent that the latter finances fixed rate investments. In certain circumstances, similar transactions are carried out with respect to some types of floating rate investments;
- hedges of net investments in foreign currency, which refer to the coverage of the risks of net investments in foreign operations expressed in their original currency.

Only hedging transactions which involve counterparties outside the Group may qualify for hedge accounting.

The choice made by the Group to take advantage of the possibility of continuing to fully apply the IAS 39 rules for hedging relationships means that the equity instruments classified as Financial assets measured at fair value through other comprehensive income (FVOCI) cannot be measured as hedged items for price or exchange rate risk, since these instruments are not recognised through profit or loss, not even if they are sold (except for dividends that are recognised through profit or loss).

##### *Recognition criteria*

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at fair value.

A relationship qualifies as a hedging relationship, and is appropriately reported in the financial statements if, and only if, all of the following conditions are met:

- at the inception of the hedge, the hedging relationship is formally designated and documented, including the company's risk management objectives and strategy in undertaking the hedge. This documentation includes the identification of the hedging instrument, the item or transaction hedged, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness in offsetting the exposures to changes in the fair value of the item hedged or in the cash flows attributable to the risk hedged;
- the hedge is expected to be highly effective;
- the forecast transaction hedged, to hedge the cash flows, is highly probable and has an exposure to changes in cash flows that could have effects on the income statement;
- the effectiveness of the hedge can be reliably measured;
- the hedge is measured on an ongoing basis and is considered highly effective for all the financial years in which it was designated.

##### *Measurement criteria*

Hedging derivatives are measured at fair value. In particular:

- in the case of fair value hedges, the change in the fair value of the hedged item is offset by the change in fair value of the hedging instrument. Offsetting is recognised via the registration in the income statement of the gains and losses referred to both the hedged item (with regard to the variations produced by the underlying risk factor), and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect. In case of fair value macro hedges, fair value changes related to the hedged risk of assets and liabilities in hedged portfolios are allocated to the balance sheet under caption 60. "Fair value change of financial assets in hedged portfolios" or under caption 50. "Fair value change of financial liabilities in hedged portfolios";
- in the case of cash flow hedges, changes in fair value of the derivative are recorded in equity, for the effective portion of the hedge, and these are registered in the income statement only when, with reference to the hedged item, there is a variation in the flows to be offset or if the hedge is ineffective;
- hedges of net investments in foreign currency are treated in the same way as cash flow hedges.

The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged item or the relating expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is appraised by comparing the aforementioned changes, considering the intent pursued by the entity at the time in which it entered the hedging transaction. A hedge is effective when the variations in fair value (or cash flows) of the hedging financial instrument almost completely neutralise, that is within the 80-125% range, the changes in the fair value of the hedged item, for the type of risk being hedged.

Effectiveness is assessed at every close of annual or interim financial statements using:

- prospective tests, which justify the application of hedge accounting, since these prove the expected effectiveness of the hedge;

- retrospective tests, which demonstrate the effectiveness of the hedge for the reference period, or measure how much the effective results diverge from perfect coverage.

Fair value hedge accounting is discontinued prospectively in the following cases:

1. the hedging instrument expires or is sold, terminated, or exercised;
2. the hedge no longer meets the hedge accounting criteria described above;
3. the entity revokes the designation.

If such assessments do not confirm hedge effectiveness, from that moment hedge accounting is discontinued, the derivative is reclassified in instruments held for trading and the hedged item is measured on the basis of its classification in the balance sheet. If the assets or liabilities hedged are measured at amortised cost, the higher or lower value resulting from the fair value measurement due to the hedge becoming ineffective is recognised through profit or loss, using the effective interest rate method. When a fair value macrohedging relationship is discontinued, the cumulative change in fair value losses carried under caption 60 "Fair value change of financial assets in hedged portfolios" or caption 50. "Fair value change of financial liabilities in hedged portfolios" are transferred to the income statement among interest income or expense over the residual life of the original hedging relationships, without prejudice to verification that the requirements have been met.

An entity must discontinue cash flow hedge accounting prospectively in each of the following circumstances:

- a) the hedging instrument expires or is sold, terminated, or exercised (for this purpose the replacement or exchange of one hedging instrument with another hedging instrument is not a conclusion or termination if that replacement or exchange forms part of an entity's documented hedging strategy). In this case the total profit (or loss) on the hedging instrument continues to be recognised directly in shareholders' equity until the end of the reporting period in which the hedge became effective and it continues to be recognised separately until the forecast transaction, being hedged, occurs;
- b) the hedge no longer meets the criteria for hedge accounting. In this case the total profit or loss on the hedging instrument is recognised directly in shareholders' equity starting from the reporting period in which the hedge became effective and continues to be recognised separately in shareholders' equity until the forecast transaction occurs;
- c) the forecast transaction is no longer expected to occur, in which case any related total profit or loss on the hedging instrument recognised directly in equity starting from the reporting period in which the hedge was effective must be recognised through profit or loss;
- d) the entity revokes the designation. For hedges of a forecast transaction, total profits or losses on the hedging instrument recognised directly in shareholders' equity starting from the reporting period in which the hedge was effective continue to be recognised separately in shareholders' equity until the forecast transaction occurs or is no longer expected to occur.

## 5. Investments in associates and companies subject to joint control

### *Classification, recognition and measurement criteria*

The caption includes investments in companies subject to joint control and associates.

Entities are considered to be companies subject to joint control if control is contractually shared between the Group and one or more other parties, or where the decisions about the relevant activities require the unanimous consent from all parties sharing control.

Companies are considered subject to significant influence (associates) when the Group holds 20% or more of the voting rights (including "potential" voting rights) or if it – with a lower equity stake – has the power of participating in the determination of financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates.

Certain companies in which the Group holds a stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the safeguarding of its economic interests.

The investments in associates and companies subject to joint control are measured at cost and accounted for according to the equity method. If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value.

If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement.

If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.

### *Derecognition criteria*

Investments in associates and companies subject to joint control are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold, substantially transferring all the risks and rewards connected to the assets.

## 6. Property and equipment

### *Classification criteria*

Property and equipment include land, owner-occupied property, investment property, valuable art assets, technical plants, furniture and fittings and any type of equipment that are expected to be used during more than one period.

Property and equipment held for use in the production or supply of goods and services are classified as "Property and equipment used in operations", in accordance with IAS 16. Real estate owned for investment purposes (to obtain rental income or gains on the capital invested) is classified as "Investment property" based on IAS 40.

This caption also includes property and equipment classified in accordance with IAS 2 - Inventories, which refer both to assets resulting from the enforcement of guarantees or from purchase at auction that the company intends to sell in the near future,



without carrying out major renovation work, and which do not meet the requirements for classification in the previous categories, and to the real estate portfolio of the Group's real estate companies, including building sites, properties under construction, properties completed for sale and real estate development initiatives, held for sale.

Finally, this caption also includes the rights of use acquired through leases and relating to the use of an item of property and equipment (for the lessee companies) and the assets leased under operating leases (for the lessor companies).

#### *Recognition criteria*

Property and equipment are initially measured at cost which comprises in addition to their purchase price any costs directly attributable to the purchase and required for them to be operational.

Extraordinary maintenance expenses which lead to a rise in future economic benefits are attributed to increase the value of assets, while other ordinary maintenance costs are recorded in the income statement.

#### *Measurement criteria*

Property and equipment are measured at cost, net of depreciation and impairment losses, except for owner-occupied properties and valuable art assets, which are measured according to the revaluation model.

The investment properties are measured with the fair value method.

For the property and equipment subject to assessment according to the revaluation model:

- if the carrying value of an asset is increased following a revaluation, the increase must be recognised in the Statement of consolidated comprehensive income and accumulated in the shareholders' equity under the caption revaluation reserve; conversely, in the case where an impairment loss on the same asset recognised previously in the income statement is recovered, it must be recognised as income;
- if the carrying value of an asset is decreased following the revaluation, the decrease must be recognised in the Statement of consolidated comprehensive income to the extent in which there are possible credit balances in the revaluation reserve referring to this asset; otherwise, this reduction is recorded in the income statement.

Property and equipment are systematically depreciated, adopting the straight-line method over their useful life. The depreciable amount is the cost of the goods (or the net value recalculated if the method adopted for the valuation is the one of the value recalculation) net of the residual value at the end of the depreciation period, if significant. Buildings are depreciated for a portion deemed to be suitable to represent their deterioration over time following their use, considering extraordinary maintenance expenses, which are recognised in the carrying value of the assets. In order to determine the useful life of the various types of assets and the corresponding depreciation rates, the Group's real estate assets have been divided into four clusters: (i) Restricted and unrestricted historical properties, (ii) Entire buildings, (iii) Banking branches and (iv) Other properties.

The following are not depreciated:

- land, irrespective of whether acquired individually or embedded in the value of buildings, since it has an indefinite useful life;
- the valuable art assets, the other historical, artistic and decorative assets, since their useful life cannot be estimated and their value is normally destined to increase over time;
- the investment properties which, as required by IAS 40, must not be amortised, as they are measured at fair value through profit or loss.

If there is some evidence that property and equipment measured at cost may have been impaired, the carrying amount of the asset and its recoverable amount are compared. Any impairment losses are recorded in the income statement.

If the reasons for impairment cease to exist, a value recovery is recorded and may not exceed the value that the asset would have had, net of depreciation, determined in the absence of previous impairment losses.

With regard to the property and equipment recognised in accordance with IAS 2, these are measured at the lesser of cost and net realisable value, without prejudice to the comparison between the asset's carrying amount and its recoverable amount where there is an indication that the asset may have been impaired. Any impairment losses are recorded in the income statement.

#### **Property and equipment consisting of the right-of-use of assets subject to leases**

According to IFRS 16, a lease is a contract or part of a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

According to IFRS 16, leases are accounted for on the basis of the right of use model, where, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for its right of use of the underlying asset during the lease term.

When the asset is made available to the lessee for use (initial date), the lessee recognises both the liability and the asset consisting of the right of use.

In particular, the right of use acquired with a lease is measured as the sum of the present value of the future payments over the term of the contract, the lease payments made at or before the commencement date, the lease incentives received, if any, the initial direct costs and any estimated costs of dismantling or restoring the underlying asset.

The financial liability recognised corresponds to the present value of the payments to be made for the lease.

With regard to the discount rate, based on the requirements of IFRS 16, the Group uses the implicit interest rate for each lease contract, when it is available. For leases from the lessee's point of view, in some cases, for example for rental agreements, the implicit interest rate cannot always be readily determined without using estimates and assumptions (the lessee does not have enough information about the unguaranteed residual value of the leased asset).



In these cases, the Group has developed a methodology for setting the incremental interest rate as an alternative to the implicit interest rate and has decided to adopt the Funds Transfer Pricing (FTP) method. This is based on an unsecured and amortising rate curve, which envisages lease payments for the lease contract that are typically constant over the lease term, rather than a single payment upon maturity. The FTP method takes into account the creditworthiness of the lessee, the term of the lease, as well as the economic environment in which the transaction takes place and is therefore in line with the requirements of the standard.

The lease term is determined taking into account:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option;
- periods covered by an option to terminate the lease if the lessee is reasonably certain to exercise that option.

During the course of the lease term a lessee shall:

- measure the right-of-use at cost less accumulated depreciation and accumulated impairment losses determined and recognised based on the provisions of IAS 36 “Impairment of assets”, adjusted to take account of any remeasurement of the lease liability;
- increase the liability arising from the lease following the accrual of interest expense calculated at the interest rate implicit in the lease or alternatively at the incremental borrowing rate, and decrease it for payments of principal and interest made.

If changes are made to the lease payments, then the lease liability must be remeasured and the impact of the remeasurement of the liability is recognised against the right-of-use asset.

#### *Derecognition criteria*

Property and equipment are derecognised from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

## **7. Intangible assets**

#### *Classification criteria*

Intangible assets consist of goodwill and other intangible assets governed by IAS 38. They may include the rights of use acquired under a lease and relating to the use of an intangible asset (for lessees) and assets leased under an operating lease (for lessors).

Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. Intangible assets include goodwill, which represents the positive difference between purchase price and fair value of assets and liabilities pertaining to the acquired company.

#### *Recognition and measurement criteria*

Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. If this is not the case, the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.

For assets with finite useful life, the cost is amortised on a straight-line basis or in decreasing portions determined on the basis of the economic benefits expected from the asset. Assets with indefinite useful life are not subject to systematic amortisation, but are periodically subjected to impairment testing.

If there is any indication that an asset may have suffered impairment losses, the asset’s recoverable amount is estimated. The impairment loss, which is recorded in the income statement, is equal to the difference between the carrying value of the assets and the recoverable amount.

In particular, intangible assets include:

- technology-related intangibles, such as software, which are amortised on the basis of their expected technological obsolescence and over a maximum period of seven years; in particular, the costs incurred internally for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale, iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs only comprise the costs directly attributable to the development process. Capitalised software development costs are amortised systematically over the estimated useful life of the relevant product/service so as to reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity from the beginning of production over the product’s estimated life;
- customer-related intangibles represented, in business combinations, by asset management relations, non-financial activities related to provision of services and insurance portfolios. Such assets, with a finite life, are originally measured by the discounting, using a rate representing the time value of money and the asset’s specific risks, of the income margins on the ongoing relations at the time of the business combination over a period which expresses their residual, contractual or estimated life. For asset management relations and non-financial activities related to provision of services, they are amortised on a straight-line basis over the period of greater significance of the expected economic benefits in case of relations which do not have a predetermined duration and, for relations from insurance contracts, in decreasing portions corresponding to the duration of the contract in case of relations with predetermined expiry (residual lives of the policies);
- marketing-related intangibles represented by the measurement of the brand name which is also recorded at the time of business combinations. This asset is considered as having indefinite life since it is deemed to contribute for an indefinite period of time to the formation of income flows.

Lastly, intangible assets include goodwill.

With respect to business combinations, goodwill may be recorded when the positive difference between the consideration transferred and the fair value recognition, if any, of minority interests, and the fair value of shareholders' equity acquired is representative of the future income-generation potential of the equity investment.

If this difference is negative (badwill) or if goodwill may not be attributed considering future income-generation potential of the equity investments, the same difference is directly recorded in the income statement.

Once a year (or every time that there is evidence of impairment losses), an impairment test is carried out for goodwill. This requires the identification of the cash-generating unit to which goodwill is allocated. The cash-generating units of the Intesa Sanpaolo Group correspond to the operating divisions presented in segment reporting. Any impairment losses are determined on the basis of the difference between the recognition value of goodwill and its recoverable amount, if lower. The recoverable amount is equal to the higher between the fair value of the cash-generating unit, less any cost to sell, and the relative value in use. The consequent adjustments are posted in the income statement.

#### *Derecognition criteria*

Intangible assets are derecognised from the balance sheet on disposal and if no future economic benefits are expected.

### **8. Other assets**

Other assets essentially consist of items awaiting classification and items not attributable to the other balance-sheet captions, including receivables arising from the supply of goods and non-financial services, sundry tax items other than those recognised in their own caption (e.g., connected to withholding agent activities), gold, silver and precious metal, and accrued income other than that capitalised on the related financial assets, including the income resulting from contracts with customers in accordance with IFRS 15, paragraphs 116 and following. As required by paragraphs 91 and following of IFRS 15, the costs incurred for the acquisition and fulfilment of long-term contracts with customers are capitalised and amortised when they are incremental and are expected to be recovered.

### **9. Non-current assets held for sale and discontinued operations and related liabilities**

Non-current assets/liabilities for which a disposal process has commenced and for which disposal is deemed to be extremely probable are recorded in assets under Non-current assets held for sale and discontinued operations and in liabilities under Liabilities associated with non-current assets held for sale and discontinued operations. These assets/liabilities are measured at the lower of the carrying amount and fair value less cost to sell, except for some type of assets (e.g., financial assets within the scope of IFRS 9) for which IFRS 5 specifically establishes that the measurement principles of the applicable accounting standard must be used.

Non-current assets held for sale and discontinued operations may include portfolios of assets for which there are no prices in an active market. In such case, where an agreement has been reached with the purchaser, they are measured at fair value by referring to the sale prices resulting from that agreement. Where there is no agreement, they are measured using specific valuation techniques based on the asset and, where necessary, by employing external fairness opinions.

The income and charges (net of tax effect) attributable to non-current assets held for sale and discontinued operations or recorded as such in the year are recognised in the income statement in a separate caption.

### **10. Current and deferred tax**

Taxes on income, calculated according to domestic tax regulations, are accounted for as a cost on an accruals basis, in line with the method followed to include, in the financial statements, the costs and income that generated them. Therefore, they represent the balance of current and deferred income taxes for the year. Current tax assets and liabilities include the balances of the Group companies due to the relevant Italian and foreign tax authorities relating to direct taxation. More specifically, these captions include the net balance of tax liabilities from previous years and the current year, calculated on the basis of a prudent estimate of the tax charges due for the year, assessed according to the tax regulations currently in force, and the current tax assets represented by advances, by withholding taxes borne or other tax credits. The risk inherent in such proceedings and the risks inherent in proceedings where preliminary disbursements have not been requested are evaluated in applying the principles contained in IAS 37 regarding the best estimate of the economic resources required.

Considering the Group's adoption of the national fiscal consolidation provisions, tax positions which may be referred to the Group companies are managed separately from an administrative standpoint.

Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. To this end, "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years.

Deferred tax liabilities are calculated by applying the tax rates currently in force to taxable temporary differences that are likely to generate a tax burden, and to the deductible temporary differences for which it is likely that there will be future taxable amounts at the time when the related tax deductibility occurs (so-called probability test). Deferred tax assets and liabilities related to the same tax and due in the same period are offset.

If deferred tax assets and liabilities refer to items affecting the Income statement, the balancing entry is represented by taxes on income.

Where deferred tax assets and liabilities relate to transactions that have been recorded in shareholders' equity without affecting earnings (such as adjustments on IAS/IFRS first-time adoption, measurements of financial assets recognised at fair value through other comprehensive income or of cash flow hedge derivative contracts), the balancing entry is made in shareholders' equity, under specific reserves where so provided (e.g. valuation reserves).

Latent taxation on equity reserves that will become taxable "however used" is charged against shareholders' equity. Deferred taxation relating to revaluations arising on conversion to the euro, credited directly to a specific reserve named "Reserve pursuant to Article 21 of Legislative Decree 213/98", which qualify for deferred taxation, is charged directly against

this reserve. No provision is made for reserves subject to latent taxation only in the event of distribution, since the size of the available reserves which have already been taxed leads to the belief that the Bank will not undertake any transactions which may cause taxation of the untaxed reserves.

Deferred tax liabilities referred to companies included in the fiscal consolidation are reported in their financial statements, in application of the accrual basis principle and in consideration of the fact that the effects of fiscal consolidation are limited to the settlement of current tax positions.

Latent taxation on shareholders' equity items of consolidated companies is not recorded in the financial statements if it is unlikely that any tax liability will actually arise, also bearing in mind the permanent nature of the investment.

## 11. Allowances for risks and charges

### *Allowances for risks and charges for commitments and guarantees given*

This sub-caption of the allowances for risks and charges contains the allowances for credit risk recognised for loan commitments and guarantees given that come under the scope of the IFRS 9 impairment rules. For these cases, in general, the methods described for financial assets measured at amortised cost or at fair value through other comprehensive income are adopted for the assignment to the three credit risk stages and the calculation of the expected credit loss.

This aggregate also includes allowances for risks and charges made to cover other types of commitments and guarantees given that, due to their specific characteristics, do not fall under the scope of impairment pursuant to IFRS 9.

### *Post-employment benefits*

Company post-employment benefits are based on agreements and qualify as defined benefit plans. Liabilities related to such plans and the relative cost of current service are determined on the basis of actuarial assumptions based on the Projected Unit Credit Method. This method sets out that future obligations are forecast using past time-series analyses and the demographic curve and that such future cash flows are discounted based on a market interest rate. The provisions made in each year of service are considered separately and give rise to an additional unit of benefit entitlement for the purposes of the final obligation. The discounting rate is determined on the basis of market returns, surveyed as at the date of measurement, on high-quality corporate bonds, taking account of the residual average life of the liability. The present value of the liability at the reporting date is also adjusted by the fair value of any plan assets.

Actuarial profits and losses (namely the changes in the current value of the obligation resulting from changes in the actuarial assumptions and adjustments based on past experience) are recognised in the statement of comprehensive income.

### *Other allowances*

Other allowances for risks and charges record provisions related to legal obligations or connected to labour relationships or to litigations, also of a fiscal nature, originating from a past event for which a disbursement will probably arise to settle the obligations, provided that the amount of the disbursement may be estimated reliably.

Consequently, a provision is recognised when, and only when:

- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date and takes into account the risks and uncertainties that inevitably surround many events and circumstances. Where time value is significant, provisions are discounted using current market rates. Provisions and increases due to time value are recorded in the income statement.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation or when the obligation is settled, the provision should be reversed.

The caption also includes long-term benefits to employees, whose charges are determined with the same actuarial criteria described for post-employment benefits. Actuarial profits and losses are all immediately recognised in the income statement.

## 12. Financial liabilities measured at amortised cost

### *Classification criteria*

Amounts Due to banks, Due to customers and Securities issued include various forms of funding on the interbank market and with customers, repurchase agreements with commitment to repurchase and funding via certificates of deposit, bonds issued and other funding instruments in circulation, net of any amounts repurchased.

It also includes the payables recorded by the entity in the capacity of lessee in lease transactions.

### *Recognition criteria*

Initial recognition of these financial liabilities occurs at the date of subscription of the contract, which usually coincides with the time of collection of the sums deposited or the issue of debt securities.

Initial recognition is based on the fair value of the liabilities, normally equal to the amount collected or the issue price, increased by any additional charges/revenues directly attributable to the single funding or issuing transaction. Internal administrative costs are excluded.

Lease payables are recognised at the present value of the future lease payments, discounted using the implicit interest rate of the transaction or, where it cannot be determined, the marginal financing rate.

*Measurement criteria*

After initial recognition, financial liabilities are measured at amortised cost with the effective interest method.

An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount.

Lease payables are remeasured when there is a lease modification (e.g. a change in the contract which is not accounted for/considered as a separate contract); the effect of the remeasurement will be a corresponding adjustment to the right-of-use asset.

*Derecognition criteria*

Financial liabilities are derecognised from the balance sheet when they have expired or extinguished. Derecognition also occurs for repurchase of previously-issued bonds. The difference between book value of the liability and amount paid for repurchase is recorded in the income statement.

Placement of own securities, after their repurchase, is considered a new issue with recognition at the new placement price.

**13. Financial liabilities held for trading***Recognition criteria*

These financial instruments are recognised at the subscription or issue date at the fair value of the instrument, without taking into account directly attributable transaction costs or revenues.

This liability category includes, in particular, the negative fair value of trading derivatives, as well as embedded derivatives with a negative fair value separated from liabilities measured at amortised cost.

It also includes liabilities determined by short selling generated by trading of securities and certificates forming part of the trading business model.

*Measurement criteria*

All financial liabilities held for trading are measured at fair value through profit or loss.

*Derecognition criteria*

Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed of with the substantial transfer of all the risks and rewards connected to it.

**14. Financial liabilities designated at fair value***Classification criteria*

Financial liabilities designated at fair value are recorded under this caption, on the basis of the fair value option given to companies by IFRS 9 and in compliance with the cases contemplated in the reference regulations.

This category of liabilities includes certificates that form part of the banking book business model.

*Recognition criteria*

These liabilities are recorded at fair value as at the date of issue, including the value of any embedded derivatives, net of placement fees paid.

*Measurement criteria*

These liabilities are measured at fair value according to the following rules established by IFRS 9:

- changes in fair value attributable to changes in own credit risk must be recognised in the statement of comprehensive income (shareholders' equity);
- the remaining changes in fair value must be recognised in the income statement.

The amounts recognised in the statement of comprehensive income are not subsequently recycled to the income statement. This method of accounting must not be applied when recognition of the effects of own credit risk on shareholders' equity results in or accentuates an accounting mismatch in the income statement. In this case, gains and losses associated with the liability, including those resulting from changes in own credit risk, must be recognised in the income statement.

*Derecognition criteria*

The financial liabilities designated at fair value are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed with the substantial transfer of all the risks and rewards connected to it.

**15. Foreign currency transactions***Definition*

The foreign currency is a currency that is not the functional currency of the entity, which is in turn the currency of the primary economic environment in which the entity operates.

*Initial recognition*

Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying to the foreign currency amount the spot exchange rate at the date of the transaction.

#### *Subsequent measurement*

At every close of annual or interim financial statements, captions in foreign currency are measured as follows:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction;
- non-monetary items that are measured at fair value in a foreign currency are translated using the closing rates.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised through profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised through profit or loss, any exchange component of that gain or loss is recognised through profit or loss.

## **16. Other information**

#### *Own shares*

Any own shares held are directly deducted from equity. Similarly, their original cost and the profits or losses deriving from their subsequent sale are recorded in equity.

#### *Accruals, prepayments and deferrals*

Accruals, prepayments and deferrals for the year that include income and charges for the year, accrued on assets and liabilities, are shown in the financial statements as an increase or decrease of the assets and liabilities to which they are related.

#### *Leasehold improvements*

The costs sustained for restructuring property belonging to third parties are capitalised in consideration of the fact that for the duration of the rental contract the using company has control of the assets and may receive their future economic benefits. These costs, recorded in Other assets as provided for by the instructions of the Bank of Italy, are amortised over a period which must not exceed the duration of the rental contract.

#### *Employee termination indemnities*

Employee termination indemnities qualify as a “post-employment benefit” classified as:

- a “defined contribution plan” to the extent of the portions accruing from 1 January 2007 (the date the reform of the supplementary pension schemes came into force pursuant to Legislative Decree 252 of 5 December 2005) when the employee opted for the complementary pension scheme or decided to allocate such portions to the INPS (the Italian Social Security Institute) Treasury fund. Therefore, the amounts, recorded under personnel expenses, are determined on the basis of amounts due without the application of actuarial calculation;
- a “defined benefit plan” to the extent of the portions of employee termination indemnities accrued until 31 December 2006.

These amounts are recognised at their actuarial value determined using the “Projected Unit Credit Method”, without applying the pro-rata of the service rendered. Indeed, the current service cost of employee termination indemnities is almost entirely accrued and its revaluation in the years to come is not expected to generate significant benefits for employees.

For the purposes of discounting, the rate used is the market yield of high-quality corporate bonds taking into account the average remaining life of the liability, weighted based on the percentage amount paid and advanced, for each maturity, with respect to the total to be paid and advanced until the expiry of the entire obligation.

The plan’s costs are recorded under personnel expenses, while actuarial profits and losses are recognised in the statement of comprehensive income.

#### *Share-based payments*

Share-based payments are recorded in the income statement, with a corresponding increase in shareholders’ equity, on the basis of the fair value of financial instruments attributed at assignment date, dividing the charge over the period set forth by the plan.

In the case of options, the fair value is calculated using a model which considers, in addition to information such as strike price and expiry date of the option, spot price of the shares and their expected volatility, expected dividends and the risk-free interest rate, as well as the specific characteristics of the plan. The pricing model values the option and the probability of realisation of the condition on the basis of which the options have been assigned.

The combination of the two values supplies the fair value of the assigned instrument.

Any decrease in the number of financial instruments granted is accounted for as a cancellation of such instruments.

#### *Employee benefits*

Employee benefits are defined as all forms of consideration given by an entity in exchange for service rendered by employees. Employee benefits are divided into:

- short-term benefits (other than termination benefits or equity compensation benefits) that are expected to be paid in full within twelve months after the end of the period in which the employees render the related service and recognised in full through profit or loss when they become due (this category includes, for example, wages, salaries and “extraordinary” benefits);



- post-employment benefits payable after the conclusion of employment that require the entity to provide future benefits to employees. These include employee termination indemnities and pension funds, which are in turn divided into defined contribution plans and defined benefit plans or company pension funds;
- termination benefits, i.e. compensation that the company recognises to the staff members upon termination of the employment agreement, following the company's decision to terminate the employment relationship prior to the normal retirement date;
- long-term benefits, other than those above, that are not expected to be paid in full within twelve months after the end of the period in which the employee rendered their service.

#### *Offsetting of financial instruments*

According to IAS 32, paragraph 42, financial assets and financial liabilities are offset and the net amount presented in the financial statements when an entity:

- has a legal enforceable right of set off which is currently exercisable in all circumstances, both in the ordinary course of business or in the event of default, insolvency or bankruptcy of the parties;
- intends to settle the transactions on a net basis or on a gross settlement basis whose substantive effects are equivalent to a net settlement.

For derivative instruments covered by netting agreements that meet the above requirements, the Bank of Italy Circular 262 also requires the offsetting to be performed between trading and hedging derivatives, with the mismatches to be presented on a net basis. The net balance is usually allocated to the trading book rather than to the hedging derivatives, based on the actual amount of the mismatch between trading and hedging derivatives.

In compliance with the requirements of IFRS 7, more detailed information is provided in the tables contained in Part B – Other information of these Notes to the consolidated financial statements, which present the following:

- the carrying amounts of assets and liabilities that meet the requirements of IAS 32, paragraph 42, before and after offsetting;
- the exposures subject to master netting agreements that have not been offset but have the potential to be offset following specific circumstances;
- the collateral associated with them.

#### *Tax credits related to the “Cura Italia” and “Rilancio” Law Decrees acquired as a result of transfer by direct beneficiaries or previous purchasers (e.g. ecobonus)*

Law Decrees no. 18/2020 (“Cura Italia” Decree) and no. 34/2020 (“Rilancio” Decree) introduced tax incentives related to both investment expenditure (e.g. “ecobonus and sismabonus”) and current expenditure (e.g. rents for non-residential premises). These tax incentives apply to households or businesses, they are linked to a percentage of the expenditure incurred (in some cases up to 110%) and are granted in the form of tax credits or tax deductions (with option for conversion into tax credits). The main features of these tax credits are: i) the possibility of using them for offsetting; ii) their transferability to third-party purchasers; and iii) their non-refundability by the Treasury.

The accounting for tax credits acquired from a third party (transferee of the tax credit) is not covered by a specific international accounting standard. IAS 8 requires, in cases where there is a circumstance not explicitly addressed by an IAS/IFRS accounting standard, that management develop an accounting policy to ensure relevant and reliable disclosure of such transactions.

To this end, the Intesa Sanpaolo Group, in view of the guidance provided by the Authorities<sup>29</sup>, has adopted an accounting policy that refers to the accounting rules established by IFRS 9, applying the provisions that are consistent with the characteristics of the transaction and taking the view that these tax credits are substantially equivalent to a financial asset. The Group purchases the credits according to its tax capacity, for the purpose of holding them and using them for future offsets. As a result these credits come under a hold to collect business model and are recognised at amortised cost, with the remuneration recognised in net interest income during the period of recovery. The measurement of these credits must be carried out considering the cash flows from the estimated future offsets. The accounting framework established by IFRS 9 for calculating expected losses does not apply in this case: the ECL is not calculated on these tax credits, as there is no counterparty credit risk, because the credit is realised through offsetting against payables and not through collection. As specified in the joint document from the Authorities, given that the purchased tax credits do not qualify as tax assets, public subsidies, intangible assets or financial assets under the international accounting standards, the most appropriate classification, for their presentation in the financial statements, is the residual classification under Other Assets in the balance sheet.

#### *TLTRO III*

The TLTRO III (Targeted Longer Term Refinancing Operations) seek to preserve favourable bank lending conditions and support the accommodative monetary policy stance. Some of the parameters established by the ECB on 6 June 2019 were subsequently revised to make improvements, most recently on 10 December 2020, in light of the economic impact of the continuation of the COVID-19 emergency. The amount of funding that each bank can obtain depends on the amount of loans granted to non-financial companies and households at particular reporting dates (eligible loans). The operations have been conducted on a quarterly basis, from September 2019, and each operation has a duration of three years.

The interest rate for each operation is set at a level equal to the average interest rate on the Eurosystem's main refinancing operations (MROs), currently 0%, except for the special interest rate period from 24 June 2020 to 23 June 2022, when a rate of 50 basis points lower will apply. Banks granting net eligible loans above a benchmark net lending can receive an interest rate reduction. Specifically, the favourable rate applied will be equal to the average rate on deposits with the central bank (Deposit Facility), currently -0.5%, for the entire duration of the respective operation, except for the special interest rate period

<sup>29</sup> On 5 January, the Bank of Italy, Consob and IVASS published Document No. 9 of the Coordination Committee on the application of IAS/IFRS “Accounting treatment of tax credits related to the ‘Cura Italia’ and ‘Rilancio’ Law Decrees acquired following transfer by direct beneficiaries or previous purchasers”.



where an additional reduction of 50 basis points will be added (but in any event not higher than -1%). The interest is paid in arrears at the maturity date of each TLTRO III transaction or at the time of early repayment.

The Intesa Sanpaolo Group applies the accounting treatment determined in accordance with IFRS 9 to TLTRO III transactions, treating the refinancing conditions established by the ECB as market rates within the Eurosystem's monetary policy measures.

Under the Group's accounting policy, the special interest rates for the period from 24 June 2020 to 23 June 2022 are recognised in accordance with IFRS 9 as floating rates applicable to the reporting period, because the Governing Council of the ECB may at any time change the interest rate of TLTRO III operations prospectively (as it did in April and December 2020). The interest is therefore recognised periodically based on the interest rate of the instrument for each period (-0.5% until 24 June 2020, -1% until 23 June 2022, and -0.5% thereafter and until maturity, based on current rates) as required by paragraph B5.4.5 of IFRS 9.

A requirement for the recognition of the favourable interest rates – in keeping with the approach already adopted for TLTRO II – is a reliable estimate of the achievement of the benchmark net lending, which the Group performs through forecast reports on the lending performance monitored at set dates, approved by an appropriate level of management.

In the event of changes to the forecasts on the achievement of those targets, the IFRS 9 provisions on the revision of cash flow estimates will apply.

#### *Recognition of revenues and costs*

Revenues are gross flows of economic benefits deriving from the performance of the company's ordinary business and are recognised when control of the goods or services is transferred to the customer, at an amount that represents the amount of consideration that the company considers it is entitled to. In particular, revenues are recognised by applying a model that must meet the following criteria:

- identification of the contract, defined as an agreement in which the parties are committed to perform their respective obligations;
- identification of the individual performance obligations contained in the contract;
- determination of the transaction price, i.e. the expected consideration for the transfer of the goods or services to the customer;
- allocation of the transaction price to each performance obligation, based on the sale prices of the individual obligation;
- recognition of revenues when (or as) the performance obligation is satisfied by transferring a promised good or service to a customer.

The transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services promised. It may include fixed or variable amounts or both. Revenues from variable fees are recognised in the income statement if they can be reliably estimated and only if it is highly likely that all or a significant part of this fee will not need to be reversed from the income statement in future periods. Where there is a high level of uncertainty related to the nature of the consideration, it will be recognised only when this uncertainty is resolved.

Revenues may be recognised:

- at a specific point in time, when the entity satisfies a performance obligation by transferring a promised good or service to the customer, or
- over time, as the entity satisfies a performance obligation by transferring a promised good or service to the customer.

The good is transferred when, or in the period when, the customer acquires control of the good.

In particular:

- interest is recognised on accrual on the basis of the contractual interest rate or the effective interest rate in the case of application of amortised cost. Interest income (or interest expense) includes differentials and positive (or negative) margins accrued up to the reporting date, relating to financial derivatives:
  - a) hedging interest-generating assets and liabilities;
  - b) classified in the balance sheet in the trading book, though related to financial assets and/or liabilities designated at fair value through profit or loss (fair value option) in management terms;
  - c) related in management terms to assets and/or liabilities classified in the trading book and providing for the settlement of differentials or margins with different maturities;
- overdue interest, which may be provided for by the relevant contracts is recorded in the income statement solely at the time of collection;
- dividends are posted in the income statement when their distribution is approved, unless this date is not known or the information is not immediately available, in which case they may be recognised when they are collected;
- commission income from services is recorded, on the basis of the existence of contractual agreements, in the period in which the services have been rendered. Commission income included in the amortised cost for the purposes of determining the effective interest rate is recognised under interest;
- profits and losses from securities trading are recognised in the income statement at the date of sale, on the basis of the difference between the consideration paid or collected and the carrying value of such instruments;
- revenues deriving from the sale of non-financial assets are recorded at the date of sale, or when the performance obligation towards the customer is satisfied.

Costs are recognised in the income statement on an accruals basis. Costs relating to the receipt and performance of contracts with customers are recognised in the income statement in the periods when the related revenues are recognised.

#### *Use of estimates and assumptions in preparing financial reports*

The preparation of financial reports requires the use of estimates and assumptions that may have a significant effect on the amounts stated in the balance sheet and income statement, and on the potential assets and liabilities reported in the financial statements. Estimates are based on available information and subjective evaluations, often founded on past experience,

which are used to formulate reasonable assumptions to be made in measuring operating events. Given their nature, the estimates and assumptions used may vary from year to year, and hence it cannot be excluded that current amounts carried in the financial statements may differ significantly in future financial years as a result of changes in the subjective evaluations made.

If there are greater uncertainties and/or the assets being measured are particularly material, the valuation is supported by specific fairness opinions from external appraisers/experts.

The main cases for which subjective evaluations are required to be made by corporate management include:

- the measurement of impairment losses on loans, investments, and, generally, other financial assets;
- the use of measurement models for determining the fair value of financial instruments not listed on active markets;
- the evaluation of the appropriateness of amounts stated for goodwill and other intangible assets;
- the fair value measurement of real estate and valuable art assets;
- the measurement of personnel funds and allowances for risks and charges;
- the estimates and assumptions on the collectability of deferred tax assets;
- the demographic (linked to the estimated mortality of insured people) and financial (deriving from the possible trend in financial markets) suppositions used to structure insurance products and define the basis for calculating integrative reserves provided for in insurance regulations, in addition to the shadow reserves, and liability adequacy test provided for in IFRS 4.

For some of the types listed above, the main factors subject to estimates by the Group and which determine the carrying value of assets and liabilities in the financial statements can be identified. The following are noted, by way of example:

- to determine the fair value of financial instruments not listed on active markets, if the use of parameters that cannot be obtained from the market is necessary, the main estimates regard, on one hand, development of future cash flows (or even income flows, in the case of equities), possibly conditional on future events and, on the other, the level of specific input parameters not listed on active markets;
- the estimates for the assignment of loans and debt securities classified as Financial assets measured at amortised cost and Financial assets measured at fair value through other comprehensive income to the three credit risk stages required by IFRS 9 and to calculate the related expected credit losses involve:
  - o the determination of the parameters for a significant increase in credit risk, essentially based on models for measuring the probability of default (PD) upon origination of the financial assets and at the reporting date;
  - o the inclusion of forward-looking factors, including macroeconomic factors, for the determination of the PD and LGD;
  - o the determination of the likelihood of sale of impaired financial assets, through the realisation of market positions;
- to determine the future cash flow estimates from non-performing loans, a number of items are considered: the expected recovery times, the presumed realisable value of guarantees and the costs to be sustained for the recovery of credit exposure;
- to determine the value in use of intangible assets with an indefinite life (brand name and goodwill) with regard to the Cash-Generating Units (CGU) comprising the Group, the future cash flows in the forecasting period of the analysis and the flows used to determine the terminal value, generated by the CGU, are subject to estimate, separately and appropriately discounted. Also the cost of capital is among the items subject to estimate;
- to determine the value in use of intangible assets with a finite life (asset management and insurance portfolios) with regard to the CGUs comprising the Group, the useful life is subject to estimate, on the one hand, as well as the future cash flows arising from the asset, on the other. The cost of capital is subject to estimate in the case of intangible assets with a finite life as well;
- the fair value measurement of real estate and valuable art assets is based on valuations prepared by qualified independent firms. Lease rentals, selling prices, discount rates and capitalisation rates are estimated in order to conduct the appraisals of the properties, while to conduct the appraisals on the valuable art assets, the estimate of the value was gathered from the performance of the exchanges of similar works (in terms of technique, size, subject) by the same author or regional movements and schools that are close with regard to style and technique;
- to measure post-employment benefits, the present value of the obligations is subject to estimate, taking into account the flows, appropriately discounted, arising from past time-series analyses and the demographic curve;
- to measure allowances for risks and charges, the amount of outflows necessary to fulfil the obligations is estimated, where possible, taking into account the effective probability of having to utilise resources;
- to determine the value of deferred tax items, the likelihood of an effective future tax burden is estimated (taxable temporary differences) and the level of reasonable certainty – if it exists – of future taxable amounts at the time when the tax deductibility occurs (deductible temporary differences and tax losses carried forward).

#### *The classification drivers for financial assets*

The classification of the financial assets into the three categories established by the standard depends on two classification drivers: the business model used to manage the financial instruments and the contractual cash flow characteristics of the financial assets (or SPPI Test).

The classification of the financial assets derives from the combined effect of the two drivers mentioned above, as described below:

- Financial assets measured at amortised cost: assets that pass the SPPI test and come under the Hold to Collect (HTC) business model;
- Financial assets measured at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and come under the Hold to Collect and Sell (HTCS) business model;
- Financial assets measured at fair value through profit or loss (FVTPL): this is a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test of the contractual cash flow characteristics (SPPI test not passed).

*SPPI test*

For a financial asset to be classified as at amortised cost or at FVOCI – in addition to the analysis of the business model – the contractual terms of the asset must also provide, on specified dates, for cash flows that are solely payments of principal and interest (SPPI). This analysis must be carried out for loans and debt securities in particular.

The SPPI test must be carried out on each individual financial instrument at the time of recognition in the balance sheet. After initial recognition, and as long as it is recognised in the balance sheet, the asset is no longer subject to new assessment for the purposes of the SPPI test. If a financial instrument is derecognised and a new financial asset is recognised, the SPPI test must be performed on the new asset.

For the application of the SPPI test, IFRS 9 provides the following definitions:

- Principal: this is the fair value of the financial asset at initial recognition. This value may change over the life of the financial instrument, for example as a result of repayments of part of the principal;
- Interest: this is the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks and costs and a profit margin.

In assessing whether the contractual flows of a financial asset can be defined as SPPI, IFRS 9 refers to the general concept of a 'basic lending arrangement', which is independent of the legal form of the asset. When contract terms introduce exposure to risks or volatility in the contractual cash flows that is inconsistent with the definition of a basic lending arrangement, such as exposure to changes in share or commodity prices, the contractual cash flows do not meet the definition of SPPI. The application of the classification driver based on contractual cash flows sometimes requires a subjective judgement and, consequently, the establishment of internal application policies.

In cases of modified time value of money – for example, when the interest rate of the financial asset is recalculated periodically, but the frequency of the recalculation or the frequency of payment of the coupons does not reflect the nature of the interest rate (such as when the interest rate is recalculated monthly on the basis of a one-year rate) or when the interest rate is recalculated regularly on the basis of an average of particular short or medium-to-long term rates – an entity should assess, using both quantitative and qualitative information, whether the contractual cash flows still meet the definition of SPPI (benchmark cash flows test). If the test shows that the (undiscounted) contractual cash flows are "significantly different" from the (also undiscounted) cash flows of a benchmark instrument (i.e. without the modified time value element), the contractual cash flows cannot be considered to meet the definition of SPPI.

The standard requires specific analyses ("look through test") to be performed and these are therefore also conducted on multiple contractually linked instruments (CLIs) that create concentrations of credit risk for debt repayment and on non-recourse assets, for example in cases where the loan can only be enforced on specified assets of the debtor or on the cash flows from specified assets.

The presence of contractual clauses that may change the frequency or amount of the contractual cash flows must also be considered to determine whether those cash flows meet the requirements to be considered as SPPIs (e.g. prepayment options, the possibility of deferring contractually agreed cash flows, embedded derivative instruments, subordinated instruments, etc.).

However, as envisaged by IFRS 9, a contractual cash flow characteristic does not affect the classification of the financial asset if it could have only a de minimis effect on the contractual cash flows of the financial asset (in each year and cumulatively). Similarly, if a cash flow characteristic is not genuine, i.e. if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur, it does not affect the classification of the financial asset.

For operations in debt securities, the Intesa Sanpaolo Group uses the services offered by well-known info-providers for the performance of the SPPI Tests. This choice, on one hand, provides front office staff who deal in securities with an immediate result for the performance of the test, enabling the streamlining of purchasing processes, and, on the other hand, provides access to market approaches shared by numerous operators and audit firms. Only in cases where the securities are not managed by info-providers, the test is carried out manually using a proprietary tool based on an internally developed methodology (decision-making trees).

A proprietary tool based on an internally developed methodology (decision-making trees) has also been developed for carrying out the SPPI test for the lending processes. In particular, given the significant differences in characteristics, the procedure differs between products related to a contractual standard (typically the retail loan portfolio) and tailor-made loans (typically the corporate loan portfolio).

For standard products, the SPPI test is carried out during the structuring of the contractual standard, through the "New Product Coordination" process, and the result of the test is applied to all the individual relationships related to the same catalogue product. For tailor-made products, on the other hand, the SPPI test is carried out for each new credit line/relationship submitted to the decision-making body through the use of the proprietary tool.

The decision-making trees – included in the proprietary tool – have been produced internally (both for debt securities and loans) and capture the possible non-SPPI compliant characteristics. They take account of the instructions provided by IFRS 9, as well as the interpretations of the standard made by the Group. The trees are used both for the implementation of the rules of the proprietary tool and for the verification and validation of the methodology adopted by the info-providers.

*Business model*

With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed:

- Hold to Collect (HTC): this is a business model whose objective is achieved by collecting the contractual cash flows of the financial assets included in the portfolios associated to it. The inclusion of the portfolio of financial assets in this business model does not necessarily result in the inability to sell the instruments, but the frequency, value and timing of sales in prior periods, the reasons for the sales, and the expectations about future sales, need to be considered;
- Hold to Collect and Sell (HTCS): this is a mixed business model whose objective is achieved by collecting the contractual cash flows of the financial assets in portfolio and (also) through the sale of the financial assets, which is an integral part of the strategy. Both activities (collection of contractual flows and sale) are indispensable for achieving the business model's objective. Accordingly, sales are more frequent and significant than for an HTC business model and are an integral part of the strategies pursued;
- Other/Trading: this is a residual category that includes both financial assets held for trading and financial assets managed with a business model that does not come under the previous categories (Hold to Collect and Hold to Collect and Sell). In general, this classification applies to a portfolio of financial assets whose management and performance are measured based on fair value.

The business model reflects the way in which financial assets are managed to generate cash flows for the benefit of the entity and is defined by top management with the appropriate involvement of the business structures. It is observed by considering the way in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive from the collection of contractual flows, from the sale of the financial assets, or from both. This assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as 'worst case' or 'stress case' scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario does not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur.

The business model does not depend on management's intentions regarding an individual financial instrument, but refers to the way in which groups of financial assets are managed in order to achieve a specific business objective.

In summary, the business model:

- reflects the way in which financial assets are managed to generate cash flows;
- is defined by top management, with the appropriate involvement of the business structures;
- must be observable by considering the way the financial assets are managed.

In operational terms, the assessment of the business model is carried out in line with the company's organisation, the specialisation of the business functions, the risk cascading model, and the assignment of delegated powers (limits). All relevant factors available at the date of the assessment are used in the assessment of the business model. The above information includes the strategy, the risks and their management, the remuneration policies, the reporting, and the amount of the sales. In the analysis of the business model, the elements investigated must be consistent with each other and, in particular, must be consistent with the strategy pursued. Evidence of activities not in line with the strategy must be analysed and duly justified.

In this regard, and in relation to the business models under which the financial assets are held, a specific set of "Business Model Rules" (approved by the competent levels of governance) has been drafted for the Parent Company and Banking Group Companies. It defines and sets out the components of the business model in relation to the financial assets included in the portfolios managed as part of the operations of the Intesa Sanpaolo Group's business structures. The initial structure of the document was approved by the Board of Directors, with a favourable opinion from the Risks Committee. In further detail, the mapping of the business model adopted by the various structures through which the Group operates, with regard to both loans and receivables and debt securities, takes account of the structure of the division model and the Corporate Centre; this structure has been identified as the relevant level for formulating and representing the various business models applied by the Group's risk-taking centres.

Within the Chief Risk Officer Area, the Financial and Market Risks Head Office Department of the Parent Company provides high-level supervision of the procedure required for determining the business model within which a given set of assets is held and verifies the need for any updates (to be incorporated, at least annually, in the Business Model Rules document).

*Monitoring of the business model*

The monitoring of the reference business model of the various structures through which the Group operates is performed by the Financial and Market Risks Head Office Department, which uses indicators intended to verify the consistency of the declared strategy with that pursued within the business models; these indicators, differentiated for the various business models, have been developed in accordance with IFRS 9 and corporate rules and procedures.

For the Hold to Collect portfolios, the Group has set limits for frequent but not significant sales to be considered eligible (individually or in aggregate), or for infrequent sales even if their amount is significant, and the parameters have also been established for identifying sales as being consistent with that business model because they relate to an increase in credit risk or for securities nearing maturity..

More specifically, within an HTC business model, sales are allowed:

- in the event of an increase in credit risk, which occurs:
  - o for securities, when there is a downgrade of predetermined notches with respect to the rating upon origination. The approach adopted differentiates the number of notches according to the rating upon origination, in line with the method used to identify significant deterioration, i.e. for the staging assignment;
  - o for loans, if they are sales of non-performing loans or loans classified as stage 2;



- for securities nearing maturity (i.e., according to the Group rules, in the 6 months preceding maturity), provided that the amount collected is close to the current value of the remaining contractual flows;
- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, thresholds of frequency and significance have been set:
  - o frequency is defined as the percentage ratio between the number of positions sold over the observation period and the average of the portfolio positions over the observation period;
  - o significance is defined as the percentage ratio between the nominal value of the sales and the average nominal value of the instruments held in the portfolio over the period considered, using a method, solely for the debt securities, that gives a higher weight to the sales of the most recently acquired positions.

In measuring any overrun of the relevance threshold, multipliers are applied to the positions sold, with reference to the positions most recently acquired, to favour compliance with the approach specific to the HTC business model.

With regard to the determination of the “Risks” and the “Reporting” for the HTCS and Trading business models, the provisions of the RAF and Market Risk Charter and of internal policies in the area of market risk controls apply in principle, and measures are concurrently established for monitoring the consistency of the HTCS and Other/Trading business models.

With regard to the HTCS business model, IFRS 9 does not provide for the need for limits on the frequency or the value of the sales. However, the Group has established indicators for debt securities only in order to ensure that they are properly assigned to the chosen business model over time. These indicators are:

- The holding period, which measures the time for which a certain instrument has been held in portfolio;
- Turnover rate, which measures the speed with which positions in portfolio turnover during a predefined period of time.

Within the framework of the monitoring of the indicators set out above, limits and early-warning thresholds apply according to the overall strategies pursued by the HTCS portfolio.

Finally, with regard to debt or equity securities held for trading, a measure of the consistency of inclusion in the chosen business model applies, represented by the indicator of “expected average permanence” (so-called Vintage) which measures the observed holding period of all securities in portfolio.

The monitoring measures relating to the various business models are subject to regular reporting through technical committees.

#### *Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.

The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the present value of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability or for a shorter period when certain conditions recur (for example review of market interest rates).

After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of the instrument over its entire expected life via the amortisation process. The determination of amortised cost is different depending on the fact that financial assets/liabilities have fixed or floating rates and – in this last case – if the volatility of the rate is known or not beforehand. For instruments with fixed rate or fixed rate by time bands, future cash flows are quantified on the basis of the known interest rate (sole or floating) over the life of the loan. For financial assets/liabilities with a floating rate, for which the volatility is not known beforehand (for example because it is linked to an index), the determination of cash flows is carried out based on the last rate available. At every revision of the interest rate, the amortisation plan and the effective interest rate for the entire life of the investment, that is, until maturity, are recalculated. Any changes are recorded in the income statement as income or loss.

Measurement at amortised cost is applied for the financial assets measured at amortised cost and for the financial assets measured at fair value through other comprehensive income, as well as the financial liabilities measured at amortised cost.

Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees.

Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the customer. These commissions, which must be directly attributable to the single financial asset or liability, modify the original effective return, thereby the effective interest rate associated to the transaction differs from contractual interest rate. Transaction costs do not include costs/income referred to more than one transaction and the components related to events which may occur during the life of the financial instrument, but which are not certain at the time of the initial agreement, such as for example: commissions for retrocession, for non-use, for advance termination. Furthermore, amortised cost does not include costs which would be sustained independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as commissions for services received following structured finance activities which would in any case have been received independently from the subsequent financing of the transaction (e.g. facility and arrangement fees).

With reference to loans, the following costs are considered directly attributable to the financial instrument: fees paid to distribution networks, fees paid for the origination and/or the participation in syndicated loans and lastly, up-front fees correlated to loans disbursed at rates exceeding market rates. Income considered in the calculation of amortised cost includes: up-front fees correlated to loans disbursed at rates below market rates, income for the participation in syndicated loans and brokerage commissions received.

For debt securities not measured at fair value through profit or loss, the following are considered transaction costs: commissions on contracts with brokers operating on the Italian stock exchange, commissions paid to dealers operating on the Italian and foreign stock and bond markets defined on the basis of the commission tables. Stamp duty is not considered in amortised cost since immaterial.

Regarding securities issued, amortised cost considers placement commissions on bond issues paid to third parties, amounts paid to Exchanges and remuneration paid to Independent auditors for the activities performed for each single issue, while amortised cost does not consider commissions paid to rating agencies, legal and advisory/review expenses for the annual update of prospectuses, the costs for the use of indexes and commissions which originate during the life of the bond issue.

Amortised cost is also applied for the measurement of loss incurred by the financial instruments listed above as well as for the measurement of instruments issued or purchased at a value other than fair value. The latter are measured at fair value, instead of the amount collected or paid, by discounting expected future cash flows at a rate equal to the effective rate of return of similar instruments (in terms of credit rating, contractual expiry, currency, etc.), with the simultaneous recognition in the income statement of a financial charge or income; after initial recognition, these are measured at amortised cost with the registration of higher or lower effective interest with respect to nominal interest. Lastly, structured liabilities that are not measured at fair value through profit or loss, for which the embedded derivative has been separated from the financial instrument, are also measured at amortised cost.

As specified by IFRS 9, in some cases, a financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and in the case of a purchase it is purchased at a deep discount (with respect to the initial disbursement value). If these financial assets, based on the application of the classification drivers (SPPI Test and business model), are classified as assets measured at amortised cost or at fair value through other comprehensive income, they are classed as Purchased or Originated Credit Impaired (POCI) assets and are subject to special treatment for the impairment process. In addition, for the financial assets classed as POCI, the credit-adjusted effective interest rate is calculated, at the initial recognition date, which requires the inclusion of the initial expected credit losses in the cash flow estimates. This credit-adjusted effective interest rate is used for the application of the amortised cost and the consequent calculation of interest.

For non-performing loans arising from business combinations, the difference between the initial recognition amount (the fair value determined in the PPA) of the POCIs and the previous carrying amount at the acquired entity is split into two components: one related to the lower recoverable cash flows estimated at fair value, which therefore include the expected credit losses over their entire remaining life, and the other related to the discounting of those lower recoverable cash flows. Please note that the reversal of discounting (connected with the estimate of recoverable cash flows attributed to non-performing loans at the moment of the PPA) is recognised, on a pro-rata basis, among interest income so as to supplement the contractual interest rate with the higher return resulting from the lower value attributed to the recoverable cash flows, which, as mentioned above, take into account the expected losses over the entire remaining life of the POCI assets.

The amortised cost measurement criterion is not applied to hedged financial assets/liabilities for which fair value changes related to the risk hedged are recorded through profit or loss. The financial instrument is again measured at amortised cost in the case of hedge termination; from that moment the fair value changes recorded before are amortised, calculating a new effective interest rate which considers the value of the loan adjusted by the fair value of the hedged part, until the natural expiry of the hedge. Furthermore, as already mentioned in the paragraphs relating to financial assets and liabilities measured at amortised cost, measurement at amortised cost is not applied to short-term assets/liabilities for which the time value is deemed to be immaterial and to loans without a definite maturity or revocable loans.

### *Impairment of assets*

#### *Impairment of financial assets*

At each reporting date, pursuant to IFRS 9, financial assets other than those measured at fair value through profit or loss are subject to an assessment aimed at verifying whether there is any evidence that the carrying value of the assets may not be fully recoverable. A similar analysis is also performed for loan commitments and for guarantees given that must be tested for impairment under IFRS 9.

In preparation for the determination of the impairment losses, at each reporting date the financial instruments must be assigned to the following categories (Stage Assignment or Staging):

- Stage 1: comprising financial instruments for which, from their initial recognition up to the reporting date, there is no evidence of a significant increase in credit risk;
- Stage 2: which comprises financial assets that have had a significant increase in credit risk since initial recognition;
- Stage 3: if there is evidence of impairment, these financial assets – in line with any other assets pertaining to the same counterparty – are considered impaired and are therefore included in Stage 3.

The impaired exposures consist of financial assets classified in the categories of bad loans, unlikely-to-pay (UTP) loans and exposures past due by more than ninety days, defined in Bank of Italy Circular 272/2008.

Before illustrating the methods for determining the impairment of performing and non-performing financial assets, it is noted that the treatment described below must be read along with the measures introduced – also as per instructions from regulators - as a result of the COVID-19 pandemic, which are outlined in general in Section 5 of this Part A of the Notes to the financial statements and described in more detail in Part E – Section 1 Credit risk (2.3 Methods for measuring expected losses).



*Impairment of performing financial assets*

For financial assets for which there is no evidence of impairment (unimpaired financial instruments), it is necessary to check whether there are indicators that the credit risk of the individual transaction has increased significantly since initial recognition. This check, in terms of classification (or, more precisely, staging) and measurement, has the following consequences:

- where these indicators exist, the financial asset is included in stage 2. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of value adjustments equal to the lifetime expected credit losses of the financial instrument. These adjustments are subject to revision at each subsequent reporting date, both to periodically check their consistency with the continuously updated loss estimates and to take account – if the indicators of “significantly increased” credit risk are no longer present – of the change in the forecast period for the calculation of the expected credit loss;
- where these indicators do not exist, the financial asset is included in stage 1. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of the 12-month expected credit losses for the specific financial instrument. These adjustments are subject to revision at each subsequent reporting date both to periodically check their consistency with the continuously updated loss estimates and to take into account – if there are indicators that the credit risk has “significantly increased” – the change in the forecast period for the calculation of the expected loss.

With regard to the measurement of financial assets and, in particular, the identification of the “significant increase” in credit risk (a necessary and sufficient condition for the classification of the asset being measured as stage 2), the following factors constitute the key elements to be taken into account, in accordance with the standard and its operational implementation by the Intesa Sanpaolo Group:

- the variation (beyond set thresholds) of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a “relative” basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. If these circumstances apply, the credit risk of the exposure is considered to have “significantly increased” and the exposure is therefore transferred to stage 2 (when the exposure was previously included in stage 1);
- the presence of forbearance measures, which – again on a presumption basis – result in the classification of the exposures under those whose credit risk has “significantly increased” since initial recognition;
- lastly, for banks belonging to the international scope, some of the indicators from the credit monitoring systems specifically used by each bank are also considered for the purposes of the transfer between “stages” where appropriate. This refers in particular to the watch lists, i.e. the credit monitoring systems that – based on the current credit quality of the borrower – place performing exposures above a certain level of risk within a particular range.

Focusing on the main trigger out of those referred to above (i.e. the change in the lifetime probability of default), the significant increase in credit risk (“SICR”) is determined by comparing the relative change in the lifetime probability of default recorded between the initial recognition date of the relationship and the observation date (Lifetime PD Change) with predetermined significance thresholds. The assignment of a Lifetime PD to the individual relationships is carried out by allocating the ratings for each segment according to the masterscale at both the initial recognition date and the observation date. Ratings are determined based on internal models, where available, or on business models. If there are no ratings, the Benchmark PDs are assigned to the type of counterparty being assessed.

The significant deterioration is therefore based on the increase in the lifetime PD caused by downgrades of the position from its origination to the reporting (observation) date, as well as the change in the forecast of the future macro-economic factors.

The above-mentioned “relative” change in lifetime PD is an indicator of the increase or decrease in credit risk during the reporting period. To establish whether, in accordance with IFRS 9, any increase in credit risk can be considered “significant” (and therefore entail a transition between stages), it is necessary to set specific thresholds. Increases in lifetime PD below these thresholds are not considered significant and, consequently, do not result in the transfer of individual credit lines/tranches of debt securities from stage 1 to stage 2. However, this transfer is required if there are relative increases in PD above these thresholds. The thresholds used have been estimated based on a process of simulations and optimisations of forecast performance, carried out using granular historical portfolio data. Specific thresholds are set for the Corporate, Retail, Large Corporate and Retail SME models and extended to the other models based on methodological affinity. The thresholds differ in terms of residual maturity, annual granularity and rating class.

The determination of the thresholds has been calibrated to find a suitable balance between the performance indicators relating to the ability of the thresholds to:

- detect stage 2 positions before their transition to default;
- identify positions for which a return to stage 1 is due to an actual improvement in credit rating.

Some specific considerations apply for the “staging” of the debt securities. Unlike loans, for this type of exposure, sales and purchases after initial recognition (made using the same ISIN) may form part of the ordinary management of the positions (with the consequent need to identify methods to be adopted for identifying the sales and repayments in order to determine the remaining quantities of the individual transactions that need to be allocated a credit quality/rating upon origination to be compared with that parameter at the reporting date). In this regard, the use of the “first-in-first-out” or “FIFO” method (for the recognition of the recorded ECL in the income statement, in the event of sales or repayments) was considered to help in providing a more transparent management of the portfolio, also for the front office operators, while also enabling the continued updating of the credit rating based on new purchases.

Once the allocation of the exposures to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the specific requirements of IFRS 9.

The following definitions apply for PD, LGD and EAD:

- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year. In models consistent with supervisory provisions, the PD factor is typically quantified through the rating. In the Intesa Sanpaolo Group, the PD values are derived from internal rating models where available, supplemented by external ratings or segment/portfolio average figures;
- LGD (Loss Given Default): percentage loss in the event of default. In the models consistent with supervisory provisions, it is quantified through the historical experience of discounted recoveries on exposures that have become non-performing;
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

As mentioned above, in order to comply with IFRS 9, specific adjustments had to be made to these factors, including in particular:

- adoption of a Point in Time (PIT) PD compared to the Through the Cycle (TTC) PD used for Basel purposes;
- removal of some additional components from the TTC LGD, such as indirect costs (non-recurring costs) and an additional margin of conservatism specifically introduced for the regulatory models, as well as the component linked to the economic downturn;
- the use of PDs and, where necessary, multi-period LGDs, to determine the lifetime expected loss of the financial instrument (stages 2 and 3);
- the use of the effective interest rate of the individual transaction in the discounting of the expected future cash flows, unlike in the regulatory models, where the individual cash flows are discounted using the discounting rates determined in compliance with the prudential regulations.

In relation to the multi-period EAD, in line with IFRS 9 the Intesa Sanpaolo Group refers to the plans at amortised cost for both loans and debt securities, regardless of the measurement method used (amortised cost or fair value through other comprehensive income). For loan commitments (margins), on the other hand, the EAD is assumed to be equal to the nominal amount weighted according to a specific Credit Conversion Factor (CCF).

The measurement of the financial assets also reflects the best estimate of the effects of current and future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the “risk” of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the “Most likely scenario+Add-on” approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario (“Most Likely”, in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes.

The macroeconomic scenario is determined by the Bank’s Internal Research Department using forecasting models that are disclosed to the market to determine the consensus. Alternative upside and downside scenarios are determined through stress tests of the input variables of the forecasting models.

In particular, the most likely scenario and alternative scenarios are determined using a set of analytical and stand-alone forecasting instruments that determine the forecast path for several blocks of variables, namely:

- national accounts and inflation of the top 6 Eurozone countries, the United States and Japan;
- official rates (ECB, Fed, BoJ), EUR and USD swap rate curves, and several points of the government curves;
- exchange rates for EUR, USD, JPY and GBP;
- stock market indices (DJ Eurostoxx 50 and S&P 500);
- some specific data for the Italian economy (industrial production, real estate prices, employment, public finance balances).

These forecasts are then processed using the Oxford Economics multi-country structural Global Economic Model, where they replace the forecast paths of the baseline scenario provided by the company with the periodic updating of the database. The model is then solved to derive a consistent global forecasting framework, including variables for which no specific models have been developed, and to obtain a simulation environment that can be used to generate alternative scenarios. This step may require some iterations, particularly if the forecasting framework generated internally is significantly different from the one provided by Oxford Economics. If this is the case, further fine-tuning may be needed for specific secondary variables that the analysts consider to be inconsistent with the forecast scenario or that have an unexplainable quarterly volatility.

The alternative paths are selected using external information. In particular:

- average annual GDP growth rates of several countries: this is the key driver for the simulation and the deviations are determined to replicate the dispersion of the growth estimates published by Consensus Economics in the most recent report available at the date of the simulation, considering the minimum and maximum forecasts (after applying a filter to identify and eliminate possible outliers). If there are outliers, these are discarded and the remaining maximum and minimum values are considered. Since consensus estimates are only available for the first two years of the simulation period, an extrapolation of the deviations identified for the first two years is used for the third year;
- stock market indices (DJ Eurostoxx 50, S&P 500) and US residential real estate prices: the minimum and maximum forecasts of the Thomson Reuters panel are used as a reference;
- Italian residential real estate prices: since no consensus estimates are currently available, the alternative paths are based on the distribution of the historical quarterly changes available from 1980 to the current quarter.

The percentile value identified is used, for the most likely scenario, to determine the variations corresponding to a probability gap, calculated through statistical analysis of the historical distribution of the observations. The two (positive and negative) changes with respect to the most-likely scenario are then used to calculate the level of the individual identified indices, reconstructing the two alternative paths (one positive and one negative) for each of them that represent the input for the

determination of the Add-On. The probability gap used is identified based on the variability characteristics of the series, to obtain a significant deviation from the most-likely scenario.

In addition to defining the alternative paths, a map of possible additional factors is maintained, i.e., adverse idiosyncratic events or scenarios (e.g., Brexit, etc.), not explicitly incorporated in the time series used for the construction of the most-likely scenario or in the alternative paths, which can generate further significant effects on expected losses.

The following is assessed for these events/scenarios:

- the possible time frame;
- the degree of inclusion in the most-likely scenario or the alternative paths;
- the potential impact, assessed in qualitative terms.

The map of additional factors also draws on the list of risk factors contained in the forecast reports of the IMF (World Economic Outlook) and the European Commission and may change over time.

Within the assessment of the time frame for the additional factors, note is made if the factor cannot be placed within a specific time period, which makes its incorporation into the most-likely scenario or alternative paths unfeasible.

The assessments made take account of the fact that the consensus estimates may include forecasts that already incorporate the total or partial realisation of one or more risk factors in their estimates, which means that the alternative paths may already incorporate these additional factors to some extent.

Where there is considerable uncertainty in the national and international macroeconomic forecasts, as well as significant deviations in terms of best-case forecasts with respect to the TTC scenario, prudential factors may be introduced in relation to the deviations in the minimum and maximum values of the variables based on the above-mentioned consensus or historical figures.

The above macroeconomic scenarios (most likely and alternative scenarios) are used in internal models to determine the point-in-time (PIT) parameters.

Specifically, the time series of default rates acquired from the Bank of Italy are differentiated over the main economic macro-sectors (e.g. consumer households, family businesses, construction) and, for each of these, specific satellite models establish the relationships with the macroeconomic variables in order to obtain the forecast default rates. In turn, these impact the TTC transition matrices between rating classes and thus provide the PIT transition matrices for each scenario (most likely and alternative scenarios). These give rise to the lifetime conditional PD.

In particular, the TTC matrices are calculated using internal default rates for the Corporate, SME Retail and Retail segments, whereas the Bank of Italy system rates are used for the Low Default segments, because the internal time series data for those segments is less extensive. The forward-looking point-in-time matrices, on the other hand, are calculated using the system default rates for all the segments.

A similar process is used to determine the PIT LGD grids.

Taking account of the repayment plans of the individual loans, their conditional PD and LGD, residual maturity and staging, the impairment of performing financial assets is determined.

#### *Impairment of non-performing financial assets*

Non-performing loans are represented by bad loans, unlikely to pay and past due positions by more than 90 days.

Non-performing loans classified as bad loans are subject to the following measurement methods:

- analytical-statistical measurement, which is used for exposures of less than 2 million euro and is based on the use of specific LGD grids, plus an Add-On to take account of information linked to the evolution of the current conditions related to management variables highly correlated with the loss performance and forward-looking information relating to the impact of expected future macroeconomic scenarios (as described in the previous paragraphs);
- analytical-specific measurement, which is used for customers with exposures exceeding 2 million euro and is based on the impairment percentages allocated by the manager, following specific analysis and measurements, also based on the evolution of the current conditions, plus an Add-On to take account of forward-looking information, and in particular information relating to the impact of future macroeconomic scenarios (except for bad loans backed by mortgage collateral or relating to property leases for which the impact of future scenarios is included through the method used to determine the haircuts to the value of the properties pledged as collateral).

The measurement of unlikely-to-pay loans (UTPs) is also performed based on different approaches:

- analytical-statistical measurement, for exposures of less than 2 million euro, based on the use of specific LGD grids, plus an Add-On to take account of the already mentioned information linked to the current conditions and the impacts of future macroeconomic scenarios, as well as continuation in the risk status, in order to penalise positions with greater vintage or which have no movements and/or recoveries for a particular period of time;
- analytical-specific measurement, for on-balance sheet exposures of more than 2 million euro, based on the impairment percentages allocated by the manager, following specific analyses and assessments also based on the evolution of the current conditions, plus an Add-On to take account, also in this case, of the impacts of future macroeconomic scenarios and of continuation in the risk status.

For Group companies, the threshold value for analytical-statistical measurement is set by the competent bodies of the individual companies, in coordination with the structures of Intesa Sanpaolo, at a level that is not, in any event, higher than that set by the Parent Company.

Regardless of the division of these exposures between those subject to analytical-statistical measurement and those subject to analytical-specific measurement (as identified above), the add-ons envisaged include the sales scenarios for the disposable non-performing loans if the business plan and the NPL reduction plan envisage sales and those sales have not yet been carried out. The valuation of the disposable non-performing loans therefore considers the possibility of also realising these loans through their sale.

Non-performing loans classified in the past-due loans category, on the other hand, are subject to analytical measurement based on statistics, regardless of the amount of the exposure. However, also in this case, the adjustment determined based on the LGD statistical grids is supplemented to take account of the Add-On attributable to the effect of the evolution of the current conditions and the future macroeconomic scenarios.

Credit exposures must continue to be carried as non-performing for at least three months after they cease to meet the requirements for being classified as such (the “probation period”). Until the conditions are met for reclassification out of the non-performing category, such exposures are retained in their respective risk classes and measured according to an analytical-statistical or an analytical-specific approach taking account of their lower risk level.

A brief description is provided below of the methods used for the analytical-specific and analytical-statistical measurement:

- the analytical-specific measurement of bad loans and unlikely-to-pay loans above 2 million euro is a measurement performed by the managers of the individual positions based on a qualitative and quantitative analysis of the borrower's financial position, the riskiness of the credit relationship, the targets and strategies for reduction of the non-performing loans set out in the “NPL Plan”, and any mitigating factors (collateral), taking into account the financial impact of the estimated recovery time.

For bad loans in particular, a series of elements are relevant, which differ according to the characteristics of the positions, and must be thoroughly and prudently assessed, including the following, listed merely as examples:

- o nature of the credit, whether preferential or unsecured;
- o net asset value of the borrowers/third party collateral providers;
- o complexity of existing or potential litigation and/or the underlying legal issues;
- o exposure of the borrowers to the banking system and other creditors;
- o last available financial statements;
- o legal status of the borrowers and any pending insolvency and/or individual proceedings.

In order to determine the estimated realisable value of loans secured by real estate, and to take into account both the time series of recoveries and the forward-looking information in accordance with IFRS 9, an approach is applied focused on the valuation of real estate based on the expected average auction price and the related reduction in the observed price, with the calculation of average haircuts that differ according to the type of real estate collateral (residential, commercial, industrial and land). Accordingly, to avoid duplications, a macroeconomic Add-On is not used in the analytical-specific measurement for bad mortgage loans, because the forward-looking component is already taken into account through the haircut.

For real-estate bad loans arising from lease contracts, in view of the particular nature of the product (lack of auctions), the haircut is estimated as the depreciation of the asset with respect to the appraised value observed at the time of classification as non-performing and the actual price of sale.

In addition, for unlikely-to-pay loans, the measurement is based on a qualitative and quantitative analysis of the borrower's financial position and on precise assessment of the risk situation.

The calculation of the impairment loss involves the valuation of the future cash flows that the borrower is considered to be able to generate and that will also be used to service the financial debt. This estimate must be made based on two alternative approaches:

- o the going concern approach: the operating cash flows of the borrower (or the beneficial owner) continue to be generated and are used to repay the financial debts contracted. The going concern assumption does not rule out the realisation of collateral, but only to the extent that this can take place without affecting the borrower's ability to generate future cash flows. The going concern approach is also used in cases where the recoverability of the exposure is based on the possible sale of assets by the borrower or on extraordinary transactions. Similarly to the case of bad loans, haircuts are also used in measuring real-estate collateral for unlikely-to-pay positions. For going-concern positions, these haircuts are determined on the basis of the haircuts applied in the liquidation process (gone-concern bad loan or UTP position), while applying a calibration factor equal to the probability of migration of the UTP positions to the bad loan category;
  - o the gone concern approach: applicable in cases when it is believed that the borrower's cash flows will cease. This is a scenario that can apply to positions that are expected to be classified as bad loans. In this context, assuming that shareholders' interventions and/or extraordinary operations to restructure debt in turnaround situations are not reasonably feasible, recovery of the credit is essentially based on the value of the collateral that secures the Bank's credit claim, net of the application of a haircut (determined as for bad loans) and, alternatively, on the realisable value of the assets, taking into account the liabilities and possible pre-emptive claims;
- the analytical-statistical measurement, performed for bad loans and unlikely-to-pay loans of less than 2 million euro and for past-due loans has specific features according to the type of exposure involved.

With regard to bad loans, the analytical-statistical measurement is based on the Bad Loan LGD grids, where the LGD Defaulted Asset model is mainly characterised by the differentiation of the loss rates that, in addition to the regulatory segment, is based on the continuation in the risk status (“vintage”) and the possible activation of legal recovery proceedings. The grids are also differentiated for the other significant analysis axes used in the model estimation (e.g. product type, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are mainly broken down by regulatory segment and by additional significant analysis axes used in the modelling (e.g. recovery procedures, exposure band, product type).

For unlikely-to-pay loans, the measurement is performed using statistical LGD grids estimated specifically for positions classified as unlikely-to-pay loans, in line with the estimated LGD grids for bad loans. The estimation model for the LGD grid for unlikely-to-pay loans is similar to the one described above for bad loans and calculates the expected loss rate of



the relationship being valued according to its characteristics. The LGD for unlikely-to-pay loans is obtained by recalibrating the bad loan LGD using the Danger Rate module. The Danger Rate is a multiplying correction factor, used to recalibrate the bad loan LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events and their evolution.

In addition, for the two subclasses of the “Unlikely-to-Pay Loans” risk status (“Non-Forborne Unlikely-to-Pay Loans” and “Forborne Unlikely-to-Pay Loans”), differentiated grids are estimated to take into account the characteristics of the Forborne loans, which, in addition to having lower average loss levels due to the effect of the Forbearance Measures, are also affected by the regulatory constraints that prevent their return to performing loan status before 12 months from the date of the renegotiation.

For past-due loans, the methods used to determine the grids are the same as those described for the unlikely-to-pay loans (Framework Danger Rate). In this case, the vintage factor is captured by the introduction of a differentiation based on the duration of the past-due period (Past Due at 90 days/180 days) which produces a significant variation in the loss rates of the grids, which are also differentiated according to regulatory segment and additional analysis axes (e.g. product type, type of guarantee, geographical area, exposure band, etc.) common to the other non-performing loan categories.

Also in the LGD estimation models used in the analytical-statistical measurement of non-performing exposures, several additional components specifically included for regulatory models were removed, similar to that illustrated for performing exposures.

With regard to the inclusion of current and forward looking information, it should be noted that, also in relation to non-performing exposures, in addition to a component linked to management variables applied by the manager for the specific analytical measurements and based on a specific Add-On for statistical analytical measurements, a component linked to the most-likely and downside scenarios expected over the period of the next three years has been considered, according to the criteria already described.

In fact, as required by IFRS 9, the effects of the forward-looking scenario on LGD estimates must also be considered using the above-mentioned component. As already stated, the forward-looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most-likely scenario. It is based on the methodological framework that is used for performing loans, but ignores the upside scenario from a prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

Also in terms of future scenarios, with regard to the unlikely to pay category, which includes positions that are still performing but show signs of difficulty, both for positions with analytical-specific measurement and those with analytical-statistical measurement, when there are no effective forbearance measures, an additional component shall be applied (in addition to the aforementioned add on from the macroeconomic scenario) to reduce the recoverable amount of the positions based on their vintage in the risk status and the absence of movements and/or recoveries in a specific period of time.

With regard to the alternative recovery scenarios, the Intesa Sanpaolo Group, in relation to the objectives of reducing the stock of outstanding non-performing loans, included in its business plans, and the commitments made to the Supervisory Authorities, with specific regard to the NPL Strategy, considers the sale of particular portfolios as the strategy that, in certain conditions, can maximise the cash flow recovery, also considering the recovery times.

In particular, in its “NPL Guidance” published in March 2017, the ECB requested banks with non-performing loans above the average of European banks to establish a strategy aimed at achieving a progressive reduction in those loans. In 2017, Intesa Sanpaolo submitted a plan to the ECB for the reduction of its non-performing loans, mainly focused on recovery through internal management.

Towards the end of 2017 – following the regulatory developments, with the publication, in October, of the draft Addendum to the NPL Guidance aimed at establishing minimum levels of prudential provisioning for non-performing loans, and the guidance provided by the Supervisory Authority to banks with above-average levels of non-performing exposures on the need to more effectively implement the process of reducing non-performing loans – Intesa Sanpaolo, in its 2018-2021 Business Plan, approved by the Board of Directors, identified significant de-risking as one of its key priorities, also by selling a portfolio of bad loans.

Consequently, the “ordinary” scenario, which assumes a recovery strategy based on the collection of credit, typically through legal actions, mandates to credit recovery companies and the realisation of mortgage collateral, has also been accompanied by the scenario of the sale of the loan as a strategy.

In compliance with the “NPL Guidance” the business strategies regarding NPL reduction are illustrated in the “NPL plan”, a document approved by the Board of Directors to be sent to the Supervisory Authority and updated annually.

Where said document identifies disposal objectives and strategies and, as a result, a portfolio of non-performing loans that may be disposed of, until the disposal objectives are reached, the loans and receivables included in that portfolio shall be measured taking account of both the amount recoverable through operating activities and market valuations (based on external appraisals) and/or sales prices, if already defined.

Where the “NPL plan” specifically identifies the positions to be sold, those positions shall be measured exclusively taking account of the market values established by external experts, based on a specific fairness opinion or, if already defined through a binding agreement with the buyer, the sales price.

Where the “NPL plan” identifies a larger loan portfolio that may be sold represented by loans that are disposable (thus, for example, positions that are not involved in disputes, are not securitised or are not a portion of syndicated loans), in relation to the sales objectives, the book value of said portfolio is determined by weighting the amount recoverable through operating activities with the amount recoverable through sale.

In particular, the recoverable amount of disposable non-performing loans is quantified as the average between (i) the value in the event of sale (fair value) and (ii) the collection amount, weighted on the basis of the percentage of the loans eligible for sale that the Group expects to sell and the percentage that management expects to keep in the portfolio. The “collection amount” was determined according to the ordinary methods adopted by the Group for the impairment of non-performing loans, i.e. based on the individual measurement of the exposures exceeding a defined threshold and based on an analytical-statistical measurement for the others. The analytical-statistical measurement of the “below-threshold” exposures involves grouping them into similar clusters of credit risk. As explained above, the measurement of the value in the event of sale is carried out by an external expert.

As already mentioned, the purchased or originated credit-impaired (POCI) financial assets have specific features in terms of impairment. As a result, value adjustments equal to the lifetime ECL must be recognised on these instruments from their initial recognition date and for their entire lifetime. At each subsequent reporting date, the amount of the lifetime ECL must therefore be adjusted, with the recognition through profit or loss of the amount of any change in lifetime expected credit losses as a gain or an impairment loss. In view of the above, POCI financial assets are initially recognised in stage 3, subject to the possibility of being subsequently transferred to the performing loans stage, even if an expected loss equal to the lifetime ECL will continue to be recognised.

Lastly, with regard to non-performing loans, it is highlighted that the Intesa Sanpaolo Group uses the – full or partial – write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:

- a) uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
- b) disposal of the loan;
- c) waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
- d) no waiver of the credit claim. With regard to the full or partial write-offs without waiver of the credit claim, in order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value.

Therefore, on a periodic basis, the Group identifies the bad loan portfolios to be subject to total or partial write-offs with the following macro-characteristics:

- percentage cover of 100% and a vintage (understood as the period of time in “bad loan” status) of >1 year;
- percentage cover of >95% and a vintage (understood as the period of time in “bad loan” status) of >5 years or >8 years, respectively, for non-mortgage and mortgage loans.

Portfolios to be written off can also be identified that have similar characteristics that are different from those indicated above, but that relate to exposures that have a marginal possibility of recovering the amount of the provision, where the minimum amount of the provision (calculated taking into account the accumulated write-offs on the position, according to the same rule established at prudential level by the calendar provisioning framework) is at least equal to the amount needed to bring the value of the exposures up to their fair value estimated based on the prices recorded in the latest sales of bad loans made by the Group.

#### *Impairment of investments in associates and companies subject to joint control*

At each balance sheet date the investments in associates and companies subject to joint control are subjected to an impairment test to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.

The process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative and quantitative indicators.

Qualitative indicators include:

- the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market;
- the announcement/initiation of insolvency proceedings or restructuring plans;
- the downgrading by more than two rating classes;
- failure to discharge payment obligations for debt securities issued fully and in a timely manner;
- use of industrial policy tools aimed at responding to a serious crisis or allowing companies to face restructuring/reorganisation processes.

Quantitative indicators include:

- a reduction in fair value of over 30% below the carrying value or for a period of over 24 months;
- a market capitalisation lower than the company's net book value, in the case of securities listed on active markets, a carrying value of the investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill, or distribution by the investee of a dividend that is higher than its total income.

The presence of impairment indicators results in the recognition of a write-down to the extent that the recoverable amount is lower than the recognition value.

The recoverable amount consists of the higher of the fair value net of sales costs and the value in use.

For an illustration of the valuation techniques used to determine fair value, see Section A.4 – Information on fair value.

Value in use is the present value of expected future cash flows from the asset; it reflects estimated expected future cash flows from the asset, the estimate of possible changes in the amount and/or timing of cash flows, time value of money, the price



able to repay the risk of the asset and other factors, which may affect the appreciation by market participants of expected future cash flows from the asset.

Value in use is determined by discounting future cash flows.

#### *Impairment of non-financial assets*

Property, equipment and intangible assets with definite useful life are subject to impairment testing if there is the indication that the book value of the asset may no longer be recovered. The recoverable amount is determined with reference to the fair value of the property and equipment or intangible assets less costs to sell or the value in use, if determinable and if it is higher than fair value.

For property and equipment other than real estate and valuable art assets and intangible assets (other than those recognised following business combinations) it is assumed that the carrying amount normally corresponds to the value in use, since it is determined by a depreciation or amortisation process estimated on the basis of the effective contribution of the asset to the production process and since the determination of fair value is extremely subjective. The two values diverge and lead to impairment in case of damages, exit from the production process or other similar non-recurring circumstances.

As clarified in the discussion of "Property and equipment and intangible assets", the Group measures owner-occupied properties and valuable art assets according to the revaluation model; in this case, any impairment loss on a revalued asset must be treated as a decrease in the revaluation up to the relevant amount, after which any difference is taken to the income statement.

As described in Part A.4 Information on fair value - Fair value of real estate and valuable art assets, for owner-occupied properties each year a scenario analysis is conducted on trends in the real-estate market to assess whether there are any significant deviations in the value of the assets. If significant changes are identified (+ or - 10%), an updated appraisal is prepared to adjust the fair value of the asset to the valuations of the real estate market. If there are no significant differences, the value is redetermined through a new expert appraisal every two years for "trophy assets" (i.e. particularly prestigious properties used by management functions located in the main cities where the bank is based or properties of particular historical and artistic interest because they are listed by the Ministry for Cultural Heritage and Activities) and every three years for other owner-occupied properties.

For the valuable art assets, the revaluation is carried out by means of a new expert appraisal every three years. However, a scenario analysis is carried out annually to identify any appreciable changes in value in order to bring forward the valuation. If the annual monitoring identifies a possible positive or negative value deviation of more than 15% for individual works of artists in the bank's collections and comparable on the basis of objective criteria (size, technique, period of production, etc.), new appraisals are commissioned.

Intangible assets recognised following a business combination and in application of IFRS 3 are subjected to an impairment test at each reporting date to assess whether there is objective evidence that the asset may have been impaired.

Intangible assets with a finite life, represented by the value of the asset management portfolio and the value of the insurance portfolio, in the presence of impairment indicators are subjected to a new valuation process to assess the recoverability of the book values. The recoverable amount is determined on the basis of the value in use, namely the present value estimated using a rate representing the time value of money and the asset's specific risks, of the income margins generated by the existing relations as at the valuation date over a period which expresses their expected residual life.

Intangible assets with an indefinite life, represented by the valuation of the brand name and goodwill, do not have independent cash flows and therefore annually undergo an assessment of the adequacy of the value recorded under the assets with reference to the Cash-Generating Unit (CGU) to which the values are attributed at the time of the business combinations. The amount of any impairment is determined on the basis of the difference between the CGU's book value and its recoverable amount represented by the higher of the fair value, less costs to sell, and the value in use.

The book value of the CGUs must be determined in a manner consistent with the criterion used to determine their recoverable amount. For a banking business, the cash flows generated by a CGU cannot be identified without considering the cash flows deriving from financial assets/liabilities, as these form part of the core business.

In other words, the recoverable amount of the CGUs is influenced by the aforementioned cash flows and therefore the CGUs' book value must include financial assets/liabilities in accordance with the scope of the recoverable amount estimate process. Consequently, these assets and liabilities must be properly allocated to the associated CGUs.

On this basis, the book value of Intesa Sanpaolo's CGUs may be determined in terms of contribution to consolidated shareholders' equity including the minority interest.

Thus, the carrying amount of the CGUs consisting of companies that belong to a single operating division or consist of a single legal entity (Asset Management, Private Banking, Insurance and International Subsidiary Banks) is determined by summing the individual book values of each company in the consolidated financial statements, namely the contribution to consolidated shareholders' equity and corresponding to their net book value, taking into account any goodwill and intangibles recorded upon acquisition (net of subsequent amortisations and any write-downs) and the consolidation entries. With regard to the determination of the carrying value of the other two divisions (Banca dei Territori and IMI Corporate & Investment Banking), given that the Parent Company and other banks contribute to the management of these divisions, and this subdivision is not represented in the accounting information, the overall carrying value of the CGUs cannot be determined on the basis of book values. As a consequence, the use of operational factors is required to make the subdivision following a detailed allocation of the intangibles and goodwill to the two CGUs in accordance with the available accounting information. The operational driver is identified as the "regulatory capital" determined by the Financial and Market Risks Department structures for each operating division: it represents the capital absorption necessary to handle the types of risk envisaged by the regulatory supervision rules. The resulting book values already take into account the effects of any impairment of the individual assets, including those relating to intangible assets with a finite life.

For an illustration of the valuation techniques used to determine fair value, see Section A.4 – Information on fair value.

The value in use of a CGU is determined by estimating the present value of future cash flows that may be expected to be generated by the CGU. These cash flows are determined by using the latest publicly available business plan or, in its absence, through the drawing up by management of an internal forecast plan or other external information available. The forecasting period for the analysis usually consists of a maximum of five years. The cash flow of the final year of the forecast is projected in perpetuity, using an appropriate growth rate "g" for the purposes of the so-called Terminal value.

The “g” rate is determined by assuming that the growth factor is the lower of the average growth rate for the forecasting period of the analysis and the average rate of increase in the Gross Domestic Product in the countries where the cash flows are generated.

For the determination of the value in use, the cash flows must be discounted at a rate that reflects the present valuations of the time value of money and the asset’s specific risks. Specifically, the discount rates used incorporate the risk free component and the premiums for the risk associated with the equity component observed over a sufficiently long time period to reflect different market conditions and economic cycles. In addition, given the diverse risks of the respective operating areas, different Beta coefficients are used for each CGU. All the resulting rates have been adjusted to take into account the “Country Risk”.

The cash flows produced by the international subsidiaries are estimated in the currency in which they are generated and translated into euro using the spot exchange rate as at the date of the determination of the value in use.

### *Business combinations*

Business combinations are governed by IFRS 3.

The transfer of control over a company (or over a group of assets managed together as a single business) is considered a business combination.

To this end, control is deemed to have transferred when the investor is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns by exercising its power over the investee.

IFRS 3 requires that an acquirer be identified in any business combination. The acquirer is identified as the combining entity that obtains control of the other combining entities or businesses. If a controlling entity cannot be identified, following the definition of control described above, as for example in the case of exchange of equity investments, the identification of the acquirer must occur considering other factors such as: the entity which has a significantly higher fair value, the entity which pays a cash consideration, the entity which issues new shares.

The acquisition, and therefore the initial consolidation of the acquired entity, must be recognised in the books on the date in which the acquirer effectively obtains control over the acquired company or businesses. When the combination occurs via an exchange of voting ordinary equity instruments, the date of the exchange usually coincides with the date of the acquisition. However, it is always necessary to verify that there are no agreements which may lead to transfer of control prior to the date of the exchange.

The consideration transferred as part of a business combination is equal to the sum of the fair value, at the exchange date, of the transferred assets, the liabilities incurred or assumed and the equity instruments issued by the acquirer in return for control.

In transactions which entail cash consideration (or when payment occurs via cash-equivalent financial instruments), the purchase price is the agreed consideration. When settlement does not occur in the short-term, the fair value of any deferred component is calculated by discounting the amounts payable to their present value; when payment occurs via an instrument other than cash, therefore via the issue of financial instruments, the price is equal to the fair value of such instruments net of the costs directly attributable to their issue. For the determination of fair value of financial instruments, see Section A.4 – Information on fair value and note that, in the case of shares quoted on active markets, fair value is represented by Stock Exchange price at acquisition date or, should that not be available, the last price available.

Purchase price at acquisition date includes any adjustments to the cost contingent on future events, if provided for by the combination agreement and only if the adjustment is probable, can be measured reliably and realised within the twelve months subsequent to the date of acquisition of control. Instead, any restoration related to any loss in the value of the assets used as consideration is not included in purchase price since it is already considered either in the fair value of equity instruments or as a reduction in the premium or an increase in the discount on the initial issue of debt instruments.

Acquisition costs refer to the charges incurred by the acquirer to carry out the business combination, including, for example, professional fees paid to independent auditors, experts, legal advisors, costs for legal opinions and audit of accounts, preparation of information documents required by the law, as well as advisory fees sustained to identify potential acquisition targets if the contract provides for the payment of success fees as well as debt securities' or equities' registration and issue costs.

Acquisition costs must be recognised as charges when incurred and when the related services are provided, except for the costs relating to the issue of debt securities or equities which must be recognised in accordance with IAS 32.

Business combinations must be accounted for using the “acquisition method” whereby identifiable assets acquired (including any intangible assets which had not been previously recognised by the acquired company) or liabilities assumed (including contingent liabilities) are recognised at their fair value at acquisition date.

Moreover, as specifically required by IFRS 3, for each business combination, any minority interest in the acquired company can be recognised at fair value (therefore increasing the consideration transferred) or in proportion to the minority investment in the net identifiable assets of the acquired companies.

If control is achieved in stages, the acquirer recalculates its previous interest in the acquired company at the acquisition date fair value. Any difference with respect to the previous carrying value is taken to income statement.

Excess between the consideration transferred (being the fair value of transferred assets, liabilities incurred and equity instruments issued by the acquirer), increased, where present, by minority interests (determined as above) as well as the fair value of the stakes already held by the acquirer, and the fair value of acquired assets and liabilities should be recognised as goodwill. Conversely, such difference is taken to the income statement when the latter exceed the sum of the consideration, minority interests and the fair value of the stakes already held.

The accounting for business combination can be determined provisionally by the end of the year in which the combination is realised and must be completed within twelve months of the acquisition date.

In accordance with IFRS 10, acquisitions of further stakes in companies which are already controlled are accounted for as a capital transaction or as a transaction with shareholders acting in their capacity as shareholders. For this reason, the difference between the cost of the acquisition and the book value of the minority stakes acquired is posted to group shareholders' equity; in the same way, the sale of minority stakes without ceding control, does not generate gains or losses in the income statement but is posted to group shareholders' equity.

The following transactions are outside the scope of business combinations: transactions aimed at acquiring control over one or more entities which are not part of the company's business; transactions aimed at acquiring transitory control; transactions conducted for organisational purposes, therefore between two or more companies or businesses which are already part of the Intesa Sanpaolo Group, and which do not entail changes in control, independently of the extent of minority interests in each of the combining entities before and after the business combinations (business combinations involving entities under common control). These transactions are considered immaterial. Therefore, since there are no specific provisions in IAS/IFRS and in compliance with IAS 8 which requires – in the absence of a specific Standard – that the reporting entity must use its judgement in applying an accounting policy that results in information that is relevant, reliable, prudent and that reflects the economic substance of the transaction, these are accounted for safeguarding the continuing values of the acquiree in the financial statements of the acquirer.

Mergers are examples of combinations between companies and represent the most complete business combinations, since they imply the legal and economic unification of the merged entities.

Mergers which entail the establishment of a new legal entity and mergers by incorporation (which entail that an entity is absorbed by another existing entity) are treated according to the criteria illustrated above, that is:

- if the transaction leads to the transfer of control of a company, it is accounted for as a business combination as provided for by IFRS 3;
- if the transaction does not lead to the transfer of control, it is accounted for by privileging the continuity of the values of the merged company.

#### *Criteria for the preparation of segment reporting*

The Intesa Sanpaolo Group's segment reporting is based on the elements that the management uses to make its own operating decisions (the "management approach") and is therefore consistent with the disclosure requirements of IFRS 8.

The Intesa Sanpaolo Group's organisational model is structured according to six business segments with specific operational responsibilities: Banca dei Territori, IMI Corporate & Investment Banking, International Subsidiary Banks, Asset Management, Private Banking and Insurance. In addition to these operating areas there are the following support structures: Group Treasury, NPE Department and the Head Office Departments concentrated in the Corporate Centre.

The UBI Group's income statement and balance sheet figures - which as previously reported are subject to consolidation from the acquisition date - are temporarily represented as a separate business unit and will be assigned to divisions at a later date, as integration of the processes moves ahead. As stated above in the comments on the consolidated economic results and balance sheet aggregates, given the particularity of the transaction, no adjustments have been made to the historic reclassified data in order to retroactively reflect the effects of the acquisition.

The attribution of economic and balance sheet results to the various segments is based on the accounting principles used in the preparation and presentation of the consolidated financial statements. Use of the same accounting standards allows segment data and consolidated data to be effectively reconciled. To represent results more effectively and give a better understanding of the components that generated them, the reclassified income statement for each reporting segment is presented with values that express the contribution made by each segment to the Group's results.

With regard to the measurement of revenues and costs deriving from intra-segment transactions, the application of a contribution model with multiple Internal Fund Transfer Pricing (FTP) for the various maturities permits the correct attribution of net interest income to the divisions.

Specific contractual agreements between the Group companies regulate the application of transfer pricing for economic components relative to transactions which set out the distribution of results between product companies/service units and relationship entities/customer units. Each segment is charged direct costs and, for the part pertaining to it, the costs for services carried out by central structures; for the operating business units these charges are calculated on the basis of services actually rendered, while the costs of guidance and control activities have been allocated to the Corporate Centre.

Business units' profits are shown net of the tax effect, calculated by applying the main components underlying the effective tax rate, in line with the Group tax policy.

Business areas are disclosed net of intragroup relations within each area and gross of intragroup relations between different business areas.

For each business area, the capital absorbed based on Risk Weighted Assets (RWAs) was also calculated, determined in accordance with the instructions issued by the Bank of Italy in compliance with the regulations in force. For asset management and private banking, business risk was also taken into consideration, and for the insurance segment reference was made to the capital absorbed by insurance risk.

To complete segment reporting, the main balance sheet and income statement aggregates referred to the geographical areas in which the Group operates are also given. Geographical areas are defined on the basis of the territorial breakdown of Group activities and take into account the economic and strategic importance and the potential of the reference markets. Three main geographical areas have been identified, based on the residence of the legal entities making up the Group: Italy, Europe and Rest of the World.

#### *Insurance assets and liabilities*

The Intesa Sanpaolo Group has decided to exercise the option of adopting the Deferral Approach, according to which the financial assets and liabilities of the subsidiary insurance companies continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international financial reporting standard on insurance contracts (IFRS 17), scheduled for 2023<sup>30</sup>. For completeness, an outline is provided below of:

<sup>30</sup> As stated at the beginning of this chapter, on 25 June 2020 the IASB published the final version of the "Amendments to IFRS 17 Insurance Contracts" which confirmed the deferral of the date of first-time adoption of the Standard to 1 January 2023 (instead of 1 January 2022 previously proposed in the ED 2019/4), with the concurrent possibility of an extension to the same date of the "Deferral approach" in the application of IFRS 9. This was endorsed by the European Commission with the publication of Regulation 2097/2020 "Extension of the Temporary Exemption from Applying IFRS 9 (amendments to IFRS 4)" on 15 December 2020.

- the classification and measurement criteria for the financial assets and liabilities used by the Group's insurance companies, with more details provided in Part A "Accounting policies" of the Notes to the consolidated financial statements of the 2017 Annual Report. However, a description has not been provided of the recognition and derecognition criteria, because they are essentially in line with the applicable provisions of IFRS 9 and IAS 39;
- the approaches adopted for specific products of the insurance segment.

For details of the treatment of financial statement captions of the insurance companies other than those of a financial nature, see the information provided above, as the companies of the banking group and the companies of the insurance segment use the same accounting policies.

## 1. Financial assets held for trading

### *Classification criteria*

This category includes financial assets held for trading, essentially represented by debt securities and equities and the positive value of derivative contracts held for trading. Derivative contracts also include those embedded in combined financial instruments which are subject to separate accounting when:

- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- the embedded instruments, even though separate, fully meet the definition of derivative;
- the combined instruments are not measured at fair value with changes in fair value recognised through profit or loss.

Derivatives are stated as assets if their fair value is positive and as liabilities if their fair value is negative. The positive and negative current values arising from transactions with the same counterparty may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.

The reclassifications to other categories of financial assets are not permitted unless there is an event that is unusual and highly unlikely to recur in the near term.

In such cases debt securities and equities not held for trading may be reclassified into other categories established by IAS 39 if the conditions for their recognition apply (Investments held to maturity, Financial assets available for sale, Loans). The transfer value is the fair value at the time of the reclassification. On reclassification, the presence of any embedded derivative contracts, that have to be separated, is assessed.

### *Measurement criteria*

After initial recognition, financial assets held for trading are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.

For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc. Equities, quotas of UCI and derivatives which have equities as underlying assets, which are not quoted on an active market, for which it is not possible to determine a reliable fair value according to the guidelines listed above, are maintained at cost.

## 2. Financial assets available for sale

### *Classification criteria*

This category includes the financial assets that do not fall within any of the other categories such as Loans, Financial assets held for trading, Investments held to maturity or Financial assets measured at fair value through profit or loss. In particular, this caption is made up of i) bonds which are not held for trading and which are not included in Loans and Receivables, in Investments held to maturity or designated at fair value through profit or loss, ii) equity investments which are not held for trading and do not qualify as investments in subsidiaries, associates or entities subject to joint control, including private equity investments and private equity funds as well as iii) the portions of syndicated loans that, from inception, are destined for sale.

In the cases provided for by the accounting standards, reclassifications are only permitted towards the category Investments held to maturity. Moreover, debt securities may be reclassified into the category Investments held to maturity as well as under Loans, when there is the intention to hold them in the foreseeable future and when the recognition criteria are met. The transfer value is the fair value at the time of the reclassification.

### *Measurement criteria*

After initial recognition, Financial assets available for sale are measured at fair value, through the recording in the income statement of the value corresponding to amortised cost, while gains or losses deriving from a change in fair value are recorded in a specific reserve in shareholders' equity, until the financial asset is derecognised or a permanent loss occurs. On the total or partial sale of the financial asset or on recognition of a loss, the cumulated profit or loss must be reversed, all or in part, to the income statement.

Fair value is determined on the basis of the criteria already illustrated for financial assets held for trading.

Equities included in this category and quotas of UCI which have equities as underlying assets, which are not quoted on an active market, for which it is not possible to determine a reliable fair value, are maintained at cost.

Financial assets available for sale are assessed to identify if they show objective evidence of an impairment loss.

If such evidence exists, the loss is measured as the difference between the carrying value of the asset and its fair value.

Should the reasons for impairment cease to exist, following an event occurred after the registration of the impairment, value recoveries are posted through the income statement in the case of loans or debt securities, and through shareholders' equity



in the case of equities. The size of the recovery must not lead the carrying amount of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

### 3. Investments held to maturity

#### *Classification criteria*

Quoted debt securities with fixed or determinable payments and fixed maturity, which the entity has the positive intention and ability to hold to maturity, are classified in this category.

In the cases provided for by the accounting standards, reclassifications are only permitted towards the category of Financial assets available for sale. If during a year, prior to expiry, more than an insignificant amount classified under this category is sold or reclassified, the remaining investments held to maturity are reclassified as Financial assets available for sale and the portfolio in question may not be used for the next two years, unless the sales and reclassifications:

- are so close to maturity or the financial asset's call date that changes in the market interest rate would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

#### *Measurement criteria*

After the initial recognition, Investments held to maturity are measured at amortised cost, using the effective interest method. Profits or losses referred to investments held to maturity are recorded in the income statement when assets are derecognised or impaired, and through the amortisation process of the difference between book value and the value reimbursable at maturity.

Investments held to maturity are assessed to identify if they show objective evidence of an impairment loss.

If such evidence exists, the loss is measured as the difference between the carrying value of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate. The loss is recorded in the income statement.

If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement. The size of the recovery must not lead the carrying value of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

### 4. Loans

#### *Classification criteria*

Loans include loans to customers and due from banks, both disbursed directly and acquired from third parties, which entail fixed or in any case determinable payments, which are not quoted on an active market and which are not classified at inception in Financial assets available for sale.

The caption Loans also includes commercial loans, repurchase agreements with the obligation to resell at a later date, and securities underwritten at issue or via private placements, with determined or determinable payments, not quoted in active markets.

Reclassifications to the other categories of financial assets established in IAS 39 are not permitted.

#### *Measurement criteria*

After initial recognition, loans are measured at amortised cost, equal to initial value increased/decreased by principal repayments, adjustments/recoveries and amortisation – calculated applying the effective interest method – of the difference between amount disbursed and amount to be reimbursed at maturity, typically attributable to the costs/revenues directly connected to the single loan. The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.

The amortised cost method is not used for loans whose short maturity implies that the application of the discounting approach leads to immaterial effects. Such loans are recorded at historical cost. An analogous measurement criterion is applied to loans with unspecified maturity or with notice period.

Loans are reassessed for the purpose of identifying those which, due to events occurred after initial recognition, show objective evidence of possible impairment. These include bad loans, unlikely-to-pay or past due loans according to the rules issued by the Bank of Italy, consistent with IAS/IFRS and EU supervisory regulations.

Non-performing loans undergo an individual measurement process, or the calculation of the expected loss for homogeneous categories and analytical allocation to each position, and the amount of the adjustment of each loan is the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.

Expected cash flows consider forecast recovery periods, presumed realisable value of guarantees as well as the costs sustained for the recovery of credit exposure.

The original effective rate of each loan remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest.

The impairment loss is recorded in the income statement.

The original value of loans is reinstated in subsequent periods to the extent that the reasons which had led to the impairment cease to exist, provided that such valuation is objectively attributed to an event which occurred subsequent to the impairment. The recovery is recorded in the income statement and must not lead the carrying amount of the loan to exceed the amortised

cost had no impairment losses been recognised in previous periods.

Recoveries on impairment include time value effects.

Loans for which no objective evidence of loss has emerged from individual measurement are subject to measurement of a collective adjustment. Such measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time series and other objective elements observable at measurement date, which enable the latent loss to be estimated for each loan category. Measurement also considers the risk connected to the borrower's country of residence.

Collective adjustments are recorded in the income statement.

## 5. Financial assets measured at fair value through profit or loss

### *Classification criteria*

IAS/IFRS endorsed by the European Commission enable the classification as financial instruments measured at fair value through profit and loss of any financial asset thus defined at the moment of acquisition, in compliance with the cases contemplated in the reference regulations.

Reclassifications to the other categories of financial assets are not permitted.

The Group classifies investments with respect to insurance policies in this category.

### *Measurement criteria*

After initial recognition, the financial instruments in question are measured at fair value. The effects of the application of this measurement criterion are recorded in the income statement.

## 6. Payables and securities issued

### *Classification criteria*

Amounts Due to banks, Due to customers and Securities issued include various forms of funding on the interbank market and with customers, repurchase agreements with commitment to repurchase and funding via certificates of deposit, bonds issued and other funding instruments in circulation, net of any amounts repurchased.

It also includes the payables recorded by the entity in the capacity of lessee in finance lease transactions.

### *Measurement criteria*

After initial recognition, financial liabilities are measured at amortised cost with the effective interest method.

An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount.

## 7. Financial liabilities held for trading

### *Recognition criteria*

These financial instruments are recognised at the subscription or issue date at cost, which reflects the fair value of the instrument, without taking into account directly attributable transaction costs or revenues.

This liability category includes, specifically, the negative value of trading derivatives as well as the negative value of embedded derivatives in combined contracts but which are not closely correlated to the latter. It also includes liabilities determined by short selling generated by securities trading activities.

### *Derecognition criteria*

Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed of with the substantial transfer of all the risks and rewards connected to it.

## 8. Financial liabilities designated at fair value through profit or loss

### *Classification criteria*

Financial liabilities designated at fair value through profit or loss are recorded under this caption, on the basis of the fair value option given to companies by IAS 39, in compliance with the cases contemplated in the reference regulations.

The Group exercised the fair value option for liabilities, designating insurance products without a significant insurance risk and which are not included under separate management, and therefore do not envisage discretionary profit-sharing features. Investments relating to such forms of deposits, as already reported, were also designated at fair value, thereby eliminating or considerably reducing "accounting biases" that would otherwise have arisen from measuring assets and liabilities on the basis of different accounting criteria.

### *Measurement criteria*

These liabilities are designated at fair value through profit or loss.

## 9. Insurance products

Products for which insurance risk is deemed significant include: temporary first class death policies and income and mixed policies with guaranteed fixed conversion rates at the time of issue, and certain types of unit-linked policies and damage cover. As regards these products, the IAS/IFRS substantially confirm the national accounting standards concerning insurance. In brief, IFRS 4 sets forth that:



- gross premiums are to be recorded in the income statement under income; they include all amounts matured during the year as a result of insurance contracts signed, net of cancellations; likewise, all premiums ceded to reinsurers are recorded under current year costs;
- with respect to gross premiums, the corresponding commitment towards the insured is accrued in technical reserves, such amount being calculated on a contract-by-contract basis in accordance with applicable local accounting principles;
- the insurance products entered under separate management are valued by applying “shadow accounting”, whereby the differences between the carrying value and the market value of securities classified as securities available for sale are allocated to technical reserves as regards the insured parties' portion and to shareholders' equity as regards the insurance companies' portion. If, on the other hand, the securities are measured at fair value through profit or loss, the difference between the carrying value and the market value is recorded in the income statement giving rise to a change in technical reserves equal to the amount of the insured parties' portion;
- in determining shadow accounting, the Group uses the retrocession average rate and the minimum guaranteed rate established in accordance with the contractual conditions of the various products associated with each portfolio management;
- liabilities related to products with discretionary participation features are given as a whole with no distinction between the guaranteed component and the discretionary participation feature.

In accordance with IFRS 4, the Group assesses the prospective adequacy of the carrying amount of recorded liabilities using the Liability Adequacy Test (LAT).

#### 10. Financial products included under separate management

Financial products included under separate management, despite their not being subject to significant insurance risk, and which therefore contain discretionary participation features, include the majority of life policies and mixed first branch policies, as well as fifth branch capitalisation policies. These are accounted for according to the principles set forth in IFRS 4:

- the products are shown in the financial statements according to principles that essentially reflect those locally in force on the subject, any premiums, payments and changes in technical reserves being recorded in the income statement;
- as stated in the previous paragraph, shadow accounting is applied to the insurance products entered under separate management which, therefore, have discretionary participation features;
- in determining shadow accounting, the Group uses the retrocession average rate and the minimum guaranteed rate established in accordance with the contractual conditions of the various products associated with each portfolio management;
- liabilities related to products with discretionary participation features are given as a whole with no distinction between the guaranteed component and the discretionary participation feature.

#### 11. Financial products not included under separate management

Financial products without a significant insurance risk and which are not included under separate management, and therefore do not envisage discretionary participation features, are stated in the financial statements as financial liabilities and are measured at fair value, on the basis of the envisaged option (Fair Value Option), or at amortised cost. These financial products are essentially index-linked policies and part of the unit-linked ones, as well as policies with specific assets not included under separate management. These products are accounted for according to the principles set forth in IAS 39, as summarised below:

- the portion of index- and unit-linked policies that are considered investment contracts are measured at fair value, whereas the specific asset products not included under separate management are measured at amortised cost;
- the income statement does not reflect the premiums relating to these products, but just the revenue components, represented by fees and commissions, and the cost components, comprising provisions and other charges; it also reflects the costs or revenues represented by the changes in the fair value of the liabilities incurred against these contracts. More specifically, the international accounting and financial reporting standards, contained in IAS 39 and IFRS 15, provide that, for the liabilities designated at fair value, income and costs relating to the products in question be identified and classified under two headings: (i) origination, to be recorded in the income statement at the time the product is issued and (ii) investment and management services, to be amortised over the life of the product which depends on how the service is provided. In addition, as regards specific asset products not included under separate management, incremental cost and income items are included in the calculation of the amount to be amortised;
- the insurance component included in the index- and unit-linked products, where it can be unbundled, is independently valued and recorded.

### A.3 – INFORMATION ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

Following the adoption of IFRS 9, the Intesa Sanpaolo Group did not make changes to its business model for managing its financial assets and, therefore, no transfers occurred between portfolios of financial assets.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. Such changes are expected to be extremely rare and must be decided by the management following significant external or internal changes that can be demonstrated to external parties.

#### *A.3.1 Reclassified financial assets: change in business model, book value and interest income*

No disclosure is required since there are no reclassified financial assets recognised under balance sheet assets.

#### *A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income*

No disclosure is required since no transfers were carried out between portfolios of financial assets in 2020.

#### *A.3.3 Reclassified financial assets: change in business model and effective interest rate*

No disclosure is required since there are no reclassified financial assets recognised under balance sheet assets.

## A.4 – INFORMATION ON FAIR VALUE

### FAIR VALUE, INDEPENDENT PRICE VERIFICATION AND PRUDENT VALUE OF FINANCIAL INSTRUMENTS

The framework of financial measurement at fair value is based on three pillars: fair value measurement according to the IFRS, independent price verification (IPV) and prudent value measurement. The latter are established by the CRR - Capital Requirement Regulation. The paragraphs below describe the methods applied by the Intesa Sanpaolo Group to implement and use those elements.

#### General fair value principles

The Intesa Sanpaolo Group governs and defines the fair value measurement of financial instruments through the Group Guidelines and Rules for Valuation of Financial Instruments at Fair Value, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries, including the Insurance Companies.

The “Guidelines for Valuation of Financial Instruments at Fair Value”, once a favourable opinion has been given by the Group Financial Risk Committee, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The “Rules for Valuation of Financial Instruments at Fair Value” are reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

The “Rules for the Measurement of Unlisted Equity Investments”, drawn up by the Group M&A and Equity Investments Head Office Department, govern the fair value measurement of unlisted equities and financial instruments with unlisted equities as their underlying.

IFRS 13, which harmonises the measurement rules and the related disclosure, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single bank. Underlying the definition of fair value is the assumption that the Bank is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.

The bank measures the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible. Measurement at fair value presumes that the asset is sold or the liability transferred:

- a. in the principal active market for the asset or liability;
- b. in the absence of a major market, in the most advantageous active market for the asset or liability.

The bank is not required to conduct an exhaustive study of all possible markets to identify the major market or, in the absence of the major market, the most advantageous market, but must take into account all the reasonably available information. If there is no evidence to the contrary, the market that the entity normally operates in to sell the asset or transfer the liability is assumed to be the major market or the most advantageous market, if there is no major market. The Intesa Sanpaolo Group considers the principal market of a financial asset or liability to be the market in which the Intesa Sanpaolo Group generally operates.

In accordance with IFRS 13, the Group considers an active market to be a market where transactions in an asset or liability occur with sufficient frequency and volume to provide useful information for determining price on an ongoing basis. More specifically, a financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In specific cases, governed by the Guidelines and Rules for Valuation of Financial Instruments at Fair Value, and despite being quoted on regulated markets, relevant research is carried out to verify the significance of the official market values. In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, widening or increase of the bid-ask spread, reduction or total lack of market for new issuances, limited publicly-available information), analyses of the transactions or of the quoted prices must be carried out. A reduction in the volume or the level of activity alone may not indicate that the price of a transaction or the quoted price does not represent fair value or that the transaction in that market is not ordinary. If an entity determines that a transaction price or quoted price does not represent fair value (e.g., non-ordinary transactions) an adjustment to the transaction prices or listed prices is required if the entity uses those prices as the basis for fair value measurement and that adjustment may be significant with respect to the fair value as a whole.

### General Independent Price Verification principles

The Intesa Sanpaolo Group governs and defines the independent price verification process through the Group Guidelines and Rules on Independent Price Verification, documents that are coordinated by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries of the Banking Group.

The “Guidelines on Independent Price Verification”, once a favourable opinion has been given by the Group Financial Risk Committee, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The level I and II “Rules on Independent Price Verification” are revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

According to the provisions of Regulation (EU) 575/2013 (Capital Requirement Regulation – CRR), Article 4, par. 1.70 and Article 105, par. 8, the Intesa Sanpaolo Group governs the Independent Price Verification (IPV) process, which consists of the regular verification of the accuracy and independence of market prices or the data input in pricing models, carried out by an organisational unit independent from the business functions, at a frequency commensurate with the trading carried out and the nature of the market.

The Intesa Sanpaolo Group has set up an IPV process with 3 levels of control in line with the provisions of Bank of Italy Circular 285/2013 (Supervisory regulations for banks), incorporated into the Integrated Internal Control System, which requires the risk management processes to be incorporated in the processes and methods for valuing the company activities, also for accounting purposes.

Within the IPV, the level I, II and III control functions have the following main responsibilities:

- the level I control function participates in the definition of the related methodological framework and carries out the level I implementations and controls, reporting the results to the business function and the level II control functions;
- the level II control function defines the methodological and control framework, ensures alignment with current regulations and consistency between the IPV controls, accounting valuations and additional valuation adjustments (AVA) (carried out, respectively, on the basis of the Guidelines and Rules for Valuation of Financial Instruments at Fair Value and the Guidelines and Rules for Prudent Valuation of Financial Instruments at Fair Value) and supervises the level I controls and performs the level II controls;
- the level III control function carries out internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and the IT system at Group level, at scheduled deadlines in relation to the nature and intensity of the risks.

The level I and II IPV controls are qualitative and quantitative controls and are distinguished according to the type of instruments subject to control. They are applied consistently to both the input data underlying the valuations and the valuations themselves, and ensure consistency between the management valuations and the accounting valuations carried out in the various systems. They are characterised by completeness and suitability of application, absence of overlaps, sequentiality and complementarity in execution. The IPV control instruments use, as far as possible, specific applications or IT procedures, which enable extensive data analysis on a daily basis. In particular:

- the level I controls are aimed at ensuring the validation of the market data entered into the systems and are based on an in-depth analysis of the data obtained from external providers. If the level I controls detect that certain thresholds have been exceeded for the data contained in the systems, or the data is not considered correct by the level I control functions, a comparison process (challenge) is activated with the involvement of the business function and the level II control functions, in line with the degree of complexity of the report;
- the level II controls are characterized by sequentiality and complementarity in execution with the level I controls and are designed to ensure alignment between management and accounting valuations, based on an in-depth analysis of consensus or counterparty data and, where these are not available, through the application of pricing models associated with the respective instruments.

The results of the IPV process are analysed, assessed and coordinated by the Financial Measurements Working Group, a technical body set up specifically for this purpose, with the aim of facilitating integration and comparison between the business functions and the control functions.

### The fair value of financial instruments

The presence of quoted prices in an active market represents the best evidence of fair value and these prices are therefore the quoted prices to be used on a priority basis for the measurement of financial assets and liabilities. If there is no active market, the fair value is determined using valuation techniques aimed, ultimately, at establishing the price the product would have had, at the measurement date, in an arm’s length exchange motivated by normal business considerations.

The choice of the above measurement methods is not optional, because they must be applied in hierarchical order: the availability of a price stated in an active market prevents the use of one of the other measurement approaches.

### Inputs of the valuation techniques

The inputs are defined as the assumptions that market operators would have used to determine the price of the asset or the liability, including assumptions regarding risk, such as, for example, the risk relating to a particular valuation technique used to measure fair value or the risk relating to the inputs of the valuation technique. The inputs may be observable or unobservable. Observable inputs are those produced using market data, such as publicly available information on operations or actual events, which reflect the assumptions that market operators would use in determining the price of the asset or the liability.

Unobservable inputs are those for which no market information is available and that are produced using the best available information regarding the assumptions that market operators would use to determine the price of the asset or the liability.

### Fair value hierarchy

IFRS 13 establishes a fair value hierarchy in which inputs to fair value measurement techniques are divided into three levels. That hierarchy assigns top priority to (unadjusted) quoted prices on active markets for identical assets or liabilities (level 1 data) and the lowest priority to unobservable inputs (level 3 data). In particular:

- Fair value level 1 applies when an instrument is measured directly on the basis of (unadjusted) quoted prices on active markets for identical assets or liabilities to which the entity has access on the measurement date.
- Fair value level 2 applies when a price has not been found on an active market and the instrument is measured according to valuation techniques, on the basis of observable market parameters, or of the use of parameters that are not observable but are supported and confirmed by market evidence, such as prices, spreads or other inputs.
- Fair value level 3 applies when fair value is measured using various inputs, not all of which are directly drawn from observable market parameters, and which thus entail estimates and assumptions by the valuator.

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the valuation techniques rather than the valuation techniques themselves.

The attachment "Fair Value Hierarchy Rules" to the "Rules for Valuation of Financial Instruments at Fair Value" defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.

For level 1 financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the end of the reference period.

For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.

The following are considered as level 1 financial instruments: contributed bonds (i.e. bonds for which the Composite Bloomberg Bond Trader is available from the Information Provider Bloomberg, or, alternatively, a price on the EuroMTS circuit, or at least three prices available from the Information Provider Bloomberg), contributed equities (i.e., quoted on the official market of reference), contributed UCITS funds (covered by EU directives), spot exchange rates, derivatives for which prices are available on an active market (for example, exchange traded futures and options) and hedge funds whose Net Asset Value (NAV) is available, according to the frequency established in the subscription contract, and in which assets classified as level 1 predominate among the assets invested in by the fund, as a percentage of the NAV, provided the level 3 instruments do not exceed a set threshold.

Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Guidelines and Rules for Valuation of Financial Instruments at Fair Value are not considered level 1 instruments.

When no listing on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.

In the case of instruments classified as level 2, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretionary parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final measurement.

The following are measured using level 2 input models:

- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- loans whose fair value is determined through the use of an appropriate credit spread which is estimated starting from market data of financial instruments with similar characteristics;
- derivatives (including securitised derivatives) measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- structured credit products (ABSs, HY CLOs, CDOs, etc.) for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters that can be gathered from the market;
- non-contributed equity instruments measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, or using the "relative" valuation models based on multipliers;
- hedge funds in which Level 2 assets predominate, as a percentage of the NAV, provided the Level 3 instruments do not exceed a set threshold.

In case of instruments classified as level 3, the calculation of the fair value is based on valuation models which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator. In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:

- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured using this method:

- some transactions in derivatives, bonds, or complex structured credit instruments measured using level 3 inputs;
- hedge funds in which the level 3 assets are above a set limit;
- private equity funds, private debt funds, real estate funds and closed-end funds resulting from sales of non-performing loans valued at NAV, with possible discounts;
- shareholdings and other equities measured using models based on discounted cash flows or using equity methods;



- loans whose fair value is determined through the use of a credit spread that does not meet the criteria to be considered level 2;
- loans with underlying equity risk, whose fair value is calculated based on the discounting of expected contractual flows.

The transfer of fair value levels of financial assets and financial liabilities measured at fair value on a recurring basis occurs, as established by IFRS 13, as follows: the transfer between levels 2 and 3 occurs upon a change in the observability or significance of an input to the measurements; and the transfer between levels 1 and 2 or 3 occurs upon a change in the availability of prices in an active market.

For OTC derivatives, the initial choice of the level of fair value hierarchy depends on the degree of observability and significance of the parameters used to determine the risk-free component. The calculation of the counterparty/issuer default risk component may result in a transfer to level 3 when the current exposure is positive for the bank and the counterparty is in non-performing loan status, or when the determination of default risk requires unobservable inputs and the bilateral credit value adjustment (bCVA) component is significant when compared to the overall fair value of the netting set, or when the counterparty's sensitivity to downgrading is significant when compared to the overall fair value of the netting set.

For non-contributed equity instruments, the change of the level occurs:

- when inputs observable on the market (e.g., prices defined based on comparable transactions on the same instrument between independent and informed counterparties) have become available during the period. In this case, the Intesa Sanpaolo Group reclassifies from level 3 to level 2;
- when the directly or indirectly observable elements used as the basis for the valuation cease to exist, or when they are no longer up to date (e.g., comparable transactions that are no longer recent or multiples that are no longer applicable). In this case, the Intesa Sanpaolo Group uses valuation techniques that use unobservable inputs.

### Valuation of financial instruments

The valuation of financial instruments entails the following phases:

- identification of the sources for valuation: for each asset class, the Guidelines and Rules for Valuation of Financial Instruments at Fair Value establish the processes that are necessary to identify market parameters and the manner according to which such data must be extracted and used;
- validation and processing of input data for periodic valuation: this stage consists of the accurate verification, at each accounting measurement date, of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means;
- certification of the measurement methods: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the measurement models used and at determining any adjustments necessary for measurement;
- monitoring and revision of the measurement methods: the monitoring consists of the ongoing checking of the adherence to the market of the valuation model and enables the timely discovery of any gaps, in order to initiate the necessary checks and measures.

### Identification, certification and processing of the input data for the measurements

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of measurement techniques, highlight the need to establish univocal principles in the determination of market parameters. To this end, the Guidelines and Rules for Valuation of Financial Instruments at Fair Value establish the processes needed to identify the market parameters, the contribution sources considered appropriate and how the data must be received (cut-offs) and used for the measurement of financial instruments held for any purpose in the proprietary portfolios of the Parent Company and its subsidiaries. The same sources are used in measurements carried out for third parties under Service Level Agreements, entered into in advance. The adequacy of the input data for the measurements is guaranteed by the respect of reference requirements, which are based on comparability, availability and transparency of the data, or the possibility of extracting the figure from one or more info providing systems, measuring the contribution bid-ask, and lastly, for OTC products, verifying the comparability of the contribution sources.

The use of all market parameters in Intesa Sanpaolo is subordinated to their certification by the Financial and Market Risks Head Office Department, in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

### Certification of measurement methods

The measurement methods used by the Intesa Sanpaolo Group are certified by the Financial and Market Risks Head Office Department, with the involvement of all relevant structures. The purpose of the certification is to verify the consistency of the methods with current market practice, to highlight any problems or limitations, and to determine any fair value adjustments, in accordance with the applicable regulations. The certification process considers all aspects of the measurement method (basic assumptions, mathematical derivation, any approximations, numerical algorithms used, inputs and outputs) but also all contextual elements that are relevant to the management, including the characteristics of the associated products (payoffs, early termination clauses, etc.), any ancillary agreements (e.g. netting or collateral agreements), the market where the products are traded, and how they are used by end users (e.g. precision vs. performance, calculation of risk measures, etc.). These aspects are subject to qualitative and quantitative analysis and are duly reported in the internal documentation.

The possibility of independent validation issued by high standing financial service companies is also envisaged in highly-complex cases and/or in presence of market turbulence (market dislocation).

At the end of the certification process, the measurement method is recorded in the Rules for Valuation of Financial Instruments at Fair Value.



### Monitoring and review of measurement methods

As required by the applicable regulations, the measurement methods used are subject to ongoing monitoring of their performance with respect to the evolution of financial instruments, markets and methodological innovations developed by the scientific community, in order to ensure their continuous alignment to the market, promptly highlight any inadequacies and initiate the necessary checks and actions. The Rules for Valuation of Financial Instruments at Fair Value detail all elements considered for the periodic monitoring and revision of the measurement methods. The functions involved in the monitoring process are the same as those involved in the process of certification of the measurement methods mentioned above and in the IPV process governed by the Guidelines and Rules on Independent Price Verification.

### Valuation risk: fair value adjustments

The Intesa Sanpaolo Group defines valuation risk as the risk of losses arising from the valuation uncertainty for the fair value exit price of financial instruments, due to any limitations of the measurement techniques used or particular market conditions. The main measure of the valuation risk associated with a financial instrument are the fair value adjustments, which are designed to take into account the valuation uncertainty or the difficulty in the disposal of specific financial positions, and may relate to a single financial instrument or to the net position for a particular risk factor. The adjustments may be calculated as add-ons to the valuation or included directly in the valuation. They are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in measurement methods chosen and their implementation.

In particular, the Intesa Sanpaolo Group envisages fair value adjustments for the following categories of measurement uncertainty.

- Uncertainty of input data: any valuation uncertainty related to the input data for the valuation (whether mid, bid or ask) is measured with respect to temporary or structural conditions on the markets or in relation to the size of the values held (in the case of concentration), and where necessary a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Illiquidity of the underlying positions or risk factors: similarly to the case above, the market bid-ask spread is measured and, where necessary, a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Model risk: this is based on the identification and use of variants of the same model or alternative models, with which to carry out comparison analyses aimed at quantifying the variability of the valuations (in particular any directionality of the price when the model changes) and the behaviour of the model in various market scenarios (stress tests). The quantification of the fair value adjustment is based, where possible, on easily comprehensible and measurable financial variables (e.g. vega, delta, correlation shift).
- Counterparty and funding risk: counterparty and funding risks, collectively referred to as XVA, include Bilateral Credit Value Adjustment (bCVA) and Funding Value Adjustment (FVA). The bCVA takes account of the counterparty risk premium associated with the possibility that the counterparties may not honour their mutual commitments (for example in the event of bankruptcy). This component derives, in turn, from two components: the Credit Value Adjustment (CVA, negative) and the Debt Value Adjustment (DVA, positive), which consider, respectively, the scenarios where the Counterparty goes bankrupt before the Bank (and the Bank has a positive exposure towards the Counterparty), and vice versa the scenarios where the Bank goes bankrupt before the Counterparty (and the Bank has a negative exposure towards the Counterparty). The Funding Value Adjustment (FVA, negative), on the other hand, takes into consideration the funding risk premium, connected to the costs of funding the cash flows (coupons, dividends, collateral, etc.) generated by the Bank's overall OTC derivatives portfolio. The calculation of the XVAs depends on the overall exposure between the two counterparties, calculated using techniques for simulating the underlying risk factors of the transactions considered, taking into account any counterparty risk mitigation arrangements (in particular netting and collateralisation agreements), as well as any contractual clauses. The calculation of the XVAs also depends on the Loss Given Defaults (LGDs) based on the estimated value of the expected recovery in the event of counterparty default, and the probability of counterparty default (PD). LGDs and PDs are obtained from credit default swap market quotes or are based on internal estimates by sector/rating used for credit risk. In addition, the FVA calculation is based on a funding curve representative of the best market counterparties that the Bank could renegotiate transactions with, in accordance with the most IFRS 13 advantageous market principle, as there is currently no real main market for these transactions.

The management process for fair value adjustments is formalised in the Guidelines and Rules for Valuation of Financial Instruments at Fair Value and the Rules for the valuation of unlisted equity investments with appropriate calculation methodologies on the basis of the different configurations of the points set out above, and is carried out in the most objective, consistent and systematic manner possible by the Financial and Market Risks Head Office Department. The introduction and release of the fair value adjustments depends on the factors described above. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided by the mitigation or elimination of said risks.

For new products, the decision to apply the adjustments is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.

The application of the adjustments is subject to an authorisation procedure that, above a certain warning threshold defined for specific cases, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

#### A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products, hedge funds, and loans), on the valuation models used.

##### I. Valuation of non-contributed debt securities

The fair value of contributed bonds is measured using the income approach, i.e. by calculating the present value of expected future cash flows using an appropriate risk premium represented by the credit spread, identified on the basis of contributed and liquid financial instruments with similar characteristics. The sources used to estimate the level of the credit spread are the following:

- contributed and liquid debt securities of the same issuer;
- credit default swaps on the same reference entity;
- contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

In any case, the different seniority of the security to be priced is considered with regard to the issuer's debt structure.

In the case of Italian public issuers, a rating/maturity matrix is defined on the basis of the spread levels on government issues, to which the spreads among the various rating/maturity classes with respect to public issues (regions, provinces, municipalities, government entities) are applied.

When applying the spread for the pricing of the non-contributed instrument, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.

Also, for bonds that are not quoted on active markets, an extra spread, estimated based on the bid/ask spread recorded on the market, is added to the "fair" credit spread component, to take account of the higher premium demanded by the market compared to similar contributed securities.

Finally, if the instrument includes an optional component, a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and any illiquidity of the underlying assets. This component is calculated based on the type of option, using the corresponding valuation models for derivatives mentioned below.

Similarly, Intesa Sanpaolo's credit spread for the Banking Group's financial liabilities designated at fair value is determined and measured based on the bonds issued by the Parent Company, with regular, periodic coupons, maturity beyond one year and quoted on an active market in compliance with IAS/IFRS. The implicit credit rating is determined on the basis of market prices and subsequently adjusted through interpolation models which generate credit spread curves by type of coupon, maturity and subordination level. Similarly, the issued Certificates are measured at fair value by breaking them down into the following two components: an issued bond, measured as described above, and an option component, measured using the corresponding derivative pricing models described below.

Finally, measurement of the financial liabilities designated at fair value of the Insurance Companies (mainly liabilities associated with unit-linked investment contracts that do not present significant insurance risk) reflects the market value of the underlying assets, which are determined in application of the various methods described herein.

##### II. Valuation of loans

Loans are measured at fair value through contributions from info providers when available or by calculating the present value of expected future cash flows using an appropriate credit spread, identified starting from the following sources:

- contributed loans on the market;
- sector/rating-specific loan market curves;
- contributed securities of the same issuer;
- credit default swaps on the same reference entity.

In any case, the different seniority of the instrument to be priced is considered with regard to the issuer's debt structure.

When applying the spread for the pricing of the loan, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.

Moreover, where, in determining the credit spread of the loans, reference is made to the curves created through bonds, a Bond – Loan basis must be applied, to capture the different structure of the market, if any, and the different type of loan.

In order to consider the premium required by the market for illiquid and/or structured instruments, several adjustments are applied to the credit spread.

Loans with an underlying unlisted equity risk (which include financial instruments that, pursuant to IAS 32, cannot be classed as equity, e.g. loans convertible into shares) are usually measured by discounting the cash flows provided for by the contract. Since these are debt securities, the cash flows are normally discounted using a rate consisting of the sum of: a risk free rate, a spread deriving from the CDS or measured on listed securities or similar disbursements, and any additional risk premium.

In the case of non-performing loans, the fair value is determined based on the recoverable amount of the position. This estimate is made taking into account the contractual elements that characterise the loan and may involve, for example, the valuation of the cash flows from the sale of the real estate pledged as collateral or the valuation of any capital instruments that may be acquired following the introduction of an equity conversion clause for the position.

##### III. Valuation of OTC derivatives

Derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are measured through specific measurement methods and input parameters (such as, for example, interest rate, foreign exchange and volatility curves) observed on the market and subject to the certification monitoring illustrated above.

The fair value of an OTC derivative is calculated considering the risk premium related to the various underlying risk factors. Specifically, there are two relevant cases, according to whether or not the instrument is subject to collateralisation agreements (CSAs) aimed at mitigating the counterparty and funding risk.

- a. For CSA transactions with characteristics that reduce counterparty and funding risk to a negligible level, the fair value is calculated according to the non-arbitrage principle, by including the market risk premium related to the risk factors underlying the contract (e.g. interest rates, volatility, etc.), and, in the most significant cases, using the rate of remuneration for the collateral as the discount rate for the future cash flows.
- b. For transactions without CSAs, or with CSAs with characteristics that do not reduce the counterparty and funding risk to a negligible level (e.g., One Way CSAs, or with non-negligible limits or minimum transfer amounts), the fair value of the instrument may be stated, under appropriate circumstances, as the sum of the reference (or base) value, equal to the price of the corresponding collateralised instrument, and several additional valuation components related to the counterparty and funding risk premium, referred to jointly as XVA (see "Measurement risk: fair value adjustments").

In view of the number and complexity of the OTC derivatives, a systematic reference framework has been developed which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used for their measurement.

The table below illustrates the main methods used to measure OTC derivatives based on the category of underlying asset.

Underlying class	Valuation models	Market data and input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, Hull-White, Bivariate log-normal, Rendistato, Hagan exact formula for CMS	Interest rate curves (deposits, FRA, Futures, OIS, swap, basis swap, CMS, Rendistato basket), cap/floor/swaption option volatility, correlation between interest rates
Foreign exchange rate	Net present Value FX, Garman-Kohlhagen, Lognormal with Uncertain Volatility (LMUV), Stochastic Local Volatility (SLV), Local Volatility (LV)	Interest rate curves, spot and forward FX curves, FX volatility, "quanto" volatility and correlations
Equity	Accrual, Net present Value Equity, Generalised Black-Scholes, Heston, Local Volatility, Jump Diffusion	Interest rate curves, underlying asset spot rate, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Inflation	Inflation NPV, Inflation SABR, Inflation Jarrow-Yildirim	Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between inflation rates
Commodity	Net present Value Commodity, Generalised Black-Scholes, Independent Forward, Local Volatility, 2-Factors Jump Diffusion	Interest rate curves, spot rate, forwards and futures of underlying assets, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Loans	Net present Value, CDS Option (or log-normal model), Contingent CDS	Probability of default, Recovery rate, credit index volatility.

As envisaged by IFRS 13, in determining fair value the Intesa Sanpaolo Group also takes into account the effect of non-performance risk. This risk includes changes in the counterparty credit rating and changes in the issuer's own credit risk.

#### IV. Valuation model for structured credit products

With regard to asset-backed securities (ABSs), if significant prices are not available, valuation techniques are used that take into account parameters that can be gathered from an active market (level 2 inputs) or, where parameters cannot be observed, estimated parameters (level 3 inputs, where significant).

In this case, the cash flows are obtained from infoproducers or specialised platforms; the spreads are gathered from prices available on the market/market info provider, further strengthened by a qualitative analysis relative to the performance of the underlying assets presumed from periodic investor reports and aimed at highlighting structural aspects that are not (or not fully) encompassed by the analyses described above, relating to the actual future ability to pay the expected cash flows and analyses of relative value with respect to other similar structures.

In the case of securitised high-yield loans to European corporate borrowers (CLO HY loans), valuation techniques call for calculation of the net present value of the expected cash flows, determined through specialised platforms, discounted using market spreads. When modelling expected future flows, account is taken of all contractual aspects of the HY CLO loans that may influence the waterfall, i.e. the distribution of cash flows from the collateral on the notes.

After this valuation, credit analyses on underlying assets are fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the HY CLO and to the collateral present. This is to identify any present or future weaknesses which emerge from the characteristics of the underlying assets, which could have been missed by rating agencies and as such not fully considered in the valuations described in the previous point.

## V. Valuation of non-contributed equities

Level 2 equities include:

- equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions;
- equities measured using relative methods, based on multipliers: implied multiples in transactions in comparable listed or unlisted companies, within a time frame deemed sufficiently short with respect to the time of measurement and under constant market conditions (M&A multiples) or implicit multiples in the stock market prices of a sample of comparable companies (stock market multiples).

Level 3 equities for which the "relative" models described above are not applicable in significant terms, and, therefore, "absolute" valuation models are used, include:

- equities for which analytical models based on flows are used, which determine the value through estimates of the cash or income flows that the company is expected to generate over time, discounted using an appropriate rate based on the level of risk of the instrument;
- equities measured based on asset criteria such as NAV or Adjusted Net Asset Value (ANAV), which estimates the fair value of the various components of the assets of the investee.

Any values deemed representative of the fair value of the equity instrument deriving from contractual clauses (for example, options) are classified in level 2 or 3 of the fair value hierarchy, according to the observability of the inputs used in the valuation. Specifically, if the negotiation of the clause resulted in strike prices or pre-defined algorithms and multiples, the instrument is classified in level 2.

The cost criterion as estimate of fair value is used to a lesser extent, where none of the previous methods are applicable due to lack of sufficient information, and in the cases where there is a wide range of possible fair value measurements and it is not possible to identify the most appropriate value among these.

This case also includes Equity Instruments which, in accordance with IAS 32, have the characteristics to be considered as equities.

## VI. The valuation of hedge funds

The determination of the fair value of a hedge fund is the result of an analytical process that involves two distinct approaches applied respectively to investments in funds made through the direct purchase of units and to funds managed through a Managed Account Platform (MAP), which ensures daily transparency of the instruments underlying the funds.

For the funds not managed via a MAP, the fair value corresponds to the Net Asset Value (NAV) provided by the fund administrator, to which an adjustment can be applied, deriving from a measurement process aimed at capturing the main risk factors that the management of the funds is subject to, which consist of the following two types:

- counterparty (broker) risk, i.e. the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custodian activities, subject to the risk of default;
- illiquidity risk, i.e. the risk that the assets of the fund are illiquid due to the limited prices available or due to a lack of information on the assessment policies used by the fund.

These risks are assessed on the basis of the information contained in the documentation received periodically from the fund managers or administrators.

For the funds managed via a MAP, the Fair Value corresponds to the NAV provided by the fund administrator. For this type of fund, no adjustment is applied because it is considered that the infrastructure that guarantees the daily transparency enables sufficient control and monitoring of the underlying instruments to mitigate counterparty and illiquidity risk.

For both types of investment, the fair value hierarchy level is assigned based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

## VII. The valuation of private debt funds

For Private Debt AIFs funds (Alternative Investment Funds), the investment authorisation process involves an initial due diligence to verify the consistency between each fund's asset valuation policy and the Guidelines and Rules for Valuation of Financial Instruments at Fair Value. The fund is subsequently valued at NAV.

## VIII. Valuation of closed-end private equity funds, real estate funds and closed-end funds resulting from sales of non-performing loans

Closed-end private equity funds are usually valued using the latest Net Asset Value approved by the asset management company (published half yearly or quarterly), adjusted solely to take into account events that have not yet occurred at the reference date of the NAV, such as:

- a material transaction on a portfolio company;
- the bankruptcy or liquidation of a portfolio company;
- the alignment of any listed assets to current prices;
- call ups and distributions by the fund.

Closed-end real estate funds are valued using the last available Net Asset Value, adjusted for any subsequent call ups or distributions and, where considered necessary, applying a discount calculated using an internal model. Specifically, this model enables the calculation of a discount on the Net Asset Value based on five different variables: (i) the size of the asset management company that manages the fund; (ii) the number of subscribers; (iii) the fund's historical return; (iv) the fund's return for the period; and (v) the level of debt. These variables are calibrated differently based on the business model and the fund's resulting risk profile, distinguishing between core, value added and opportunistic funds.

For closed-end funds resulting from sales of non-performing loans, the NAV is only considered to be the fair value after having been specifically checked by analysing the methods and parameters adopted by the asset management company to assess its adequacy with respect to the provisions of IFRS 13. If this analysis cannot be performed, an independent fair value measurement is carried out on the assets underlying the fund (the look through approach), based on information about the expected recovery prospects for the loans and using a discount rate that considers the market

parameters and the expected return for a potential third party investor.

In the absence of the information needed to perform the measurements referred to above, the fair value of the fund is calculated by making adjustments to the NAV by applying discount parameters determined based on stock market multiples and transaction multiples for funds that are considered comparable to the fund being measured in terms of structure, size, type and investment strategy.

#### Valuation of financial assets and liabilities not measured at fair value on a recurring basis

Finally, for asset and liability financial instruments measured at amortised cost, whose fair value is determined solely for the purposes of disclosure in the notes to the financial statements, the following is noted:

- the fair value of the bonds is calculated using the methods described above;
- the fair value measurement of the other medium- and long-term asset and liability financial instruments is performed by discounting future cash flows using the discount rate adjustment approach, which requires credit risk factors to be taken into account in the discount rate for future cash flows;
- for short-term assets and liabilities, the book value is assumed to be a reasonable approximation of fair value.

For more information see paragraph A.4.5.4.

As required by IFRS 13, the table below highlights, for financial assets and liabilities measured at level 3 fair value, quantitative information on the significant, unobservable inputs used in the fair value measurement.

Financial assets/ liabilities	Valuation technique	Main non-observable input	Minimum value of range of changes	Maximum value of range of changes	Unit	(thousands of euro)	
						Favourable changes in FV	Unfavourable changes in FV
Securities and loans	Discounting Cash Flows	Credit Spread	-7	4	%	5,486	-2,959
Structured securities and loans	JD model	JD parameters	6	-7	%	32	-272
Structured securities and loans	Two-factor model	Correlation	-30	60	%	465	-223
ABSs	Discounting Cash Flows	Credit Spread	-5	5	%	6,363	-5,917
ABSs	Discounting Cash Flows	Recovery rate	-25	10	%	-5,360	2,144
CLOs Cash	Discounting Cash Flows	Credit Spread	-7	9	%	2,602	-3,316
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Loss Given Default Rate (LGD)	0	100	%	2,791	-4,374
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Probability of default (PD) based on counterparty's internal rating	CCC	BBB	Internal rating	96	-87
OTC Derivatives - Equity basket option	Black - Scholes model	Equity basket correlation	76.77	93.64	%	29	-25
OTC Derivatives - Equity Option	Black - Scholes model	Historical volatility	8.15	82.83	%	5,276	-3,094
OTC Derivatives - Equity Option	Marshall Olkin Model	Historical correlation	-4.23	73.37	%	413	-271
OTC Derivatives - Spread option on swap rates	Bivariate log-normal model	Correlation between swap rates	-78.80	69.38	%	276	-390

#### A.4.2 Valuation processes and sensitivity

For a description of the valuation processes used by the Group for instruments measured at level 3 in a recurring and non-recurring manner, see paragraphs A.4.1 and A.4.5 respectively.

For financial assets and liabilities measured at level 3, for which their sensitivity analysis can be performed, in view of the measurement model used, the table below (as required by IFRS 13) details the effects of a change in one or more non-observable parameters used in the valuation techniques adopted to determine the fair value.



Financial assets/liabilities	Non-observable parameters	Sensitivity (thousands of euro)	Change in non-observable parameter
FVTPL and FVTOCI securities and loans	Credit spread	-257	1 bp
FVTPL and FVTOCI securities and loans	JD parameters	-73	1%
FVTPL and FVTOCI securities and loans	Correlation	-34	1%
FVTPL and FVTOCI securities	Recovery rate	-214	-1%
OTC Derivatives - Interest rate	Correlation by spread options between swap rates	-83	0.1
OTC Derivatives - Equity	Correlation between underlying equity baskets	-32	0.1
OTC Derivatives - Equity	Historical volatility	-1,929	10%
OTC Derivatives - Equity CPPI	Historical correlation	-88	0.1

#### A.4.3. Fair value hierarchy (transfers between the different levels)

A description of the policy for determining when transfers occur between the different levels of fair value hierarchy (see IFRS 13, par. 95) is provided above (see “Fair value hierarchy”).

#### A.4.4. Other information

In calculating the bCVA, the Intesa Sanpaolo Group considers the net positions in derivatives of each counterparty (see paragraph A.4.1 above for further details on the measurement of derivatives). For other cases, the Group does not make use of the option provided in paragraph 48 of IFRS 13, which permits an entity “to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions”.

#### General prudent value principles

The framework of financial measurements is completed with the prudent valuation of financial instruments measured at fair value, which involves the calculation of additional valuation adjustments for prudential purposes, without impacts on the fair value calculated for accounting purposes in accordance with the IFRS.

The Intesa Sanpaolo Group governs and defines the prudent value measurement of financial instruments through the Group Guidelines and Rules for Prudent Valuation of Financial Instruments at Fair Value, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all the consolidated subsidiaries of the Banking Group.

The “Guidelines on Prudent Valuation of Financial Instruments”, once a favourable opinion has been given by the Group Financial Risk Committee, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The “Rules for Prudent Valuation of Financial Instruments” are revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

In accordance with the provisions of Regulation (EU) 575/2013 (Capital Requirement Regulation – CRR), prudent valuation entails the calculation of specific additional valuation adjustments (AVAs) for the financial instruments measured at fair value, aimed at capturing different sources of valuation uncertainty and ensuring the achievement of a suitable level of certainty in the measurement of the positions. The total value of the AVAs is deducted from the Common Equity Tier 1 capital, without impacts on accounting fair values.

The Intesa Sanpaolo Group, in line with criteria indicated in Delegated Regulation (EU) 2016/101, is subject to the application of the core approach for the determination of AVAs both at individual and at consolidated level for all the positions measured at fair value. In particular the following AVAs are considered:

- Market price uncertainty: this reflects the uncertainty of the market prices, calculated at valuation exposure level.
- Close-out costs: it reflects the uncertainty of the exit price calculated at valuation exposure level.
- Model risks: it considers the valuation model risk which arises due to the potential existence of a range of different models or model calibrations, which are used by market participants, and the lack of a firm exit price for the specific product being valued.
- Unearned credit spreads: it reflects the valuation uncertainty in the adjustment necessary according to the applicable accounting framework to include the current value of expected losses due to counterparty default on derivative positions.
- Investment and funding costs: it represents the valuation uncertainty in the funding costs used when assessing the exit price according to the applicable accounting framework.
- Concentrated positions: it reflects the uncertainty relating to the exit price of the positions defined as concentrated.
- Future administrative costs: it considers administrative costs and future hedging costs over the expected life of the valuation exposures for which a direct exit price is not applied for the close-out costs AVAs for concentrated positions.
- Early termination: it considers the potential losses arising from non-contractual early terminations of customer trades.
- Operational risks: it considers the potential losses which may be incurred consequently to the operational risks connected to the valuation processes.



The prudent value corresponds to the exit price from the position with a level of certainty equal to 90%. Where possible, this value is determined on the basis of a distribution of exit prices observed on the market. In all the other cases, an expert-based approach is used, referring to the qualitative and quantitative information available.

The AVA value associated to the single position and to the single source of uncertainty in valuation thus corresponds to the difference between the prudent value and the fair value. The total AVA is obtained by aggregating the single AVAs, taking into account the corresponding weighting ratios.

The “Rules for Prudent Valuation of Financial Instruments” outline, for each AVA, the definition and interpretation, the scope of application, the input data and the detailed calculation method for each class of financial instrument.

From 30 June 2020 to 31 December 2020, the Intesa Sanpaolo Group has applied an aggregation factor of 66% to the AVAs as established by Commission Delegated Regulation (EU) 866/2020, published in the Official Journal on 25 June 2020, in order to better manage the extreme volatility of market prices and the systemic shock connected to the COVID-19 pandemic.

## FAIR VALUE OF REAL ESTATE AND VALUABLE ART ASSETS

### Fair value of real estate assets

As extensively illustrated in the first part regarding the accounting policies, the Group has adopted the revaluation model as the basis of measurement for the owner-occupied properties accounted for according to IAS 16 and fair value for the investment properties accounted for according to IAS 40.

#### *Measurement of real estate assets*

The revaluation model applied to owner-occupied properties envisages that property and equipment, whose fair value can be reliably determined, is recorded at a revalued amount, equal to its fair value at the date of the revaluation, net of depreciation and any accumulated impairment losses.

For the properties held for investment, the Intesa Sanpaolo Group has chosen the fair value method, according to which, after initial recognition, all investment properties are measured at fair value.

#### *Valuation approach*

IFRS 13 defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.

The valuation approach has been defined on the basis of the business relevance and plan for the use of the properties, which consists of three main groups:

- “trophy assets”, i.e. particularly prestigious properties used by management functions located in the main cities where the Bank is based or properties of particular historical and artistic interest because they are listed by the Ministry for Cultural Heritage and Activities;
- “owner-occupied properties”;
- “investment properties”.

The properties are valued individually asset-by-asset without considering any discount, or premium, that may be agreed during commercial negotiations if all or part of the portfolio is sold in bulk or in lots.

The Intesa Sanpaolo Group has chosen to assign the valuation activity to professionally qualified external companies with an international structure, able to provide property valuations based on the RICS Valuation standards<sup>31</sup> which guarantee:

- determination of the value consistent with the fair value configuration indicated in the IAS/IFRS;
- compliance with the professional, ethical and independence requirements for experts, in line with the provisions of international and European standards.

To determine the value of the assets, the following valuation methods are used based on the characteristics of the asset and the conditions of the market of reference; the valuer determines the most suitable method for each individual property.

- The Discounted Cash Flow Method: the discounted cash flow method is based on the discounting (for a variable period based on the rental/occupational situation of the property and its subsequent optimisation) of the future net proceeds from the rental or sale of the property. At the end of this period, the value of the property is assumed to be the sale price obtained by capitalising the income of the last year at a market rate for investments similar to the object of the estimate or through a split sale. This method is used for the valuation of all the owner-occupied properties or real estate leased to third parties, located in Italy.
- Comparative or Market Method: the comparative or market method is based on the comparison between the assets examined and similar assets recently sold/purchased or offered on the same market or in competitive environments. This criterion is based on a comparison with properties that have recently been sold or offered on the open market and, if possible, have the same characteristics. In the absence of observations directly related to the property examined, cases are used that are as similar as possible to the property examined, making the necessary adjustments. This method, which also represents the basis for other valuation methods, can be adopted in particular for non-owner-occupied assets and/or, in any case, for unrestricted and available assets in Italy and abroad.
- Direct capitalisation income approach: the income approach is based on the current value of the potential market income of a property, obtained by capitalising the income at a market rate. This approach is applied mainly to owner-occupied properties abroad, where a prolonged stay within the building is envisaged.
- Investment Value (Worth): the Investment Value (Worth) is defined by the IVS as “the value of an asset to a particular owner or prospective owner for individual investment or operational objectives”. This definition is consistent with the provisions of the latest edition of the “RICS Valuation - Global Standards 2017” of the Royal Institution of Chartered

<sup>31</sup> Standards set out in the Royal Institution of Chartered Surveyors of the United Kingdom document “RICS Valuation – Global Standard 2017” (also known as the “Red Book”).

Surveyors of the United Kingdom, where the Investment Value is defined as “the value of an asset to the owner or a prospective owner for individual investment or operational objectives”.

The Investment Value is applicable to properties built by the entity or properties with a strong business relevance subject to significant investments for technological, construction and functional adaptation.

The Investment Value of these properties is determined on the basis of a 12+6 year plan for business use without break options, whose annual rent is determined by applying an appropriate gross rate of return to the amount of direct and indirect costs capitalised by the Owner, including the costs of purchasing the land.

#### *Frequency of valuation*

Revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

The frequency of revaluations depends upon the changes in fair values of the property and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

Specifically, based on the market trends, different valuation frequencies have been identified that, according to the characteristics of the assets and their location, are considered capable of capturing the significant changes in the value of the assets.

The following distinction is made for owner-occupied properties:

- for trophy assets, the revaluation is carried out by verifying the value through a scenario analysis (market trend analysis) every year and with a new appraisal every two years;
- for the other owner-occupied properties, the revaluation is carried out through scenario analysis (market trend analysis) every year and through a new appraisal every three years.

If the scenario analysis identifies significant changes (+/- 10%), specific and updated appraisals must be carried out to adjust the fair value of the asset to the valuations of the real estate market.

For investment properties, the value is determined on the basis of new appraisals each year.

In accordance with the rules on valuation frequencies, at the end of 2020, following the completion of the first three-year fair value measurement cycle, the appraisals were updated for all the owner-occupied properties other than trophy assets.

A total of 3,507 appraisals were carried out, of which 1,240 were full/on site appraisals based on a physical inspection of the property by the appraiser for the most significant property units and 2,267 desktop appraisals based on a valuation carried out without a physical inspection for the other property units.

#### *Scenario analysis*

As part of the annual update of the fair value of the owner-occupied properties, in the years when a revaluation of the property is not envisaged, a scenario analysis (market trend analysis) is carried out using the best information sources available for the various countries in which the properties are located, in order to identify deviations, using databases, in the market values between the analysis period and the previous period.

In particular, for real estate located in Italy, the changes are defined using at least 3 different sources. The main source is that provided by the Italian Revenue Agency, based on the specific OMI (Real Estate Market Monitor) zones. The second publication source is Nomisma for which, for the related zoning, the same queries are conducted as those for the OMI (main database). Lastly, the third source is based on the analyses of the changes during the year of reference in terms of the offers present on the real estate market.

Accordingly, the experts identify the annual deviations in rents and/or prices by related asset class for each property.

Real estate located abroad is grouped, for each country, into different clusters based on location and asset class. Specific market analyses are conducted based on local and national knowledge of the particular target real estate market.

The market study also takes account of the following macroeconomic drivers:

- analysis of economic data (unemployment rate, GDP per capita, inflation and consumer price index); these macroeconomic factors constitute the first economic analysis, supporting the real estate market forecasts;
- movement in average yield;
- movement in market rents;
- range of movement in unit values.

The above-mentioned market survey, together with a qualitative weighting of the macroeconomic key drivers is used to determine a range of percentage deviation from the last assessment carried out, which is compared with the target threshold set, identifying a synthetic percentage factor for each individual property, included in a single worksheet.

This activity is carried out close to the end of the year in order to produce a range of deviations that can be included within a threshold and to enable the timely planning, on the basis of those thresholds, of the updating of the specific appraisals for the properties whose deviation exceeds the threshold.

The permitted variation threshold is +/-10%

If the deviations identified exceed this threshold, a new valuation will be carried out before the end of the year.

The properties classified as trophy assets in the real estate portfolio, as required by the rules on valuation frequencies (in this case every 2 years), were subject to full valuation at the end of 2019 and, therefore, were subject to scenario analysis for the current financial year. The results of these valuations did not identify any properties that had variations above the limit set.

#### *Sensitivity of valuations*

Just as for financial instruments, level 3 non-financial assets and liabilities measured at fair value for which, due to the valuation model used to determine the fair value, execution is possible, and whose results are significant, are subject to sensitivity analysis. The analysis essentially concerned the properties of the Parent Company Intesa Sanpaolo and the UBI Group, which represent the Core perimeter of the Group's real estate assets.

It is noted that the sensitivity analysis was conducted by identifying the most important variables in the valuation model used as at 31 December 2020 to value the various classes of real estate, represented by the discounted cash flow method. In particular, reference was made to market rents for owner-occupied properties, and to the exit value for investment properties. For the variables identified above, a change equal to +5%/-5% was assumed, in relation to which an average deviation of the fair value of real estate of slightly more than 6% was recorded in both hypothetical scenarios.

### Fair value of valuable art assets

The bank's valuable art assets are also valued using the revaluation model, which envisages that property and equipment, whose fair value can be reliably determined, is recorded at a revalued amount, equal to its fair value at the date of the revaluation.

Works of art included in the asset class "valuable art assets" are works of particular importance, recognised for their historic and artistic value by experts and in line with the ministerial guidelines, and particularly those set out in Ministerial Decree 537 of 6 December 2017 on the exportation of works of art, such as: the state of preservation, the historical importance of the artist, the importance of the work in terms of art criticism/history, illustrious origin, certain quality and attribution and the declaration of interest by the Italian government.

#### Valuation approach

The valuation is carried out by determining the value through external appraisals, entrusted to qualified independent experts. These values are obtained from online databases such as Artnet and Artprice, which list over 100 million works of art and monitor the results of leading Italian and international auction houses. These are objective parameters that are compared with the market as a whole, in an analysis that also involves monitoring galleries and art fairs.

In particular, the factors considered for the fair value measurement include objective factors relating to the historical-critical-artistic value of the author, state of preservation, execution technique, size and quality of the artwork, importance of the artwork in the production by the artist, publication of the artwork in specialist catalogues, period of execution of the artwork, international exposure of the artworks by the artist, distinguished provenance, certainty of attribution, guarantee of authenticity of an artwork, as well as other factors (which may change over time, depending on the evolution and tastes of the market), such as the reputation of the museum hosting the artwork by the artist, the prestige of fairs/exhibitions/galleries/auction houses that handle the artwork, the reputation of its critics and collectors, and the quality of the communications concerning the artist's work.

Once these factors have been identified, the fair value is determined comparing them firstly with artworks similar to those examined (in terms of period of production/year, technique, size, type of subject and state of preservation), by the same artist and from the same period, if available (this is more feasible for modern and contemporary works) and, secondly, with works by artists or schools and areas that are close in style, philosophy and importance in the same historical period. Where several similar artworks are available, average values are used to take account of price volatility.

In addition to considering the trends in auction trading, starting from the most recent trading and also including unsold items in the analysis (which are a possible indicator of the loss of market value for the artwork/artist), the valuation also considers the current market interest in an artwork or an artist, measured by the number and quality of temporary exhibitions held in internationally important museum spaces and accompanied by specific publications.

The valuations also take into account any declarations of historical-artistic interest formally expressed by the Italian Ministry of Cultural Heritage and Activities (commonly referred to as "notifications"), which tie part of the artworks in the collection to Italy's heritage and restrict their circulation to the country's territory, reducing the price obtainable on the international market.

The pricing is also influenced by the importance of the buyers/sellers (e.g. prices paid by famous collectors or known investors may be more significant).

The valuation approach is based on the monitoring of the objective market values of the artworks included in the category examined, which follows three methodological approaches:

- prudent basis, analysing the average values of a variety of different information sources, based on robust, updated and statistically representative databases: in a market of "unique" artworks, often without transactions for decades, this approach ensures the periodic identification of any outlier values and avoids following speculative trends;
- comparison, monitoring the transactions that have taken place at a global level in a variety of distribution channels, in order to avoid considering only certain forms of transaction and the related financial values: in a global market with global demand, this approach enables verification of the presence of any geographical arbitrage or specific appreciation/depreciation phenomena with potential impacts;
- recurrence, since it updates and monitors price trends over the shortest period of time that the specific features of the market allow, i.e. the half year: in a market in which there are no public trades monitored daily, the shortness of the measurement period ensures maximum attention and timeliness of any changes.

This approach is applied to all the "valuable art assets".

#### Frequency of valuation

For valuable art assets, the revaluation is carried out by means of an expert appraisal every three years. However, a scenario analysis is carried out annually to identify any appreciable changes in value in order to bring forward the valuation.

In accordance with the rules on valuation frequencies, at the end of 2020, following the completion of the first three-year fair value measurement cycle, the appraisals were updated for all of Intesa Sanpaolo valuable art assets.

#### Scenario analysis

In order to identify and determine the changes in the market of the artworks being valued, market trends are monitored to detect signs of significant change that require appraisals to be made in advance with respect to the frequency established.

This monitoring is carried out on a two-fold basis:

- Monitoring of the market prices of the top artworks in terms of value held in ISP's collections, which represent 75% of the total value of the artworks included in the "valuable art assets" class, by verifying both the results of the main international auctions (which are based on a calendar of precise seasonal deadlines) and the reports of the two main world databases (Artprice and Artnet), whose analytics provide useful tools for monitoring prices;
- Monitoring the performance of the art market in general, to identify trends and changes with respect to ISP's "valuable art assets", verifying both the results of the main international auctions (which are based on a calendar of precise seasonal deadlines), and the reports of the two main world databases (Artprice and Artnet); since the works of many artists in the ISP's collection very rarely go up for auction due to the limited number of items left in the market, it is important to monitor the trend of similar artists or works; accordingly, the monitoring is not just limited to the works held and their artists, but also extends to the authors and artworks related to the same area, to take into account trend data.

If the annual monitoring identifies a potential, positive or negative, value deviation of more than 15% for individual artworks/collections of artists in the ISP collections and comparable on the basis of objective criteria (such as period of production/year, size, technique, period of production, etc.), the appraisals are commissioned according to the usual internal procedures in order to align the carrying amount.

## Quantitative information

### A.4.5. Fair value hierarchy

#### A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: fair value by level - Excluding insurance companies

Assets / liabilities at fair value	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
(millions of euro)						
1. Financial assets measured at fair value through profit or loss	22,890	31,994	3,362	17,934	28,658	2,822
a) Financial assets held for trading	21,861	30,900	404	17,161	27,622	369
of which: Equities	663	-	1	713	-	1
of which: quotas of UCI	169	3	31	661	2	24
b) Financial assets designated at fair value	-	1	2	-	195	-
c) Other financial assets mandatorily measured at fair value	1,029	1,093	2,956	773	841	2,453
of which: Equities	10	191	193	2	94	179
of which: quotas of UCI	1,018	227	1,740	771	128	1,410
2. Financial assets measured at fair value through other comprehensive income	49,681	7,747	430	63,815	8,173	422
of which: Equities	1,559	1,754	387	611	2,048	400
3. Hedging derivatives	1	1,118	15	8	3,008	13
4. Property and equipment	-	-	7,252	-	-	5,748
5. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>72,572</b>	<b>40,859</b>	<b>11,059</b>	<b>81,757</b>	<b>39,839</b>	<b>9,005</b>
1. Financial liabilities held for trading	15,742	43,168	123	18,422	26,704	100
2. Financial liabilities designated at fair value	-	3,032	-	-	4	-
3. Hedging derivatives	1	7,084	3	-	9,284	4
<b>Total</b>	<b>15,743</b>	<b>53,284</b>	<b>126</b>	<b>18,422</b>	<b>35,992</b>	<b>104</b>

Excluding insurance companies, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the financial assets portfolio equal to 8.9%. The majority of level 3 financial assets is represented by quotas of UCIs, of which 343 million euro is represented by units of the Atlante Fund and the Italian Recovery Fund put in place as part of the regulations to support the banking system. Worth mentioning are also the units of the following funds: Investimenti per l'abitare (190 million euro), F2I (104 million euro) and CCR2 IDEA (103 million euro).

As far as liabilities are concerned, level 3 instruments account for less than 1% of total liabilities.

Over 58% of financial assets measured at fair value (excluding the insurance segment) are determined based on market prices, and therefore without any discretion by the valuator.

As at 31 December 2020, the impact of non-performance risk (Credit Value Adjustment and Debt Value Adjustment) in the determination of the fair value of derivative contracts amounted to a reduction of 259 million euro in positive fair value and an increase of 163 million euro in negative fair value.

The impact of the Funding Value Adjustment amounted to 176 million euro, equal to the cost of funding the cash flows generated by the Bank's overall portfolio of OTC derivatives.

Determining the quantity of those adjustments is irrespective of the effects of the correlated operational hedging strategies, where present.

The captions measured at level 3 fair value under Property and equipment include real estate assets and valuable art assets, which represent 65.6% of the balance sheet assets at level 3 fair value.

In addition to the transfers relating to financial assets and liabilities measured at level 3 as detailed below, please note that the following transfers were made during 2020:

- from level 1 to level 2:
  - financial assets held for trading for 35 million euro (book value as at 31 December 2020);
  - financial assets measured at fair value through other comprehensive income for 32 million euro (book value as at 31 December 2020);
  - financial liabilities held for trading for 3,122 million euro (book value as at 31 December 2020); in this regard, please see the description in part B Liabilities in relation to the particular illiquid situation of the certificates due to the COVID-19 emergency recorded above all in the first part of the year;
- from level 2 to level 1:
  - financial assets held for trading for 97 million euro (book value as at 31 December 2020);
  - financial assets measured at fair value through other comprehensive income for 25 million euro (book value as at 31 December 2020).

The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the instruments and by the materiality of the unobservable inputs.

The transition from level 1 to level 2 is a consequence of the disappearance of an active market for that instrument assessed by analysing the reliability and the reciprocal consistency of the available prices according to the provisions of the Group's Fair Value Policy. Conversely, securities for which a mark-to-model measurement is performed using inputs that can be observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

#### A.4.5.1 Bis Assets and liabilities measured at fair value on a recurring basis: fair value by level - Insurance companies

(millions of euro)

Assets / liabilities at fair value	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	321	33	47	284	22	46
<i>of which: Equities</i>	-	-	-	-	-	-
<i>of which: quotas of UCI</i>	120	-	47	119	-	46
2. Financial assets designated at fair value through profit or loss	86,779	51	377	83,816	141	308
<i>of which: Equities</i>	2,749	-	-	2,315	-	-
<i>of which: quotas of UCI</i>	79,538	-	-	76,521	99	-
3. Financial assets available for sale	82,076	4,845	2,192	79,315	2,162	1,902
<i>of which: Equities</i>	1,713	-	43	1,480	-	-
<i>of which: quotas of UCI</i>	10,271	20	2,138	9,917	-	1,902
4. Hedging derivatives	-	449	-	-	206	-
5. Property and equipment	-	-	8	-	-	-
6. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>169,176</b>	<b>5,378</b>	<b>2,624</b>	<b>163,415</b>	<b>2,531</b>	<b>2,256</b>
1. Financial liabilities held for trading	4	54	-	-	45	-
2. Financial liabilities designated at fair value through profit or loss	-	77,149	-	-	75,886	-
3. Hedging derivatives	-	-	-	-	4	-
<b>Total</b>	<b>4</b>	<b>77,203</b>	<b>-</b>	<b>-</b>	<b>75,935</b>	<b>-</b>

Having regard to insurance companies, as shown in the table, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the financial assets portfolio equal to 1.5%.

Over 95% of financial assets measured at fair value in the insurance segment are determined based on market prices, and therefore without any discretion by the valuator.

In addition to the transfers relating to financial assets and liabilities in the insurance segment designated at level 3 as detailed below, please note that the following transfers were made during 2020:

- from level 1 to level 2:
  - financial assets measured at fair value through profit and loss for 2 million euro (book value as at 31 December 2020);
  - financial assets available for sale for 2,280 million euro (book value as at 31 December 2020).
- from level 2 to level 1:
  - financial assets measured at fair value through profit and loss for 159 million euro (book value as at 31 December 2020);
  - financial assets available for sale for 75 million euro (book value as at 31 December 2020).



The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the instruments and by the materiality of the unobservable inputs.

The transition from level 1 to level 2 is a consequence of the disappearance of an active market for that instrument assessed by analysing the reliability and the reciprocal consistency of the available prices according to the provisions of the Group's Fair Value Policy. Conversely, securities for which a mark-to-model measurement is performed using inputs that can be observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

#### A.4.5.2. Annual changes in assets measured at fair value on a recurring basis (level 3) - Excluding insurance companies

	Assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	TOTAL	of which: a) Financial assets held for trading	of which: b) Financial assets designated at fair value	of which: c) Other financial assets mandatorily measured at fair value				
	(millions of euro)							
<b>1. Initial amount</b>	<b>2,822</b>	<b>369</b>	-	<b>2,453</b>	<b>422</b>	<b>13</b>	<b>5,748</b>	-
<b>2. Increases</b>	<b>1,496</b>	<b>205</b>	<b>2</b>	<b>1,289</b>	<b>230</b>	<b>2</b>	<b>2,468</b>	-
2.1 Purchases	333	53	2	278	26	-	54	-
2.2 Gains recognised in:	155	17	-	138	17	2	199	-
2.2.1 Income statement	155	17	-	138	1	2	7	-
- of which capital gains	102	7	-	95	1	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	16	-	192	-
2.3 Transfers from other levels	131	40	-	91	18	-	-	-
2.4 Other increases	877	95	-	782	169	-	2,215	-
<b>3. Decreases</b>	<b>-956</b>	<b>-170</b>	-	<b>-786</b>	<b>-222</b>	-	<b>-964</b>	-
3.1 Sales	-139	-69	-	-70	-7	-	-11	-
3.2 Reimbursements	-61	-1	-	-60	-50	-	-	-
3.3 Losses recognised in:	-367	-73	-	-294	-13	-	-263	-
3.3.1 Income statement	-367	-73	-	-294	-12	-	-150	-
- of which capital losses	-297	-26	-	-271	-6	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	-1	-	-113	-
3.4 Transfers to other levels	-92	-24	-	-68	-15	-	-	-
3.5 Other decreases	-297	-3	-	-294	-137	-	-690	-
<b>4. Final amount</b>	<b>3,362</b>	<b>404</b>	<b>2</b>	<b>2,956</b>	<b>430</b>	<b>15</b>	<b>7,252</b>	-

Point 2.4 "Other increases" includes the amounts attributable to business combinations. Among the main changes it is worth mentioning the one relating to "Property and equipment" (2,061 million euro) following the acquisition of the UBI Group companies.

Point 3.5 "Other decreases" in "Property and equipment" includes the amount of 668 million euro attributable to the components of the going concern being sold to Bper and Banca Popolare di Puglia e Basilicata.



## A.4.5.2. Bis Annual changes in assets measured at fair value on a recurring basis (level 3) - Insurance companies

	(millions of euro)					
	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
<b>1. Initial amount</b>	46	308	1,902	-	-	-
<b>2. Increases</b>	1	70	716	-	9	-
2.1 Purchases	-	-	550	-	-	-
2.2 Gains recognised in:	1	-	46	-	-	-
2.2.1 Income statement	1	-	3	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2 Shareholders' equity	X	X	43	-	-	-
2.3 Transfers from other levels	-	4	39	-	-	-
2.4 Other increases	-	66	81	-	9	-
<b>3. Decreases</b>	-	-1	-426	-	-1	-
3.1 Sales	-	-1	-269	-	-	-
3.2 Reimbursements	-	-	-	-	-	-
3.3 Losses recognized in:	-	-	-76	-	-	-
3.3.1 Income statement	-	-	-6	-	-	-
- of which capital losses	-	-	-	-	-	-
3.3.2 Shareholders' equity	X	X	-70	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-81	-	-1	-
<b>4. Final amount</b>	47	377	2,192	-	8	-

## A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3) - Excluding insurance companies

	(millions of euro)		
	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
<b>1. Initial amount</b>	100	-	4
<b>2. Increases</b>	62	-	-
2.1 Issues	-	-	-
2.2 Losses recognised in:	5	-	-
2.2.1 Income statement	5	-	-
- of which capital losses	-	-	-
2.2.2 Shareholders' equity	X	X	-
2.3 Transfers from other levels	57	-	-
2.4 Other increases	-	-	-
<b>3. Decreases</b>	-39	-	-1
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-19	-	-1
3.3.1 Income statement	-19	-	-1
- of which capital gains	-	-	-
3.3.2 Shareholders' equity	X	X	-
3.4 Transfers to other levels	-6	-	-
3.5 Other decreases	-14	-	-
<b>4. Final amount</b>	123	-	3

"Financial liabilities held for trading" refer to derivative contracts with a negative fair value.

Transfers from and to other levels described in the above tables were carried out in accordance with the guidelines described in paragraph A.4.3 - Fair value hierarchy.

For more exhaustive information on the sensitivity of financial instruments to changes in the main input parameters, reference should be made to the analyses of the trading book in Part E of these Notes to the consolidated financial statements.

*A.4.5.3 Bis Annual changes in liabilities measured at fair value on a recurring basis (level 3) - Insurance companies*

No financial liabilities are recorded at level 3 for Insurance companies.

*A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level- Excluding insurance companies*

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2020				31.12.2019			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	615,260	33,151	421,891	175,989	467,815	11,302	336,518	129,200
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and discontinued operations	28,702	-	-	28,702	494	-	58	436
<b>Total</b>	<b>643,962</b>	<b>33,151</b>	<b>421,891</b>	<b>204,691</b>	<b>468,309</b>	<b>11,302</b>	<b>336,576</b>	<b>129,636</b>
1. Financial liabilities measured at amortised cost	630,146	47,158	499,225	86,112	519,382	40,488	446,865	33,889
2. Liabilities associated with non-current assets	35,676	-	-	35,676	41	-	-	41
<b>Total</b>	<b>665,822</b>	<b>47,158</b>	<b>499,225</b>	<b>121,788</b>	<b>519,423</b>	<b>40,488</b>	<b>446,865</b>	<b>33,930</b>

*A.4.5.4 Bis Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level - Insurance companies*

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2020				31.12.2019			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Investments held to maturity	-	-	-	-	-	-	-	-
2. Due from banks	1,180	-	74	1,106	581	-	64	516
3. Loans to customers	31	-	25	6	31	-	25	7
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,211</b>	<b>-</b>	<b>99</b>	<b>1,112</b>	<b>612</b>	<b>-</b>	<b>89</b>	<b>523</b>
1. Due to banks	609	-	2	607	2	-	2	-
2. Due to customers	428	-	348	80	77	-	7	69
3. Securities issued	898	-	898	-	747	-	747	-
4. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,935</b>	<b>-</b>	<b>1,248</b>	<b>687</b>	<b>826</b>	<b>-</b>	<b>756</b>	<b>69</b>

*Financial assets and liabilities*

For financial assets and liabilities not measured at fair value (loans and loans represented by securities, amounts due to customers and securities issued), the Group measures fair value by calculating the present value of future cash flows at a rate that incorporates the estimate of the main risks and uncertainties associated with the financial instrument to be measured (discount rate adjustment approach).

In particular, the interest rate used to discount the future cash flows is determined by taking into account the following risk factors:

- interest rate risk, which represents the rate offered by the market for each unit of capital provided to risk-free counterparties;
- credit risk, which is the premium for having provided capital to counterparties with insolvency risk;
- the cost of liquidity connected to credit.

For fixed-rate instruments, the cash flows are those envisaged by the contracts. For floating-rate instruments, the future cash flows are determined based on forward rates, implicit in the zero-coupon interest rate curves observed at the various fixing dates and differentiated by indexation type.

The value of the risk premium (credit spread) is determined per individual position, through acquisition of the risk class (LGD) and rating (PD). These amounts, together with the average residual financial life, constitute the guideline for acquisition of the credit spread. The spread curve is determined based on the same rules for securities issued by Intesa Sanpaolo as well.

The following assumptions were used in determining the fair values indicated in table A.4.5.4:

- for loans represented by securities, the same rules envisaged for the fair value measurement of other categories of securities are used;
- for securities issued, the rules used are the same as those applied to securities under assets;

- the book value is calculated as the reasonable approximation of fair value for:
  - demand financial items (assets and liabilities) or financial items with an original maturity equal to or shorter than 12 months and residual maturity equal to or shorter than 12 months. In the table, the column corresponding to level 2 of the fair value hierarchy presents the short-term financial items and cash collateral for financial operations, while the column corresponding to level 3 of the fair value hierarchy presents demand loans;
  - non-performing assets which in the table are included in the column corresponding to level 3 of the fair value hierarchy.

#### A.5 – INFORMATION ON “DAY ONE PROFIT/LOSS”

Under IFRS 9, financial instruments shall be initially recognised at fair value. The fair value of a financial instrument at initial recognition is normally the "transaction price", i.e. the fair value of the consideration given or received in relation to, respectively, financial assets and liabilities.

The fact that, upon initial recognition, the fair value of a financial instrument coincides with the transaction price is usually intuitively verifiable in the case of transactions falling under level 1 of the fair value hierarchy.

Also in the case of level 2, which is based on quotes that can be derived indirectly from the market (Comparable Approach), the fair value and the price often coincide upon initial recognition. Any differences between the price and the fair value are usually allocated to the so-called commercial margins, which are taken to the income statement when the financial instrument is initially measured.

Conversely, with respect to level 3 instruments, which have more discretion in fair value measurement, no definite reference benchmark is available to compare the transaction price with.

For the same reason, the calculation of any commercial margin to be taken to the income statement is also difficult. In this event, the instrument is always initially recognised at the transaction cost. Subsequent measurement shall not include the difference between cost and fair value identified upon initial recognition (also defined as Day-One-Profit - DOP).

This difference shall be recognised in the income statement only when it arises from changes to the factors over which market participants base their valuations when fixing prices (including the time effect). Where the instrument has a definite maturity and no model is available to monitor the changes to the factors over which prices are based, the DOP can be recognised in the income statement systematically over the life of such instrument.

When a level 3 instrument is reclassified to level 2, the residual deferred Day-One-Profits are recognised in the income statement. Similarly, in the event of "on the book" transactions falling under the Bank's activities, the Day-One-Profits earned on level 3 transactions (including in the above "on the book" management) are taken to the income statement when the Bank carries out transactions which substantially eliminate the risks of the level 3 instrument which generated the DOP.

The following table shows the changes in the DOP amount deferred in the balance sheet.

(millions of euro)

<b>1. Initial amount</b>	<b>1</b>
<b>2. Increases</b>	<b>-</b>
2.1 New transactions	-
<b>3. Decreases</b>	<b>-</b>
3.1 Releases to the income statement	-
<b>4. Final amount</b>	<b>1</b>

Finally, in the context of the transaction that involved the transfer to Nexi of the acquiring business line, on 30 June 2020 Intesa Sanpaolo purchased 9.9% of Nexi SpA from Mercury UK HoldCo Limited, the company's main shareholder, for a pre-determined price of 10.5 euro per share, corresponding to a cash outlay of 653 million euro; since the Nexi SpA shares are listed on Borsa Italiana, and thus have a fair value level of 1, the difference of 315 million euro between the amount paid and the corresponding value on the basis of market capitalisation at the effective date of the purchase was accounted for as profit in the income statement.

## Part B – Information on the consolidated balance sheet

### ASSETS

#### SECTION 1 - CASH AND CASH EQUIVALENTS - CAPTION 10

##### 1.1 Cash and cash equivalents: breakdown

Captions	(millions of euro)	
	31.12.2020	31.12.2019
a) Cash	3,957	3,795
b) On demand deposits with Central Banks	5,857	5,950
<b>Total</b>	<b>9,814</b>	<b>9,745</b>

#### SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS CAPTION 20

##### 2.1 Financial assets held for trading: breakdown

Captions	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>A. Cash assets</b>						
1. Debt securities	20,979	1,223	176	15,199	1,953	173
1.1 Structured securities	1,288	46	3	1,133	82	4
1.2 Other debt securities	19,691	1,177	173	14,066	1,871	169
2. Equities	663	-	1	713	-	1
3. Quotas of UCI	169	3	31	661	2	24
4. Loans	-	14	7	1	23	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	14	7	1	23	-
<b>Total (A)</b>	<b>21,811</b>	<b>1,240</b>	<b>215</b>	<b>16,574</b>	<b>1,978</b>	<b>198</b>
<b>B. Derivatives</b>						
1. Financial derivatives	50	28,044	189	587	24,730	158
1.1 trading	50	28,043	104	587	24,730	158
1.2 fair value option	-	-	-	-	-	-
1.3 other	-	1	85	-	-	-
2. Credit derivatives	-	1,616	-	-	914	13
2.1 trading	-	1,616	-	-	914	-
2.2 fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	13
<b>Total (B)</b>	<b>50</b>	<b>29,660</b>	<b>189</b>	<b>587</b>	<b>25,644</b>	<b>171</b>
<b>TOTAL (A+B)</b>	<b>21,861</b>	<b>30,900</b>	<b>404</b>	<b>17,161</b>	<b>27,622</b>	<b>369</b>

The caption above includes the securities connected with securitisation transactions for a total amount of approximately 889 million euro, of which 485 million euro is senior, 396 million euro is mezzanine and 8 million euro is junior.

As the gross positive fair value of the derivative instruments implemented with the legal clearing agent LCH LTD meets the requirements set out for offsetting between gross positive and negative balances pursuant to IAS 32, paragraph 42, it was subject to offsetting, with recognition of the net fair value under Liabilities in hedging derivatives and Financial liabilities held for trading, respectively.

## 2.2 Financial assets held for trading: borrower/issuer/counterparty breakdown

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>A. Cash assets</b>		
<b>1. Debt securities</b>	<b>22,378</b>	<b>17,325</b>
a) Central Banks	25	9
b) Public administration	19,690	12,824
c) Banks	1,179	2,030
d) Other financial companies	1,153	2,002
<i>of which: insurance companies</i>	30	25
e) Non financial companies	331	460
<b>2. Equities</b>	<b>664</b>	<b>714</b>
a) Banks	83	69
b) Other financial companies	39	64
<i>of which: insurance companies</i>	11	25
c) Non financial companies	542	581
d) Other issuers	-	-
<b>3. Quotas of UCI</b>	<b>203</b>	<b>687</b>
<b>4. Loans</b>	<b>21</b>	<b>24</b>
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	1	2
<i>of which: insurance companies</i>	-	-
e) Non financial companies	20	22
f) Households	-	-
<b>Total A</b>	<b>23,266</b>	<b>18,750</b>
<b>B. Derivatives</b>		
a) Central counterparties	1,752	596
b) Other	28,147	25,806
<b>Total B</b>	<b>29,899</b>	<b>26,402</b>
<b>TOTAL (A+B)</b>	<b>53,165</b>	<b>45,152</b>

## 2.3 Financial assets designated at fair value: breakdown

Captions	(millions of euro)					
	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Debt securities</b>	-	1	2	-	195	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	1	2	-	195	-
<b>2. Loans</b>	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-
<b>Total</b>	-	1	2	-	195	-

**2.4 Financial assets designated at fair value: borrower/issuer breakdown**

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Debt securities</b>	<b>3</b>	<b>195</b>
a) Central Banks	-	-
b) Public administration	1	1
c) Banks	-	194
d) Other financial companies	2	-
<i>of which: insurance companies</i>	-	-
e) Non financial companies	-	-
<b>2. Loans</b>	<b>-</b>	<b>-</b>
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
<i>of which: insurance companies</i>	-	-
e) Non financial companies	-	-
f) Households	-	-
<b>Total</b>	<b>3</b>	<b>195</b>

**2.5 Other financial assets mandatorily measured at fair value: breakdown**

Captions	(millions of euro)					
	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Debt securities</b>	<b>1</b>	<b>256</b>	<b>283</b>	<b>-</b>	<b>318</b>	<b>411</b>
1.1 Structured securities	1	-	11	-	30	6
1.2 Other debt securities	-	256	272	-	288	405
<b>2. Equities</b>	<b>10</b>	<b>191</b>	<b>193</b>	<b>2</b>	<b>94</b>	<b>179</b>
<b>3. Quotas of UCI</b>	<b>1,018</b>	<b>227</b>	<b>1,740</b>	<b>771</b>	<b>128</b>	<b>1,410</b>
<b>4. Loans</b>	<b>-</b>	<b>419</b>	<b>740</b>	<b>-</b>	<b>301</b>	<b>453</b>
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	419	740	-	301	453
<b>Total</b>	<b>1,029</b>	<b>1,093</b>	<b>2,956</b>	<b>773</b>	<b>841</b>	<b>2,453</b>

The caption above includes the securities connected with securitisation transactions for a total amount of approximately 449 million euro, of which 24 million euro is senior, 238 million euro is mezzanine and 187 million euro is junior.



## 2.6 Other financial assets mandatorily measured at fair value: borrower/issuer breakdown

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Equities</b>	<b>394</b>	<b>275</b>
<i>of which: banks</i>	2	1
<i>of which: other financial companies</i>	12	6
<i>of which: non financial companies</i>	379	268
<b>2. Debt securities</b>	<b>540</b>	<b>729</b>
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	534	678
<i>of which: insurance companies</i>	1	346
e) Non financial companies	6	51
<b>3. Quotas of UCI</b>	<b>2,985</b>	<b>2,309</b>
<b>4. Loans</b>	<b>1,159</b>	<b>754</b>
a) Central Banks	-	-
b) Public administration	6	-
c) Banks	24	6
d) Other financial companies	189	191
<i>of which: insurance companies</i>	24	21
e) Non financial companies	776	474
f) Households	164	83
<b>Total</b>	<b>5,078</b>	<b>4,067</b>

The aggregate of quotas of UCI includes 343 million euro in interests held by the Group in the Italian Recovery Fund (formerly Atlante Fund II) and in the Atlante Fund as alternative investment funds to support Italian banks in their recapitalisation transactions and in the management of the bad loans in the sector. Worth mentioning are also the units of the following funds: Investimenti per l'abitare (190 million euro), F2I (104 million euro) and CCR2 IDEA (103 million euro)

The aggregate of Loans includes credit exposures classified among financial assets mandatorily measured at fair value as they failed the test on the contractual characteristics of cash flows (SPPI Test) required by IFRS 9.

### SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - CAPTION 30

#### 3.1 Financial assets measured at fair value through other comprehensive income: breakdown

Captions	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Debt securities</b>	<b>48,122</b>	<b>5,738</b>	<b>25</b>	<b>63,204</b>	<b>5,769</b>	<b>14</b>
1.1 Structured securities	97	-	-	-	-	-
1.2 Other debt securities	48,025	5,738	25	63,204	5,769	14
<b>2. Equities</b>	<b>1,559</b>	<b>1,754</b>	<b>387</b>	<b>611</b>	<b>2,048</b>	<b>400</b>
<b>3. Loans</b>	<b>-</b>	<b>254</b>	<b>19</b>	<b>-</b>	<b>356</b>	<b>8</b>
<b>Total</b>	<b>49,681</b>	<b>7,746</b>	<b>431</b>	<b>63,815</b>	<b>8,173</b>	<b>422</b>

Loans included in this caption, as illustrated in Part A – Accounting policies, refer to portions of syndicated loans underwritten and destined to be subsequently sold.

The caption includes the securities connected with securitisations for a total amount of approximately 1,116 million euro, of which approximately 1,060 million euro is senior, 56 million euro is mezzanine and there is no junior.

Sub-caption 2. Equities includes the stakes in the capital of the Bank of Italy for an amount of 1,584 million euro. For the related valuation, as in the previous years, the direct transaction method was used, considering the purchases made starting from 2015 and continuing in subsequent years. Considering that all the main transactions were finalised at nominal value, the use of this approach confirms the recognition value of the stakes held in the financial statements of the Bank. In addition, the value of the investment was also supported by the use of an alternative method based on the discounting of future dividends deriving from the investment (DDM – “Dividend Discount Model”). Following the approach taken in the previous year, the use of level 2 inputs (direct transaction prices) as the reference for determining fair value for the 2020 financial statements also resulted in the confirmation of level 2 in the fair value hierarchy.

The book value of equity instruments deriving from the recovery of impaired financial assets amounted to 70 million euro.

#### 3.2 Financial assets measured at fair value through other comprehensive income: borrower/issuer breakdown

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Debt securities</b>	<b>53,885</b>	<b>68,987</b>
a) Central Banks	-	22
b) Public administration	43,142	57,999
c) Banks	6,071	6,003
d) Other financial companies	2,692	3,052
<i>of which: Insurance companies</i>	12	41
e) Non financial companies	1,980	1,911
<b>2. Equities</b>	<b>3,700</b>	<b>3,059</b>
a) Banks	1,892	2,167
b) Other issuers:	1,808	892
- other financial companies	1,359	399
<i>of which: insurance companies</i>	3	3
- non financial companies	427	481
- other	22	12
<b>3. Loans</b>	<b>273</b>	<b>364</b>
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	26	16
<i>of which: insurance companies</i>	-	-
e) Non financial companies	247	348
f) Households	-	-
<b>Total</b>	<b>57,858</b>	<b>72,410</b>

**3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total adjustments**

	(millions of euro)							
	Gross amount				Total adjustments			Total partial write off
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	52,612	1,527	1,314	44	-26	-15	-44	-
Loans	218	-	57	5	-2	-1	-4	-
<b>Total 31.12.2020</b>	<b>52,830</b>	<b>1,527</b>	<b>1,371</b>	<b>49</b>	<b>-28</b>	<b>-16</b>	<b>-48</b>	<b>-</b>
<b>Total 31.12.2019</b>	<b>66,792</b>	<b>7,637</b>	<b>2,625</b>	<b>36</b>	<b>-47</b>	<b>-20</b>	<b>-35</b>	<b>-</b>
<i>of which: purchased or originated credit-impaired financial assets</i>	X	X	-	-	X	-	-	-

**3.3a Loans measured at fair value through other comprehensive income subject to Covid-19 support measures: gross amount and total adjustments**

As at 31 December 2020 this case was not present.

**SECTION 3 BIS - FINANCIAL ASSETS PERTAINING TO INSURANCE COMPANIES MEASURED AT FAIR VALUE PURSUANT TO IAS 39 - CAPTION 35**

The breakdown of the IAS 39 captions included in caption 35 of the Balance Sheet Assets referring to insurance companies is shown below.

In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by Bank of Italy Circular 262, "Caption 35 Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39" was created, which comprises the components set out in the table below:

	(millions of euro)	
Breakdown of Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39 - Caption 35	31.12.2020	31.12.2019
20. Financial assets held for trading	401	352
30. Financial assets designated at fair value	87,207	84,265
40. Financial assets available for sale	89,113	83,379
80. Hedging derivatives	449	206
<b>TOTAL Caption 35</b>	<b>177,170</b>	<b>168,202</b>

## 3.1 Bis Financial assets held for trading: breakdown

Captions	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
(millions of euro)						
<b>A. Cash assets</b>						
1. Debt securities	144	9	-	136	9	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	144	9	-	136	9	-
2. Equities	-	-	-	-	-	-
3. Quotas of UCI	120	-	47	119	-	46
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total A</b>	<b>264</b>	<b>9</b>	<b>47</b>	<b>255</b>	<b>9</b>	<b>46</b>
<b>B. Derivatives</b>						
1. Financial derivatives:	57	24	-	29	13	-
1.1 trading	55	14	-	29	11	-
1.2 fair value option	2	10	-	-	2	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
<b>Total B</b>	<b>57</b>	<b>24</b>	<b>-</b>	<b>29</b>	<b>13</b>	<b>-</b>
<b>TOTAL (A+B)</b>	<b>321</b>	<b>33</b>	<b>47</b>	<b>284</b>	<b>22</b>	<b>46</b>

## 3.2 Bis Financial assets held for trading: borrower/issuer breakdown

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>A. Cash assets</b>		
<b>1. Debt securities</b>	<b>153</b>	<b>145</b>
a) Governments and Central Banks	128	120
b) Other public entities	-	-
c) Banks	9	9
d) Other issuers	16	16
<b>2. Equities</b>	<b>-</b>	<b>-</b>
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
<b>3. Quotas of UCI</b>	<b>167</b>	<b>165</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other counterparties	-	-
<b>Total A</b>	<b>320</b>	<b>310</b>
<b>B. Derivatives</b>		
a) Banks	81	42
- Fair value	81	42
b) Customers	-	-
- Fair value	-	-
<b>Total B</b>	<b>81</b>	<b>42</b>
<b>Total ( A + B )</b>	<b>401</b>	<b>352</b>

## 3.3 Bis Financial assets designated at fair value: breakdown

Captions/Amounts	(millions of euro)					
	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Debt securities</b>	<b>4,259</b>	<b>51</b>	<b>4</b>	<b>4,771</b>	<b>42</b>	<b>1</b>
1.1 Structured securities	21	2	-	-	-	-
1.2 Other debt securities	4,238	49	4	4,771	42	1
<b>2. Equities</b>	<b>2,749</b>	<b>-</b>	<b>-</b>	<b>2,315</b>	<b>-</b>	<b>-</b>
<b>3. Quotas of UCI</b>	<b>79,538</b>	<b>-</b>	<b>-</b>	<b>76,521</b>	<b>99</b>	<b>-</b>
<b>4. Loans</b>	<b>233</b>	<b>-</b>	<b>373</b>	<b>209</b>	<b>-</b>	<b>307</b>
4.1 Structured	-	-	-	-	-	-
4.2 Other	233	-	373	209	-	307
<b>Total</b>	<b>86,779</b>	<b>51</b>	<b>377</b>	<b>83,816</b>	<b>141</b>	<b>308</b>
<b>Cost</b>	<b>82,081</b>	<b>50</b>	<b>376</b>	<b>80,338</b>	<b>140</b>	<b>308</b>

## 3.4 Bis Financial assets designated at fair value: borrower/issuer breakdown

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Debt securities</b>	<b>4,314</b>	<b>4,814</b>
a) Governments and Central Banks	3,295	4,107
b) Other public entities	18	18
c) Banks	432	324
d) Other issuers	569	365
<b>2. Equities</b>	<b>2,749</b>	<b>2,315</b>
a) Banks	176	170
b) Other issuers:	2,573	2,145
- insurance companies	105	109
- financial companies	47	49
- non-financial companies	1,339	1,166
- other	1,082	821
<b>3. Quotas of UCI</b>	<b>79,538</b>	<b>76,620</b>
<b>4. Loans</b>	<b>606</b>	<b>516</b>
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	606	516
d) Other counterparties	-	-
<b>Total</b>	<b>87,207</b>	<b>84,265</b>

## 3.5 Bis Financial assets available for sale: breakdown

Captions	(millions of euro)					
	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Debt securities</b>	<b>70,092</b>	<b>4,825</b>	<b>11</b>	<b>67,918</b>	<b>2,162</b>	<b>-</b>
1.1 Structured securities	18	28	-	18	-	-
1.2 Other debt securities	70,074	4,797	11	67,900	2,162	-
<b>2. Equities</b>	<b>1,713</b>	<b>-</b>	<b>43</b>	<b>1,480</b>	<b>-</b>	<b>-</b>
2.1 Measured at fair value	1,713	-	43	1,480	-	-
2.2 Measured at cost	-	-	-	-	-	-
<b>3. Quotas of UCI</b>	<b>10,271</b>	<b>20</b>	<b>2,138</b>	<b>9,917</b>	<b>-</b>	<b>1,902</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>82,076</b>	<b>4,845</b>	<b>2,192</b>	<b>79,315</b>	<b>2,162</b>	<b>1,902</b>



## 3.6 Bis Financial assets available for sale: borrower/issuer breakdown

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Debt securities</b>	<b>74,928</b>	<b>70,080</b>
a) Governments and Central Banks	62,350	57,981
b) Other public entities	95	104
c) Banks	5,146	3,805
d) Other issuers	7,337	8,190
<b>2. Equities</b>	<b>1,756</b>	<b>1,480</b>
a) Banks	122	84
b) Other issuers:	1,634	1,396
- insurance companies	23	41
- financial companies	-	28
- non-financial companies	1,611	1,327
- other	-	-
<b>3. Quotas of UCI</b>	<b>12,429</b>	<b>11,819</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other counterparties	-	-
<b>Total</b>	<b>89,113</b>	<b>83,379</b>

## 3.7 Bis Financial assets available for sale subject to microhedging

There were no financial assets available for sale subject to microhedging referring to insurance companies.

## 3.8 Bis Hedging derivatives: breakdown by type of hedge and level

	Fair value		31.12.2020		Notional value		Fair value		31.12.2019		Notional value	
	Level 1	Level 2	Level 3	31.12.2020	Level 1	Level 2	Level 3	31.12.2019	Level 1	Level 2	Level 3	31.12.2019
<b>A) Financial derivatives</b>	-	449	-	1,248	-	206	-	972	-	206	-	972
1) fair value	-	-	-	-	-	-	-	-	-	-	-	-
2) cash flows	-	449	-	1,248	-	206	-	972	-	206	-	972
3) foreign investments	-	-	-	-	-	-	-	-	-	-	-	-
<b>B) Credit derivatives</b>	-	-	-	-	-	-	-	-	-	-	-	-
1) fair value	-	-	-	-	-	-	-	-	-	-	-	-
2) cash flows	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	449	-	1,248	-	206	-	972	-	206	-	972

## 3.9 Bis Hedging derivatives: breakdown by hedged portfolio and type of hedge

Operations/Type of hedge	FAIR VALUE					CASH FLOWS		(millions of euro) FOREIGN INVESTM.	
	Specific			Generic		Specific	Generic		
	Interest rate risk	foreign exchange risk	Credit risk	various risk	Multiple risk				
1. Financial assets available for sale	-	-	-	-	-	X	449	X	X
2. Loans	-	-	-	X	-	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
<b>Total assets</b>	-	-	-	-	-	-	<b>449</b>	-	-
1. Financial liabilities	-	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
<b>Total liabilities</b>	-	-	-	-	-	-	-	-	-
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-

## DISCLOSURE PURSUANT TO IFRS 4

As previously indicated, the Intesa Sanpaolo Group exercised the option of adopting the Deferral Approach or Temporary Exemption, according to which the financial assets and liabilities of the subsidiary insurance companies continue to be recognised in accordance with the provisions of IAS 39.

In particular, the Group's insurance companies applying IAS 39 are as follows:

- Intesa Sanpaolo Vita S.p.A.
- Intesa Sanpaolo Assicura S.p.A.
- Intesa Sanpaolo Life Ltd.
- Fideuram Vita S.p.A.
- BancAssurance Popolari S.p.A.
- Intesa Sanpaolo RBM Salute S.p.A.

This section sets out the information required by IFRS 4 Insurance Contracts following exercise of the option, granted to insurance companies belonging to banking-led financial conglomerates, pursuant to Regulation 2017/1988 and the subsequent Regulation 2020/2097, of postponing the first-time adoption of IFRS 9<sup>32</sup>.

The Group verified the fulfilment of the requirements to apply the Temporary Exemption. The insurance companies meet the requirement of insurance predominance, which requires that the percentage of the carrying amount of liabilities linked to insurance business on the carrying amount of total liabilities of the entity exceeds 90% (predominance ratio). Moreover, there were no transfers of financial assets other than those measured at FVTPL between Group companies using different accounting standards;

As required by the reference regulations, the quantitative disclosure regarding the entities that will postpone the application of IFRS 9 is provided below.

<sup>32</sup>It is noted that the publication of Regulation 2097/2020 of 15 December 2020 endorsed the extension of the temporary exemption from applying IFRS 9 Financial Instruments to 1 January 2023, considering the IASB's decision on 25 June 2020 to postpone the date of first-time adoption of IFRS 17 Insurance Contracts to 1 January 2023.

## Details of the securities of the insurance companies that pass the SPPI Test

Caption	(millions of euro)			
	Fair value at the reporting date	Fair value changes during the year	Other changes during the year (3)	Fair value at the previous reporting date
<b>Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39</b>	<b>176,564</b>	<b>7,243</b>	<b>1,635</b>	<b>167,686</b>
of which:				
Financial asset with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (1)	74,447	3,246	1,712	69,489
Debt securities	74,447	3,246	1,712	69,489
Structured securities	11	1	-2	12
Other debt securities	74,436	3,245	1,714	69,477
Loans	-	-	-	-
Other financial assets	-	-	-	-
Financial asset other than those with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (2)	15,797	326	684	14,787
Debt securities	666	7	-126	785
Structured securities	35	-	29	6
Other debt securities	631	7	-155	779
Equities	1,756	1	275	1,480
Quotas of UCI	12,857	51	530	12,276
Loans	-	-	-	-
Derivatives	518	267	5	246
Other financial assets	-	-	-	-
Other financial assets connected with contracts where the investment risk is borne by the policyholders	86,320	3,671	-761	83,410
Debt securities	4,282	51	-534	4,765
Structured securities	23	-	23	-
Other debt securities	4,259	51	-557	4,765
Equities	2,749	144	290	2,315
Quotas of UCI	79,277	3,475	-526	76,328
Loans	-	-	-	-
Derivatives	12	1	9	2
Other financial assets	-	-	-	-
<b>Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (*)</b>	<b>73</b>	<b>4</b>	<b>-3</b>	<b>72</b>
of which:				
Financial asset with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (1)	32	3	-21	50
Debt securities	32	3	-21	50
Structured securities	-	-	-	-
Other debt securities	32	3	-21	50
Loans	-	-	-	-
Other financial assets	-	-	-	-
Financial asset other than those with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (2)	41	1	18	22
Debt securities	41	1	18	22
Structured securities	-	-	-	-
Other debt securities	41	1	18	22
Equities	-	-	-	-
Quotas of UCI	-	-	-	-
Loans	-	-	-	-
Derivatives	-	-	-	-
Other financial assets	-	-	-	-

(\*) Debt securities shows the fair value as required by the amendment to IFRS 4. These securities have been recognised in the balance sheet at amortised cost

(1) excluding financial assets that meet the definition of held for trading in IFRS 9, or are managed and whose return is measured at fair value

(2) includes all other financial assets, i.e. any financial asset:

- i) with contractual terms that do not give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding;
- ii) that meet the definition of held for trading in IFRS 9; or
- iii) that are managed and whose return is measured at fair value

(3) Column includes movements that are not attributable to changes in fair value (purchases, sales, repayments, etc.)

The table referred to above includes the investments whose risk is fully borne by policyholders, classified under financial assets measured at fair value.

Loans to customers of 606 million euro are added to the amounts indicated above.

## Credit risk exposure for financial instruments of the insurance companies that pass the SPPI test

Financial asset with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (1)	Credit risk rating	(millions of euro)	
		Current year book value (2)	Previous year book value (2)
Debt securities		72,652	68,079
Structured securities	Investment Grade	10	12
Other debt securities		72,642	68,067
Loans		-	-
Other financial assets		-	-

Financial asset with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (1), and which do not have a low credit risk	Credit risk rating	(millions of euro)		
		Current year book value (2)	Current year market value	Previous year book value (2)
Debt securities		1,823	1,826	1,458
Structured securities		1	2	-
Other debt securities	Non-Investment Grade	1,822	1,824	1,458
Loans		-	-	-
Other financial assets		-	-	-

(1) excluding financial assets that meet the definition of held for trading in IFRS 9, or are managed and whose return is measured at fair value

(2) in the case of financial assets measured at amortised cost, before any impairment loss.

## SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTISED COST – CAPTION 40

## 4.1 Financial assets measured at amortised cost: breakdown of amounts due from banks

Items	31.12.2020						31.12.2019					
	Book value			Fair value			Balance value			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Primo e secondo stadio	Terzo stadio	of which: purchased or originated credit-impaired	Livello 1	Livello 2	Livello 3
<b>A. Due from Central Banks</b>	<b>76,149</b>	-	-	-	<b>74,210</b>	<b>1,940</b>	<b>17,095</b>	-	-	<b>15,429</b>	<b>1,663</b>	
1. Time deposits	1,376	-	-	X	X	X	1,325	-	-	X	X	
2. Compulsory reserve	73,403	-	-	X	X	X	14,982	-	-	X	X	
3. Repurchase agreements	604	-	-	X	X	X	344	-	-	X	X	
4. Other	766	-	-	X	X	X	444	-	-	X	X	
<b>B. Due from banks</b>	<b>33,881</b>	<b>65</b>	-	<b>1,437</b>	<b>25,820</b>	<b>6,667</b>	<b>31,850</b>	<b>82</b>	-	<b>1,128</b>	<b>22,740</b>	<b>8,064</b>
1. Loans	31,873	65	-	-	25,245	6,667	30,072	82	-	-	22,011	8,064
1.1 Current accounts and on demand deposits	14,041	-	-	X	X	X	11,423	-	-	X	X	X
1.2. Time deposits	2,072	-	-	X	X	X	1,765	-	-	X	X	X
1.3 Other loans:	15,760	65	-	X	X	X	16,884	82	-	X	X	X
- Reverse repurchase agreements	6,104	-	-	X	X	X	6,953	-	-	X	X	X
- Finance leases	5	-	-	X	X	X	5	-	-	X	X	X
- Other	9,651	65	-	X	X	X	9,926	82	-	X	X	X
2. Debt securities	2,008	-	-	1,437	575	-	1,778	-	-	1,128	729	-
2.1 Structured	134	-	-	136	-	-	-	-	-	-	-	-
2.2 Other	1,874	-	-	1,301	575	-	1,778	-	-	1,128	729	-
<b>TOTAL</b>	<b>110,030</b>	<b>65</b>	-	<b>1,437</b>	<b>100,030</b>	<b>8,607</b>	<b>48,945</b>	<b>82</b>	-	<b>1,128</b>	<b>38,169</b>	<b>9,727</b>

The sub-caption "Other loans" includes operating loans, i.e. operations connected to the provision of financial activities and services with no credit facilities, for an amount of 164 million euro. Insignificant value adjustments were recorded on those exposures classified as Stage 1.

## 4.2 Financial assets measured at amortised cost: breakdown of loans to customers

(millions of euro)

Transaction type/Amount	31.12.2020						31.12.2019					
	Book value			Fair value			Balance value			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
<b>1. Loans</b>	<b>442,263</b>	<b>10,656</b>	<b>610</b>	-	<b>313,840</b>	<b>155,072</b>	<b>374,728</b>	<b>14,153</b>	<b>308</b>	-	<b>289,575</b>	<b>110,175</b>
1.1. Current accounts	20,948	1,158	32	X	X	X	20,455	1,780	1	X	X	X
1.2. Reverse repurchase agreements	16,864	-	-	X	X	X	29,531	-	-	X	X	X
1.3. Mortgages	248,108	5,739	346	X	X	X	176,447	7,435	250	X	X	X
1.4. Credit card loans, personal loans and transfer of one fifth of salaries	19,164	373	20	X	X	X	17,379	508	2	X	X	X
1.5. Finance leases	13,963	1,585	115	X	X	X	10,345	2,006	-	X	X	X
1.6. Factoring	11,484	75	17	X	X	X	10,192	56	-	X	X	X
1.7. Other loans	111,732	1,726	80	X	X	X	110,379	2,368	55	X	X	X
<b>2. Debt securities</b>	<b>52,202</b>	<b>44</b>	<b>-</b>	<b>31,714</b>	<b>8,021</b>	<b>12,310</b>	<b>29,852</b>	<b>55</b>	<b>-</b>	<b>10,174</b>	<b>8,774</b>	<b>9,298</b>
2.1. Structured securities	1,568	-	-	1,279	26	290	-	-	-	-	-	-
2.2. Other debt securities	50,634	44	-	30,435	7,995	12,020	29,852	55	-	10,174	8,774	9,298
<b>Total</b>	<b>494,465</b>	<b>10,700</b>	<b>610</b>	<b>31,714</b>	<b>321,861</b>	<b>167,382</b>	<b>404,580</b>	<b>14,208</b>	<b>308</b>	<b>10,174</b>	<b>298,349</b>	<b>119,473</b>

The caption above includes the securities connected with securitisations for a total amount of approximately 6,493 million euro, of which 6,481 million euro are senior notes and 12 million euro mezzanine.

The sub-caption "Other loans" includes operating loans, i.e. operations connected to the provision of financial activities and services with no credit facilities, for an amount of 1,022 million euro. Insignificant value adjustments were recorded on those exposures classified as Stage 1.

## 4.3 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

(millions of euro)

Captions	31.12.2020			31.12.2019		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired assets	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired assets
<b>1. Debt securities</b>	<b>52,202</b>	<b>44</b>	<b>-</b>	<b>29,852</b>	<b>55</b>	<b>-</b>
a) Public administration	34,004	17	-	15,844	27	-
b) Other financial companies	14,276	14	-	11,763	13	-
of which: insurance companies	6	-	-	-	-	-
c) Non financial companies	3,922	13	-	2,245	15	-
<b>2. Loans:</b>	<b>442,263</b>	<b>10,656</b>	<b>610</b>	<b>374,728</b>	<b>14,153</b>	<b>308</b>
a) Public administration	17,367	179	1	16,044	238	-
b) Other financial companies	47,888	295	4	57,487	315	5
of which: insurance companies	171	-	-	90	-	-
c) Non financial companies	209,134	7,129	369	162,800	10,151	140
d) Households	167,874	3,053	236	138,397	3,449	163
<b>TOTAL</b>	<b>494,465</b>	<b>10,700</b>	<b>610</b>	<b>404,580</b>	<b>14,208</b>	<b>308</b>

## 4.4 Financial assets measured at amortised cost: gross amount and total adjustments

		Gross amount			Total adjustments			(millions of euro) Total partial write-offs	
		Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities		46,694	-	7,691	119	-38	-64	-75	-
Loans		480,682	-	72,359	20,863	-811	-2,018	-10,142	6,532
<b>Total</b>	<b>31.12.2020</b>	<b>527,376</b>	<b>-</b>	<b>80,050</b>	<b>20,982</b>	<b>-849</b>	<b>-2,082</b>	<b>-10,217</b>	<b>6,532</b>
<b>Total</b>	<b>31.12.2019</b>	<b>404,070</b>	<b>-</b>	<b>51,271</b>	<b>31,443</b>	<b>-666</b>	<b>-1,150</b>	<b>-17,153</b>	<b>8,135</b>
<i>of which: purchased or originated credit-impaired financial assets</i>		X	X	99	673	X	-5	-157	109

## 4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross amount and total adjustments

		Gross value			Writedown			(millions of euro)
		Stage 1	of which: low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1. EBA-compliant moratoria loans		19,850	-	12,226	439	-65	-473	-112
2. Other loans with COVID-19-related forbearance measures		52	-	107	35	-	-6	-11
3. Newly originated loans		29,562	-	2,369	30	-41	-20	-5
<b>Total</b>		<b>49,464</b>	<b>-</b>	<b>14,702</b>	<b>504</b>	<b>-106</b>	<b>-499</b>	<b>-128</b>

The row “Loans subject to forbearance measures compliant with GL” shows the information relating to financial assets subject to moratoria that fall within the scope of application of the “Guidelines on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis”, published by the EBA (EBA/GL/2020/02), as amended.

The loans under sub-captions 1 and 2 of the table above are subject to moratoria which were still in force as at 31 December 2020.

## SECTION 4 BIS - FINANCIAL ASSETS PERTAINING TO INSURANCE COMPANIES MEASURED AT AMORTISED COST PURSUANT TO IAS 39 - CAPTION 45

The breakdown of the IAS 39 captions included in caption 45 of the Balance Sheet Assets referring to insurance companies is shown below.

In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by Bank of Italy Circular 262, “Caption 45 Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39” was created, which comprises the items set out in the table below:

Breakdown of financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 - Caption 45		(millions of euro)	
		31.12.2020	31.12.2019
50. Investments held to maturity		-	-
60. Due from banks		1,180	581
70. Loans to customers		31	31
<b>TOTAL Caption 45</b>		<b>1,211</b>	<b>612</b>



**4.1 Bis Investments held to maturity**

There were no investments held maturity relating to the insurance companies.

**4.4 Bis Due from banks: breakdown**

(millions of euro)

Captions	31.12.2020						31.12.2019		
	Book value	Fair value			Book value	Fair value			
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>A. Due from Central Banks</b>	-	-	-	-	-	-	-	-	
1. Time deposits	-				-				
2. Compulsory reserve	-				-				
3. Reverse repurchase agreements	-				-				
4. Other	-				-				
<b>B. Due from banks</b>	<b>1,180</b>	-	<b>74</b>	<b>1,106</b>	<b>581</b>	-	<b>64</b>	<b>516</b>	
1. Loans	1,140	-	34	1,106	541	-	24	516	
1.1 Current accounts and deposits	1,140				541				
1.2 Time deposits	-				-				
1.3 Other loans:	-				-				
- Reverse repurchase agreements	-				-				
- Finance leases	-				-				
- Other	-				-				
2. Debt securities	40	-	40	-	40	-	40	-	
2.1 Structured	-				-				
2.2 Other	40				40				
<b>Total</b>	<b>1,180</b>	-	<b>74</b>	<b>1,106</b>	<b>581</b>	-	<b>64</b>	<b>516</b>	

**4.5 Bis Due from banks subject to microhedging**

There were no amounts due from banks subject to microhedging referring to insurance companies.

**4.6 Bis Loans to customers: breakdown**

(millions of euro)

Captions	31.12.2020						31.12.2019					
	Book value		Fair value			Book Value			Fair value			
	Performing	Non Performing	Level 1	Level 2	Level 3	Not impaired	Impaired	Other	Level 1	Level 2	Level 3	
												Purchased
<b>Loans</b>	<b>4</b>	-	-	-	<b>3</b>	<b>1</b>	<b>3</b>	-	-	-	<b>2</b>	<b>2</b>
1. Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
3. Mortgages	-	-	-	X	X	X	-	-	-	X	X	X
4. Credit card loans, personal loans, and transfer of one fifth of salaries	-	-	-	X	X	X	-	-	-	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans	4	-	-	X	X	X	3	-	-	X	X	X
<b>Debt securities</b>	<b>27</b>	-	-	-	<b>22</b>	<b>5</b>	<b>28</b>	-	-	-	<b>23</b>	<b>5</b>
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	27	-	-	X	X	X	28	-	-	X	X	X
<b>Total</b>	<b>31</b>	-	-	-	<b>25</b>	<b>6</b>	<b>31</b>	-	-	-	<b>25</b>	<b>7</b>

## 4.7 Bis Loans to customers: borrower/issuer breakdown

Captions	(millions of euro)					
	31.12.2020			31.12.2019		
	Performing	Non performing		Performing	Non performing	
	Purchased	Other		Purchased	Other	
<b>1. Debt securities</b>	<b>27</b>	-	-	<b>28</b>	-	-
a) Governments	9	-	-	9	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	18	-	-	19	-	-
- non-financial companies	13	-	-	14	-	-
- financial institutions	5	-	-	5	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
<b>2. Loans:</b>	<b>4</b>	-	-	<b>3</b>	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other counterparties	4	-	-	3	-	-
- non-financial companies	-	-	-	-	-	-
- financial institutions	2	-	-	2	-	-
- insurance companies	-	-	-	-	-	-
- other	2	-	-	1	-	-
<b>Total</b>	<b>31</b>	-	-	<b>31</b>	-	-

## 4.8 Bis Loans to customers subject to microhedging

There were no Loans to customers subject to microhedging referring to insurance companies.

## SECTION 5 - HEDGING DERIVATIVES – CAPTION 50

Concerning the objectives and the strategies underlying hedging transactions see the information provided in Part E – Information on risks and relative hedging policies, Section 2 – Market risks.

Derivatives are considered to be of fair value level 1 only if traded on organised markets.

## 5.1 Hedging derivatives: breakdown by type of hedge and level

	(millions of euro)							
	Fair value 31.12.2020			Notional amount 31.12.2020	Fair value 31.12.2019			Notional amount 31.12.2019
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>A. Financial derivatives</b>								
1. Fair Value	1	1,102	15	104,015	8	2,998	13	81,451
2. Cash flows	-	16	-	6,500	-	10	-	526
3. Foreign investments	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1</b>	<b>1,118</b>	<b>15</b>	<b>110,515</b>	<b>8</b>	<b>3,008</b>	<b>13</b>	<b>81,977</b>

As the gross positive fair value of Hedging derivatives implemented with the legal clearing agent LCH LTD meets the requirements set out for offsetting between gross positive and negative balances pursuant to IAS 32, paragraph 42, it was subject to offsetting, with recognition of the net fair value under liabilities in hedging derivatives.

## 5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions / Type of hedge	Fair Value							Cash-flow		Foreign investm
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equities and stock indices	foreign exchange rates and gold	credit risk	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	10	-	53	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	11	X	-	-	X	X	X	16	X	X
3. Portfolio	X	X	X	X	X	X	1	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
<b>Total assets</b>	<b>21</b>	<b>-</b>	<b>53</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>16</b>	<b>-</b>	<b>-</b>
1. Financial liabilities	717	X	234	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	92	X	-	X
<b>Total liabilities</b>	<b>717</b>	<b>-</b>	<b>234</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>92</b>	<b>-</b>	<b>-</b>	<b>-</b>
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

The table indicates positive fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.

These mainly refer to specific fair value hedges of liabilities issued, as well as generic fair value hedges of demand positions under liabilities (core deposits).

## SECTION 6 – FAIR VALUE CHANGE OF FINANCIAL ASSETS IN HEDGED PORTFOLIOS – CAPTION 60

## 6.1 Fair value change of hedged assets: breakdown by hedged portfolios

Fair value change of hedged assets / Amount	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Positive fair value change</b>	<b>2,400</b>	<b>1,569</b>
1.1 of specific portfolios:	2,397	1,558
a) financial assets measured at amortised cost	2,397	1,558
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	3	11
<b>2. Negative fair value change</b>	<b>-</b>	<b>-</b>
2.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
<b>Total</b>	<b>2,400</b>	<b>1,569</b>

## SECTION 7 – INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL – CAPTION 70

## 7.1 Investments in associates and companies subject to joint control: information on equity interests

Companies	Registered office	Place of business	Type of relationship (a)	INVESTMENT		Votes available % (b)
				Direct ownership	% held	
<b>A. COMPANIES SUBJECT TO JOINT CONTROL</b>						
1 Augusto S.r.l. Capital Euro 10,000 in shares of Euro 1	Milano	Milano	7	Intesa Sanpaolo	5.00	
2 Colombo S.r.l. Capital Euro 10,000 in shares of Euro 1	Milano	Milano	7	Intesa Sanpaolo	5.00	
3 Diocleziano S.r.l. Capital Euro 10,000 in shares of Euro 1	Milano	Milano	7	Intesa Sanpaolo	5.00	
4 Immobiliare Novoli S.p.A. Capital Euro 15,635,514 in shares of Euro 0.60	Firenze	Firenze	7	Intesa Sanpaolo	50.00	
5 Mir Capital Management S.A. Capital Euro 31,000 in shares of Euro 1	Luxembourg	Luxembourg	7	Private Equity International	50.00	
6 Mir Capital S.C.A. SICAR Capital Euro 58,415,000 in shares of Euro 1	Luxembourg	Luxembourg	7	Private Equity International	50.00	
7 PBZ Croatia Osiguranje Public Limited Company for Compulsory Pension Fund Management Capital HRK 56,000,000 in shares of HRK 1,000	Zagreb	Zagreb	7	Privredna Banka Zagreb	50.00	
8 Vub Generali Dochodkova Spravcovska Spolocnost A.S. Capital Euro 10,090,976 in shares of Euro 33,194	Bratislava	Bratislava	7	Vseobecna Uverova Banka	50.00	
<b>B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE</b>						
1 24-7 Finance S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Brescia	Brescia	4	Unione Banche Italiane	10.00	
2 Adriano Lease Sec S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Intesa Sanpaolo	5.00	
3 Apulia Finance N. 4 S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Intesa Sanpaolo	10.00	
4 Autostrada Pedemontana Lombarda S.p.A. Capital Euro 300,926,000 in shares of Euro 1,000	Assago	Assago	4	Intesa Sanpaolo Unione Banche Italiane	17.37 3.34	
5 Aviva Vita S.p.a. Capital Euro 155,000,000 in shares of Euro 1	Milano	Milano	4	Unione Banche Italiane	20.00	
6 Back2Bonis Capital Euro 415,077,088 in shares of Euro 485,828.37	Milano	Milano	4	Unione Banche Italiane Intesa Sanpaolo	22.18 17.01	
7 Backtwork24 Srl (d) Capital Euro 2,410,576 in shares of Euro 0.01	Milano	Milano	4	Intesa Sanpaolo	16.70	51.00
8 Bancomat S.p.A. Capital Euro 21,095,726 in shares of Euro 5	Roma	Roma	4	Intesa Sanpaolo Unione Banche Italiane Banca 5	24.20 7 0.01	
9 Berica ABS 3 S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	
10 Brera Sec S.R.L. (c) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Intesa Sanpaolo	5.00	
11 Camfin S.p.A. Capital Euro 1,080,000 in shares of Euro 0.003	Milano	Milano	4	Intesa Sanpaolo	6.85	10.70
12 Cassa di Risparmio di Fermo S.p.A. Capital Euro 39,241,088 in shares of Euro 51.65	Fermo	Fermo	4	Intesa Sanpaolo	33.33	
13 Clara Sec S.r.l. Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Intesa Sanpaolo	5.00	

Companies	Registered office	Place of business	Type of relationship (a)	INVESTMENT		Votes available % (b)
				Direct ownership	% held	
14 Claris Finance 2005 S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Roma	Roma	4	Intesa Sanpaolo	5.00	100.00
15 Compagnia Aerea Italiana S.p.A. Capital Euro 3,526,845 in shares of Euro 0.00004	Roma	Fiumicino	4	Intesa Sanpaolo	27.49	
16 Equiter S.p.A. Capital Euro 150,004,017 in shares of Euro 1	Torino	Torino	4	Intesa Sanpaolo	32.88	
17 Euromilano S.p.A. Capital Euro 1,356,582 in shares of Euro 15.51	Milano	Milano	4	Intesa Sanpaolo	43.43	
18 Eusebi Holdings B.V. Capital Euro 100 in shares of Euro 1	Amsterdam	Amsterdam	4	Intesa Sanpaolo	47.00	
19 Experientia Global S.A. Capital CHF 125,000 in shares of CHF 100	Lausanne	Basel	4	Intesa Sanpaolo	20.00	
20 FI.NAV Comparto A crediti Capital USD 355,249,212 in shares of USD 1	Roma	Roma	4	Intesa Sanpaolo	43.50	
21 Focus Investments S.p.A. Capital Euro 183,333 in shares of Euro 0.14	Milano	Milano	4	Intesa Sanpaolo	8.33	25.00
22 Fondo di Rigenerazione Urbana Sicilia S.r.l. (e) Capital Euro 50,000 in shares of Euro 1	Palermo	Torino	4	Intesa Sanpaolo	100.00	
23 Fondo per la ricerca e l'innovazione Srl (e) Capital Euro 25,000 in shares of Euro 1	Torino	Torino	4	Intesa Sanpaolo	100.00	
24 Fondo Sardegna Energia Srl (e) Capital Euro 25,000 in shares of Euro 1	Cagliari	Cagliari	4	Intesa Sanpaolo	100.00	
25 Foodquote S.r.l. Capital Euro 47,186 in shares of Euro 0.0010	Foggia	Foggia	4	Intesa Sanpaolo	34.04	
26 Giada Sec S.r.l. Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Intesa Sanpaolo	5.00	
27 Indaco Venture Partners SGR S.p.A. (formerly Venture Capital Partners SGR) Capital Euro 750,000 in shares of Euro 0.50	Milano	Milano	4	Intesa Sanpaolo	24.50	
28 Intrum Italy S.p.A. Capital Euro 300,000 in shares of Euro 0.01	Milano	Milano	4	Intesa Sanpaolo	49.00	
29 Ism Investimenti S.p.A. Capital Euro 6,654,902 in shares of Euro 1	Mantova	Mantova	4	Intesa Sanpaolo	27.36	
30 Lombarda vita S.p.a. Capital Euro 185,300,000 in shares of Euro 5	Brescia	Brescia	4	Unione Banche italiane	40.00	
31 Marketwall S.r.l. Capital Euro 20,409 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	33.00	
32 Misr Alexandria for Financial Investments Mutual Fund Co. Capital EGP 30,708,000 in shares of EGP 1,000	Cairo	Cairo	4	Bank of Alexandria	25.00	
33 Misr International Towers Co. Capital EGP 50,000,000 in shares of EGP 10	Cairo	Cairo	4	Bank of Alexandria	27.86	
34 Montefeltro Sviluppo Soc.cons. A.r. Capital Euro 73,000 in shares of Euro 10	Urbania	Urbania	4	Unione Banche Italiane	26.37	
35 Neva First - FCC Capital Euro 135,252,525 in shares of Euro 99.80	Torino	Torino	4	Intesa Sanpaolo Innovation Center	72.98	
36 Oval Money LTD Capital GBP 16,692 in shares of GBP 0.00040	London	London	4	Intesa Sanpaolo Eurizon Capital SGR	24.73 12.78	
37 Penghua Fund Management Co. Ltd. Capital CNY 150,000,000 in shares of CNY 1	Shenzhen	Shenzhen	4	Eurizon Capital SGR	49.00	
38 Pietra S.r.l. Capital Euro 40,000 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	22.22	

Companies	Registered office	Place of business	Type of relationship (a)	INVESTMENT		Votes available % (b)
				Direct ownership	% held	
39 Polis Fondi SGR Capital Euro 5,200,000 in shares of Euro 10	Milano	Milano	4	Unione Banche Italiane	19.60	
40 Rainbow Capital Euro 48,500,000 in shares of Euro 50,000	Verona	Verona	4	Intesa Sanpaolo	43.20	
41 R.C.N. Finanziaria S.p.A. Capital Euro 1,000,000 in shares of Euro 0.50	Mantova	Mantova	4	Intesa Sanpaolo	23.96	
42 RSCT FUND - COMPARTO CREDITI Capital Euro 360,264,343 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	71.97	
43 SF Consulting S.r.l. Capital Euro 93,600 in shares of Euro 0.52	Bergamo	Bergamo	4	Unione Banche Italiane	35.00	
44 Sicily Investments S.a.r.l. Capital Euro 12,500 in shares of Euro 25	Luxembourg	Luxembourg	4	Intesa Sanpaolo	25.20	
45 Sisalpay Group S.p.a. Capital Euro 10,050,000 in shares of Euro 0.20	Milano	Milano	4	Banca 5	30.00	
46 Slovak Banking Credit Bureau s.r.o. Capital Euro 9,958 in shares of Euro 3,319.39	Bratislava	Bratislava	4	Vseobecna Uverova Banka	33.33	
47 Trinacria Capital S.a.r.l. Capital Euro 12,500 in shares of Euro 25	Luxembourg	Luxembourg	4	Intesa Sanpaolo	25.20	
48 UBI SPV GROUP 2016 S.R.L. Capital Euro 10,000 in shares of Euro 1	Milano	Milano	4	Unione Banche Italiane	10.00	
49 UBI SPV LEASE 2016 S.R.L. Capital Euro 10,000 in shares of Euro 1	Milano	Milano	4	Unione Banche Italiane	10.00	
50 UFI SERVIZI S.R.L. Capital Euro 150,000 in shares of Euro 1	Roma	Roma	4	Prestitalia	23.17	
51 Yolo Group Srl Capital Euro 40,014 in shares of Euro 0.01	Milano	Milano	4	Intesa Sanpaolo Vita	2.50	
52 Zhong Ou Asset Management Company Limited Capital CNY 220,000,000 in shares of CNY 1	Shanghai	Shanghai	4	Unione Banche Italiane	25.00	
53 Consorzio Bancario SIR S.p.A. in liquidation Capital Euro 1,515,151 in shares of Euro 0.01	Roma	Roma	4	Intesa Sanpaolo Unione Banche Italiane	38.49 0.02	
54 Europrogetti e Finanza S.p.A. in liquidation Capital Euro 5,636,400 in shares of Euro 1	Roma	Roma	4	Intesa Sanpaolo	15.97	
55 Impresol S.r.l. in liquidation Capital Euro 112,100 in shares of Euro 1	Milano	Milano	4	Immobiliare Cascina Rubina	30.00	
56 Iniziative Immobiliari Industriali S.p.A. in liquidation Capital Euro 510,000 in shares of Euro 0.51	Arquà Polesine	Arquà Polesine	4	Intesa Sanpaolo	20.00	
57 Leonardo Technology S.r.l. in liquidation Capital Euro 242,081 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	26.60	
58 Network Impresa S.p.A under arrangement with creditors Capital Euro 562,342 in shares of Euro 1	Limena	Limena	4	Intesa Sanpaolo	28.95	
59 Sviluppo Industriale S.p.A. in liquidation (formerly Sviluppo Industriale S.p.A. under arrangement with creditors) Capital Euro 628,444 in shares of Euro 22.26	Pistoia	Pistoia	4	Intesa Sanpaolo	28.27	
60 UBI Finance 2 S.R.L. in liquidation Capital Euro 10,000 in shares of Euro 1	Brescia	Brescia	4	Unione Banche Italiane	10.00	

(a) Type of relationship:

- 1 - majority of voting rights at Ordinary Shareholders' Meeting;
- 2 - dominant influence at Ordinary Shareholders' Meeting;
- 3 - agreements with other shareholders;
- 4 - company subject to significant influence;
- 5 - unitary management as defined in Art. 26.1 of "Legislative Decree 87/92";
- 6 - unitary management as defined in Art. 26.2 of "Legislative Decree 87/92";
- 7 - joint control;
- 8 - other relationship.

Where different from the % portion, the availability of the votes in the Ordinary Shareholders' Meeting is indicated, distinguishing between the effective and potential voting rights, where applicable.

(c) These are vehicles used for securitisation transactions within the Group.

At any moment from the date of subscription of the second capital increase (24/11/2020) to the end of the 42nd month from that date, Intesa Sanpaolo has the right to increase, in one or more tranches, its investment in the company's share capital, obtaining a maximum total investment of 51%. Currently, the prerequisites of IFRS 10 to classify the interest among subsidiaries are not met.

(e) Jessica Funds: the economic effects of the investments in equity and loans underlying the fund's operations will be borne in full by the EIB.



The illustration of the criteria and the methods for the definition of the scope of consolidation and the reasons which determine that a company is subject to joint control or significant influence is contained in Part A – Accounting policies, to which reference should be made.

## 7.2 Individually material investments in associates and companies subject to joint control: book value, fair value and dividends received

		Book value	Fair value	(millions of euro) Dividends received (a)
<b>A. COMPANIES SUBJECT TO JOINT CONTROL</b>				
		-	-	-
<b>B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE</b>				
1	Intrum Italy S.p.A.	331	-	-
2	RSCT FUND - Comparto Crediti	257	-	-
3	Penghua Fund Management Co. Ltd.	240	-	12
4	Lombarda Vita S.p.A.	218	-	-
5	BACK2BONIS	163	-	-
6	FI.NAV Comparto A1 Crediti	126	-	-
7	Zhong Ou Asset Management	115	-	-
8	Aviva Vita S.p.A.	112	-	-
9	Equiter S.p.A.	108	-	5
10	Sisalpay Group S.p.A.	57	-	-
<b>TOTAL</b>		<b>1,727</b>	<b>-</b>	<b>17</b>

a) Dividends are paid by Group companies accounted for using the equity method, and, though they are not included in caption "250 Profits (Losses) on equity investments", as they represent a decrease in caption "70 Investments in associates and companies subject to joint control" under Assets, they are still presented in that table, as envisaged by the reference regulations.

## 7.3 Individually material investments in associates and companies subject to joint control: financial information

	(millions of euro)													
	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest margin	Adjustments to/write-backs on property, equipment and intangible assets	Income (Loss) before tax from continuing operations	Income (Loss) after tax from continuing operations	Income (Loss) after tax from discontinued operations	Net income (loss) (1)	Other comprehensive income (net of tax) (2)	Consolidated comprehensive income (3) = (1) + (2)
<b>A. COMPANIES SUBJECT TO JOINT CONTROL</b>														
<b>B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE</b>														
Intrum Italy S.p.A.	X	58	67	12	45	113	X	X	21	14	-	14	-	14
RSCT FUND - Comparto Crediti	X	-	-	-	-	-	X	X	-	-	-	-	-	-
Penghua Fund Management Co. Ltd.	X	511	175	138	164	423	X	X	114	77	-	77	-	77
Lombarda Vita S.p.A.	X	8,783	525	255	8,733	332	X	X	21	14	-	14	2	16
BACK2BONIS	X	-	-	-	-	-	X	X	-	-	-	-	-	-
FI.NAV Comparto A1 Crediti	X	61	229	-	3	-	-	-	-	-	-	-	-	-
Zhong Ou Asset Management	X	380	95	-	243	163	X	X	34	26	-	26	-	26
Aviva Vita S.p.A.	-	18,278	333	13,580	4,608	965	-	-	12	8	-	8	-	8
Equiter S.p.A.	-	205	105	-	2	24	-	-	20	16	-	16	-	16
Sisalpay Group S.p.A.	-	217	729	1,117	59	227	-	-	-27	-20	-	-20	-	-20

The figures are updated to December 2020, except for UBI insurance (Aviva, Lombarda Vita) and Sisalpay, which are as at 30 September.

(millions of euro)

	Total Shareholders' Equity	Proportionate equity	Goodwill	Other changes	Consolidated book value
<b>A. COMPANIES SUBJECT TO JOINT CONTROL</b>					
<b>B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE</b>					
Intrum Italy S.p.A.	69	33	301	-3	331
RSCT FUND - Comparto Crediti	360	259	-	-2	257
Penghua Fund Management Co. Ltd.	375	184	56	-	240
Lombarda Vita S.p.A.	320	128	90	-	218
BACK2BONIS	415	163	-	-	163
FI.NAV Comparto A1 Crediti	290	126	-	-	126
Zhong Ou Asset Management	232	55	60	-	115
Aviva Vita S.p.A.	423	84	28	-	112
Equiter S.p.A.	308	101	7	-	108
Sisalpay Group S.p.A.	-	-	57	-	57
	<b>2,793</b>	<b>1,133</b>	<b>599</b>	<b>-5</b>	<b>1,727</b>

## 7.4 Individually immaterial investments in associates and companies subject to joint control: financial information

(millions of euro)

	Book value of investments in associates and companies subject to joint control	Total assets	Total liabilities	Total revenues	Income (loss) after tax from continuing operations	Income (loss) after tax from discontinued operations	Net income (loss) (1)	Other comprehensive income (net of tax) (2)	Consolidated comprehensive income (3) = (1) + (2)
COMPANIES SUBJECT TO JOINT CONTROL	44	241	173	20	5	-	5	-	5
COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE	225	7,256	6,680	30	-46	-	-64	-	-64

**7.5 Investments in associates and companies subject to joint control: annual changes**

	(millions of euro)	
	31.12.2020	31.12.2019
<b>A. Initial amount</b>	<b>1,240</b>	<b>943</b>
<b>B. Increases</b>	<b>1,055</b>	<b>348</b>
B.1 purchases	970	182
<i>of which business combinations</i>	549	-
B.2 recoveries	-	-
B.3 revaluations	74	73
B.4 other changes	11	93
<b>C. Decreases</b>	<b>-299</b>	<b>-51</b>
C.1 sales	-113	-10
C.2 impairment losses	-21	-15
C.3 write-downs	-74	-12
C.4 other changes	-91	-14
<b>D. Final amount</b>	<b>1,996</b>	<b>1,240</b>
<b>E. Total revaluations</b>	<b>3,314</b>	<b>3,240</b>
<b>F. Total impairment losses</b>	<b>2,020</b>	<b>1,999</b>

The sub-captions B.3 Revaluations and C.3 Write-downs include the profits and losses of companies measured at equity. The sub-caption B.4 Increases - Other changes includes profits on disposal, reclassifications from other portfolios and any goodwill.

The sub-caption C.4 Decreases - Other changes includes the payment of dividends, mergers, negative differences and losses on disposal.

**7.6 Significant evaluations and assumptions to establish the existence of joint control or significant influence**

Entities are considered to be companies subject to joint control if control is contractually shared between the Group and one or more other parties, or where the decisions about the relevant activities require the unanimous consent from all parties sharing control.

Companies are considered subject to significant influence (associates) when the Group holds 20% or more of the voting rights (including "potential" voting rights) or if it – with a lower equity stake – has the power of participating in the determination of financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates. Certain companies in which the Group holds a stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the safeguarding of its economic interests.

**7.7 Commitments referred to investments in companies subject to joint control**

As at 31 December 2020, there were no commitments to subscribe recapitalisations of companies subject to joint control.

**7.8 Commitments referred to investments in companies subject to significant influence**

As at 31 December 2020, there were commitments to subscribe recapitalisations of Bancomat for around 2.7 million euro and of Marketwall for 0.9 million euro, companies subject to significant influence.

It is also important to consider the commitments undertaken for the exercise of the call options held by UBI Banca to purchase the remaining 80% of the share capital of Aviva Vita and the remaining 60% of the share capital of Lombarda Vita. As also disclosed in the Report on Operations, the exercise of those options is subject to the issue of the necessary authorisations by the competent supervisory authorities, and is expected by the end of the second quarter of 2021.

**7.9 Significant restrictions**

There is nothing to report in terms of significant restrictions.

**7.10 Other information**

For most of the companies subject to joint control or significant influence, the timing regarding the availability of the financial statements at the end of the year is not compatible with the terms set for the closure of Intesa Sanpaolo's consolidated financial statements; on this point, for the application of the equity method, reference is made to the last accounting reports available that, in most cases, include the interim statement of the first 9 months for the listed associates or the last financial statements or half-yearly report available for the other associates. In any case, when the accounts of the associate or joint venture used in the application of the equity method refer to a date that is different from that of Intesa Sanpaolo's financial statements, adjustments are made to take into account the effects of operations or significant events which took place between that date and the reporting date of Intesa Sanpaolo's financial statements.

**Impairment tests of investments in associates and companies subject to joint control**

As required under IFRS, investments in associates and companies subject to joint control are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of the assets is not fully recoverable.

With reference to investments in associates and companies subject to joint control, the process of detection of any impairment involves verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative indicators, such as the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start-up of insolvency proceedings or restructuring plans, and the downgrading by more than two classes of the rating; quantitative indicators, represented by a reduction in fair value of over 30% below the carrying value or for a period of over 24 months, by market capitalisation lower than the company's net book value, in the case of securities listed on active markets or by a carrying value of the investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and implicit goodwill or by distribution by the latter of a dividend that is higher than its total income. If impairment indicators are detected, the recoverable amount, represented by the higher of the fair value less costs to sell and the value in use, is calculated and if it proves lower than the carrying value, impairment is recognised.

In particular, where impairment indicators were recorded with respect to certain investments in associates or companies subject to joint control, analyses were carried out based on market methodologies (direct or comparable transactions and market multiples) or alternatively "fundamental" analyses based on an estimate of the expected discounted cash flows or, finally, on alternative methods. The results of these assessments led to the recognition of impairment losses.

In particular, the main impairment losses regarded the investments in Cassa di Risparmio di Fermo S.p.A. (10 million euro) and in Fondo Rainbow (3 million euro).

**SECTION 8 – TECHNICAL INSURANCE RESERVES REASSURED WITH THIRD PARTIES – CAPTION 80****8.1 Technical insurance reserves reassured with third parties: breakdown**

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>A. Non-life business</b>	<b>92</b>	<b>28</b>
A1. Premiums reserves	21	14
A2. Claims reserves	71	14
A3. Other reserves	-	-
<b>B. Life business</b>	<b>1</b>	<b>-</b>
B1. Mathematical reserves	-	-
B2. Reserves for amounts to be disbursed	-	-
B3. Other reserves	1	-
<b>C. Technical reserves for investment risks to be borne by the insured</b>	<b>-</b>	<b>-</b>
C1. Reserves for contracts with disbursements connected with investment funds and market indices	-	-
C2. Reserves from pension fund management	-	-
<b>D. Total technical insurance reserves reassured with third parties</b>	<b>93</b>	<b>28</b>

**8.2 Change in caption 80 Technical insurance reserves reassured with third parties**

Technical insurance reserves reassured with third parties recorded no significant changes during the year as at 31 December 2020.

**SECTION 9 – PROPERTY AND EQUIPMENT – CAPTION 90**

	(millions of euro)	
<b>Assets/Amounts</b>	<b>31.12.2020</b>	<b>31.12.2019</b>
1. Property and equipment used in operations measured at cost	2,677	2,224
<i>Of which - Property and equipment used in operations - Rights of use acquired under leases</i>	1,803	1,498
2. Investment property measured at cost	-	-
3. Property and equipment used in operations, revalued	6,498	5,466
<i>Of which - Property and equipment used in operations, revalued - Rights of use acquired under leases</i>	-	-
4. Investment property measured at fair value	762	282
<i>Of which - Investment property - Rights of use acquired under leases</i>	3	-
5. Inventories of property and equipment governed by IAS 2	913	906
<b>Total Property and equipment caption 90</b>	<b>10,850</b>	<b>8,878</b>

**9.1 Property and equipment used in operations: breakdown of assets measured at cost**

	(millions of euro)	
	<b>31.12.2020</b>	<b>31.12.2019</b>
<b>1. Property and equipment owned</b>	<b>874</b>	<b>726</b>
a) land	-	-
b) buildings	-	-
c) furniture	176	171
d) electronic equipment	597	503
e) other	101	52
<b>2. Rights of use acquired through the lease</b>	<b>1,803</b>	<b>1,498</b>
a) land	8	-
b) buildings	1,692	1,464
c) furniture	-	1
d) electronic equipment	19	11
e) other	84	22
<b>Total</b>	<b>2,677</b>	<b>2,224</b>
<i>of which: resulting from the enforcement of guarantees</i>	3	2

**9.2 Investment property: breakdown of assets measured at cost**

There was no investment property measured at cost in the Intesa Sanpaolo Group.

## 9.3 Property and equipment used in operations: breakdown of revalued assets

	(millions of euro)					
	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Property and equipment owned</b>	-	-	<b>6,498</b>	-	-	<b>5,466</b>
a) land	-	-	2,481	-	-	2,206
b) buildings	-	-	3,695	-	-	2,972
c) valuable art assets	-	-	322	-	-	288
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
<b>2. Rights of use acquired through the lease</b>	-	-	-	-	-	-
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
<b>TOTAL</b>	-	-	<b>6,498</b>	-	-	<b>5,466</b>
<i>of which: resulting from the enforcement of guarantees</i>	-	-	-	-	-	-

## 9.4 Investment property: breakdown of assets measured at fair value

	(millions of euro)					
	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Property and equipment owned</b>	-	-	<b>759</b>	-	-	<b>282</b>
a) land	-	-	259	-	-	85
b) buildings	-	-	500	-	-	197
<b>2. Rights of use acquired through the lease</b>	-	-	<b>3</b>	-	-	-
a) land	-	-	-	-	-	-
b) buildings	-	-	3	-	-	-
<b>TOTAL</b>	-	-	<b>762</b>	-	-	<b>282</b>
<i>of which: resulting from the enforcement of guarantees</i>	-	-	131	-	-	68

As explained in Part A – FAIR VALUE OF REAL ESTATE AND VALUABLE ART ASSETS, please note that:

- in accordance with the rules on valuation frequencies, at the end of 2020 the appraisals were updated for all the investment properties and owner-occupied properties other than trophy assets.  
The valuation activity has been assigned to professionally qualified external companies with an international structure, able to provide property valuations based on the RICS Valuation standards which guarantee the determination of the value consistent with the fair value configuration indicated in the IAS/IFRS, as well as compliance with the professional, ethical and independence requirements for experts, in line with the provisions of international and European standards. The properties classified as trophy assets in the real estate portfolio were subject to full valuation at the end of 2019 and, therefore, were subject to scenario analysis for 2020;
- at the end of 2020, following the completion of the first three-year fair value measurement cycle, the valuations were updated for all of Intesa Sanpaolo valuable art assets, through external appraisals, entrusted to qualified independent experts.



## 9.5 Inventories of property and equipment governed by IAS 2: breakdown

	31.12.2020	Of which:			(millions of euro)
		Banking group	Insurance companies	Other companies	31.12.2019
<b>1. Inventories of property and equipment resulting from the enforcement of guarantees</b>	<b>234</b>	218	-	16	<b>229</b>
a) land	24	12	-	12	23
b) buildings	209	205	-	4	205
c) furniture	-	-	-	-	-
d) electronic equipment	-	-	-	-	-
e) other	1	1	-	-	1
<b>2. Other inventories of property and equipment</b>	<b>679</b>	26	-	653	<b>677</b>
<b>Total</b>	<b>913</b>	<b>244</b>	<b>-</b>	<b>669</b>	<b>906</b>
<i>of which: measured at fair value less cost to sell</i>	2	2	-	-	1

## 9.6 Property and equipment used in operations: annual changes

	(millions of euro)						
	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
<b>A. Gross initial carrying amount</b>	<b>2,211</b>	<b>4,907</b>	<b>1,607</b>	<b>5,544</b>	<b>288</b>	<b>222</b>	<b>14,779</b>
A.1 Total net adjustments	-5	-471	-1,435	-5,030	-	-148	-7,089
<b>A.2 Net carrying amount</b>	<b>2,206</b>	<b>4,436</b>	<b>172</b>	<b>514</b>	<b>288</b>	<b>74</b>	<b>7,690</b>
<b>B. Increases</b>	<b>559</b>	<b>2,163</b>	<b>67</b>	<b>339</b>	<b>48</b>	<b>170</b>	<b>3,346</b>
B.1 Purchases	496	1,574	52	282	28	164	2,596
<i>of which business combinations</i>	496	1,486	41	107	27	130	2,287
B.2 Capitalised improvement costs	-	24	10	54	-	-	88
B.3 Recoveries	-	2	-	-	-	-	2
B.4 Positive fair value differences recognised in:	23	162	-	-	11	-	196
a) shareholders' equity	23	157	-	-	11	-	191
b) income statement	-	5	-	-	-	-	5
B.5 Positive foreign exchange differences	-	-	-	-	-	-	-
B.6 Transfer from investment property	4	9	X	X	X	X	13
B.7 Other changes	36	392	5	3	9	6	451
<b>C. Decreases</b>	<b>-276</b>	<b>-1,212</b>	<b>-63</b>	<b>-237</b>	<b>-14</b>	<b>-59</b>	<b>-1,861</b>
C.1 Sales	-	-39	-	-2	-	-2	-43
<i>of which business combinations</i>	-	-	-	-	-	-	-
C.2 Depreciation	-	-343	-30	-168	-	-31	-572
C.3 Impairment losses recognised in:	-1	-4	-	-	-	-	-5
a) shareholders' equity	-1	-	-	-	-	-	-1
b) income statement	-	-4	-	-	-	-	-4
C.4 Negative fair value differences recognised in:	-85	-42	-	-	-14	-	-141
a) shareholders' equity	-65	-38	-	-	-9	-	-112
b) income statement	-20	-4	-	-	-5	-	-29
C.5 Negative foreign exchange differences	-5	-25	-1	-2	-	-1	-34
C.6 Transfer to:	-165	-457	-9	-15	-	-19	-665
a) investment	-10	-21	X	X	X	X	-31
b) non-current assets held for sale and discontinued operations	-155	-436	-9	-15	-	-19	-634
C.7 Other changes	-20	-302	-23	-50	-	-6	-401
<b>D. Net final carrying amount</b>	<b>2,489</b>	<b>5,387</b>	<b>176</b>	<b>616</b>	<b>322</b>	<b>185</b>	<b>9,175</b>
D.1 Total net adjustments	-	538	1,717	5,483	-	656	8,394
<b>D.2 Gross final carrying amount</b>	<b>2,489</b>	<b>5,925</b>	<b>1,893</b>	<b>6,099</b>	<b>322</b>	<b>841</b>	<b>17,569</b>
<b>E. Measurement at cost</b>	<b>1,687</b>	<b>2,632</b>	<b>-</b>	<b>-</b>	<b>98</b>	<b>-</b>	<b>4,417</b>

The table above shows the values of owned assets, as well as the rights of use acquired under leases.

## 9.6 Of which - Property and equipment used in operations - Rights of use acquired under leases: annual changes

	(millions of euro)						
	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
<b>A. Gross initial carrying amount</b>	-	1,674	1	15	-	31	1,721
A.1 Total net adjustments	-	-210	-	-4	-	-9	-223
<b>A.2 Net carrying amount</b>	-	1,464	1	11	-	22	1,498
<b>B. Increases</b>	13	865	-	14	-	80	972
B.1 Purchases	12	493	-	14	-	75	594
<i>of which business combinations</i>	12	420	-	12	-	56	500
B.2 Capitalised improvement costs	-	-	-	-	-	-	-
B.3 Recoveries	-	-	-	-	-	-	-
B.4 Positive fair value differences recognised in:	-	-	-	-	-	-	-
a) <i>shareholders' equity</i>	-	-	-	-	-	-	-
b) <i>income statement</i>	-	-	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	X	X	X	X	-
B.7 Other changes	1	372	-	-	-	5	378
<b>C. Decreases</b>	-5	-637	-1	-6	-	-18	-667
C.1 Sales	-	-38	-	-	-	-	-38
<i>of which business combinations</i>	-	-	-	-	-	-	-
C.2 Depreciation	-	-226	-	-4	-	-12	-242
C.3 Impairment losses recognised in:	-	-	-	-	-	-	-
a) <i>shareholders' equity</i>	-	-	-	-	-	-	-
b) <i>income statement</i>	-	-	-	-	-	-	-
C.4 Negative fair value differences recognised in:	-	-	-	-	-	-	-
a) <i>shareholders' equity</i>	-	-	-	-	-	-	-
b) <i>income statement</i>	-	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-7	-	-	-	-	-7
C.6 Transfer to:	-	-105	-	-	-	-	-105
a) <i>investment</i>	-	-1	X	X	X	X	-1
b) <i>non-current assets held for sale and discontinued operations</i>	-	-104	-	-	-	-	-104
C.7 Other changes	-5	-261	-1	-2	-	-6	-275
<b>D. Net final carrying amount</b>	8	1,692	-	19	-	84	1,803
D.1 Total net adjustments	-	471	-	13	-	22	506
<b>D.2 Gross final carrying amount</b>	8	2,163	-	32	-	106	2,309
<b>E. Measurement at cost</b>	-	-	-	-	-	-	-

## 9.7 Investment property: annual changes

	(millions of euro)	
	TOTAL	
	Land	Buildings
<b>A. Gross initial carrying amount</b>	<b>85</b>	<b>197</b>
A.1 Total net adjustments	-	-
<b>A.2 Net carrying amount</b>	<b>85</b>	<b>197</b>
<b>B. Increases</b>	<b>199</b>	<b>382</b>
B.1 Purchases	161	349
<i>of which business combinations</i>	159	337
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value differences	-	1
B.4 Recoveries	-	1
B.5 Positive foreign exchange differences	-	-
B.6 Transfer from investment property	10	21
B.7 Other changes	28	10
<b>C. Decreases</b>	<b>-25</b>	<b>-76</b>
C.1 Sales	-3	-7
<i>of which business combinations</i>	-	-
C.2 Depreciation	-	-
C.3 Negative fair value differences	-9	-10
C.4 Impairment losses	-	-1
C.5 Negative foreign exchange differences	-	-
C.6 Transfer to other assets	-13	-35
a) <i>property used in operations</i>	-4	-9
b) <i>non-current assets held for sale and discontinued operations</i>	-9	-26
C.7 Other changes	-	-23
<b>D. Final carrying amount</b>	<b>259</b>	<b>503</b>
<b>E. Fair value measurement</b>	<b>-</b>	<b>-</b>

The table above shows the values of owned assets, as well as the rights of use acquired under leases.

## 9.7 Of which - Investment property - Rights of use acquired under leases: annual changes

(millions of euro)

	TOTAL	
	Land	Buildings
<b>A. Gross initial carrying amount</b>	-	-
A.1 Total net adjustments	-	-
<b>A.2 Net carrying amount</b>	-	-
<b>B. Increases</b>	-	<b>3</b>
B.1 Purchases	-	-
<i>of which business combinations</i>	-	-
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value differences	-	-
B.4 Recoveries	-	-
B.5 Positive foreign exchange differences	-	-
B.6 Transfer from investment property	-	-
B.7 Other changes	-	3
<b>C. Decreases</b>	-	-
C.1 Sales	-	-
<i>of which business combinations</i>	-	-
C.2 Depreciation	-	-
C.3 Negative fair value differences	-	-
C.4 Impairment losses	-	-
C.5 Negative foreign exchange differences	-	-
C.6 Transfer to other assets	-	-
a) <i>property used in operations</i>	-	-
b) <i>non-current assets held for sale and discontinued operations</i>	-	-
C.7 Other changes	-	-
<b>D. Final carrying amount</b>	-	<b>3</b>
<b>E. Fair value measurement</b>	-	-

## 9.8 Inventories of property and equipment governed by IAS 2: annual changes

(millions of euro)

Assets/Amounts	Inventories of property and equipment resulting from the enforcement of guarantees					Other inventories of property and equipment	TOTAL
	Land	Buildings	Furniture	Electronic equipment	Other		
<b>A. Initial carrying amount</b>	<b>23</b>	<b>205</b>	-	-	<b>1</b>	<b>677</b>	<b>906</b>
<b>B. Increases</b>	<b>16</b>	<b>36</b>	-	-	<b>5</b>	<b>7</b>	<b>64</b>
B.1 Purchases	1	12	-	-	5	2	20
B.2 Recoveries	5	-	-	-	-	5	10
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	10	24	-	-	-	-	34
<b>C. Decreases</b>	<b>-15</b>	<b>-32</b>	-	-	<b>-5</b>	<b>-5</b>	<b>-57</b>
C.1 Sales	-9	-16	-	-	-5	-2	-32
C.2 Impairment losses	-4	-9	-	-	-	-1	-14
C.3 Negative foreign exchange differences	-2	-1	-	-	-	-	-3
C.4 Other changes	-	-6	-	-	-	-2	-8
<b>D. Final carrying amount</b>	<b>24</b>	<b>209</b>	-	-	<b>1</b>	<b>679</b>	<b>913</b>

## 9.8 Of which: Banking group

Assets/Amounts	Inventories of property and equipment resulting from the enforcement of guarantees					Other inventories of property and equipment	TOTAL
	Land	Buildings	Furniture	Electronic equipment	Other		
	(millions of euro)						
<b>A. initial carrying amount</b>	<b>4</b>	<b>192</b>	-	-	<b>1</b>	<b>28</b>	<b>225</b>
<b>B. Increases</b>	<b>10</b>	<b>36</b>	-	-	<b>5</b>	<b>2</b>	<b>53</b>
B.1 Purchases	1	12	-	-	5	2	20
B.2 Recoveries	-	-	-	-	-	-	-
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	9	24	-	-	-	-	33
<b>C. Decreases</b>	<b>-2</b>	<b>-23</b>	-	-	<b>-5</b>	<b>-4</b>	<b>-34</b>
C.1 Sales	-2	-8	-	-	-5	-2	-17
C.2 Impairment losses	-	-9	-	-	-	-	-9
C.3 Negative foreign exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-	-6	-	-	-	-2	-8
<b>D. Final carrying amount</b>	<b>12</b>	<b>205</b>	-	-	<b>1</b>	<b>26</b>	<b>244</b>

## 9.8 Of which: Insurance companies

There were no inventories of property and equipment governed by IAS 2 pertaining to insurance companies of the Intesa Sanpaolo Group.

## 9.8 Of which: Other companies

Assets/Amounts	Inventories of property and equipment resulting from the enforcement of guarantees					Other inventories of property and equipment	TOTAL
	Land	Buildings	Furniture	Electronic equipment	Other		
	(millions of euro)						
<b>A. initial carrying amount</b>	<b>19</b>	<b>13</b>	-	-	-	<b>649</b>	<b>681</b>
<b>B. Increases</b>	<b>6</b>	-	-	-	-	<b>5</b>	<b>11</b>
B.1 Purchases	-	-	-	-	-	-	-
B.2 Recoveries	5	-	-	-	-	5	10
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	1	-	-	-	-	-	1
<b>C. Decreases</b>	<b>-13</b>	<b>-9</b>	-	-	-	<b>-1</b>	<b>-23</b>
C.1 Sales	-7	-8	-	-	-	-	-15
C.2 Impairment losses	-4	-	-	-	-	-1	-5
C.3 Negative foreign exchange differences	-2	-1	-	-	-	-	-3
C.4 Other changes	-	-	-	-	-	-	-
<b>D. Final carrying amount</b>	<b>12</b>	<b>4</b>	-	-	-	<b>653</b>	<b>669</b>

## 9.9 Commitments to purchase property and equipment

Commitments to purchase property and equipment in existence as at 31 December 2020 amounted to approximately 33 million euro.

## SECTION 10 - INTANGIBLE ASSETS - CAPTION 100

## 10.1 Intangible assets: breakdown by type of asset

	31.12.2020		Of which:						31.12.2019	
	Finite useful life	Indefinite useful life	Banking group		Insurance companies		Other companies		Finite useful life	Indefinite useful life
			Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life		
<b>A.1 Goodwill</b>	<b>X</b>	<b>3,154</b>	<b>X</b>	<b>2,380</b>	<b>X</b>	<b>774</b>	<b>X</b>	<b>-</b>	<b>X</b>	<b>4,055</b>
A.1.1 Group	x	3,155	x	2,381	x	774	x	-	x	4,055
A.1.2 Minority interests	x	-1	x	-1	x	-	x	-	x	-
<b>A.2 Other intangible assets</b>	<b>3,130</b>	<b>1,910</b>	<b>2,975</b>	<b>1,910</b>	<b>155</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,274</b>	<b>1,882</b>
A.2.1 Assets measured at cost	3,130	1,910	2,975	1,910	155	-	-	-	3,274	1,882
a) Internally generated intangible assets	1,848	-	1,825	-	23	-	-	-	1,613	-
b) Other assets	1,282	1,910	1,150	1,910	132	-	-	-	1,661	1,882
A.2.2 Assets measured at fair value	-	-	-	-	-	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-	-	-	-	-	-
b) Other assets	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>3,130</b>	<b>5,064</b>	<b>2,975</b>	<b>4,290</b>	<b>155</b>	<b>774</b>	<b>-</b>	<b>-</b>	<b>3,274</b>	<b>5,937</b>

As at 31 December 2020, the amount for software was 2,273 million euro, of which 1,827 million euro produced internally and 446 million euro purchased externally.

The allocation of goodwill between “Cash Generating Units” is reported in the following table.

CGUs/Goodwill (*)	(millions of euro)	
	31.12.2020	31.12.2019
Banca dei Territori	-	983
IMI Corporate & Investment Banking	56	56
Insurance	773	494
Asset Management	1,059	1,060
Private Banking	1,266	1,291
International Subsidiary Banks	-	-
Bank of Alexandria (Egypt)	-	-
Pravex Bank (Ukraine)	-	-
Autostrade Lombarde	-	171
<b>Total</b>	<b>3,154</b>	<b>4,055</b>

(\*) The table does not include the goodwill reclassified to discontinued operations as at 31 December 2020, attributable to the Custodian Bank and Fund Administration business line of FLB (Private Banking CGU) to be sold during 2021 and the 31 branches to be sold to BPER in compliance with the instructions from the competent authorities following the acquisition of UBI Banca.

For a breakdown of the CGUs, see the next chapter “Information on intangible assets and goodwill”.



## 10.2 Intangible assets: annual changes

	(millions of euro)					
	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
<b>A. Gross initial carrying amount</b>	<b>20,309</b>	<b>5,695</b>	-	<b>9,908</b>	<b>2,384</b>	<b>38,296</b>
A.1 Total net adjustments	-16,254	-4,082	-	-8,247	-502	-29,085
<b>A.2 Net initial carrying amount</b>	<b>4,055</b>	<b>1,613</b>	-	<b>1,661</b>	<b>1,882</b>	<b>9,211</b>
<b>B. Increases</b>	<b>298</b>	<b>837</b>	-	<b>946</b>	<b>30</b>	<b>2,111</b>
B.1 Purchases	297	34	-	910	-	1,241
<i>of which business combinations</i>	297	-	-	732	-	1,029
B.2 Increases of internally generated intangible assets	X	795	-	-	-	795
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	1	8	-	36	30	75
<b>C. Decreases</b>	<b>-1,199</b>	<b>-602</b>	-	<b>-1,325</b>	<b>-2</b>	<b>-3,128</b>
C.1 Sales	-171	-5	-	-946	-	-1,122
<i>of which business combinations</i>	-171	-	-	-936	-	-1,107
C.2 Impairment losses	-981	-561	-	-255	-2	-1,799
- Amortisation	X	-561	-	-255	-2	-818
- Write-downs recognised in	-981	-	-	-	-	-981
<i>shareholders' equity</i>	X	-	-	-	-	-
<i>income statement</i>	-981	-	-	-	-	-981
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-45	-	-	-	-	-45
C.5 Negative foreign exchange differences	-	-	-	-7	-	-7
C.6 Other changes	-2	-36	-	-117	-	-155
<b>D. Net final carrying amount</b>	<b>3,154</b>	<b>1,848</b>	-	<b>1,282</b>	<b>1,910</b>	<b>8,194</b>
D.1 Total net adjustments	17,198	4,643	-	8,502	504	30,847
<b>E. Gross final carrying amount</b>	<b>20,352</b>	<b>6,491</b>	-	<b>9,784</b>	<b>2,414</b>	<b>39,041</b>
<b>F. Measurement at cost</b>	-	-	-	-	-	-

Sub-caption B.1 includes the increase from Goodwill deriving from the acquisition of Intesa Sanpaolo RBM Salute S.p.A., as well as the increase from Other intangible assets deriving from the acquisition of the UBI Group.

Sub-caption C.1 Sales includes the decrease in Goodwill and Other intangible assets deriving from the sale of the equity investment in the Autostrade Lombarde Group.

## 10.2 Of which: Banking group

	(millions of euro)					
	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
<b>A. Gross initial carrying amount</b>	<b>18,871</b>	<b>5,682</b>	-	<b>7,948</b>	<b>2,384</b>	<b>34,885</b>
A.1 Total net adjustments	-15,481	-4,071	-	-7,375	-502	-27,429
<b>A.2 Net initial carrying amount</b>	<b>3,390</b>	<b>1,611</b>	-	<b>573</b>	<b>1,882</b>	<b>7,456</b>
<b>B. Increases</b>	-	<b>805</b>	-	<b>875</b>	<b>30</b>	<b>1,710</b>
B.1 Purchases	-	23	-	875	-	898
<i>of which business combinations</i>	-	-	-	699	-	699
B.2 Increases of internally generated intangible assets	X	782	-	-	-	782
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	30	30
<b>C. Decreases</b>	<b>-1,010</b>	<b>-591</b>	-	<b>-298</b>	<b>-2</b>	<b>-1,901</b>
C.1 Sales	-	-5	-	-10	-	-15
<i>of which business combinations</i>	-	-	-	-	-	-
C.2 Impairment losses	-963	-550	-	-184	-2	-1,699
- Amortisation	X	-550	-	-184	-2	-736
- Write-downs recognised in	-963	-	-	-	-	-963
<i>shareholders' equity</i>	X	-	-	-	-	-
<i>income statement</i>	-963	-	-	-	-	-963
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-45	-	-	-	-	-45
C.5 Negative foreign exchange differences	-	-	-	-7	-	-7
C.6 Other changes	-2	-36	-	-97	-	-135
<b>D. Net final carrying amount</b>	<b>2,380</b>	<b>1,825</b>	-	<b>1,150</b>	<b>1,910</b>	<b>7,265</b>
D.1 Total net adjustments	16,444	4,621	-	7,559	504	29,128
<b>E. Gross final carrying amount</b>	<b>18,824</b>	<b>6,446</b>	-	<b>8,709</b>	<b>2,414</b>	<b>36,393</b>
<b>F. Measurement at cost</b>	-	-	-	-	-	-

## 10.2 Of which: Insurance companies

	(millions of euro)					Total
	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
<b>A. Gross initial carrying amount</b>	<b>1,230</b>	<b>13</b>	<b>-</b>	<b>977</b>	<b>-</b>	<b>2,220</b>
A.1 Total net adjustments	-736	-11	-	-825	-	-1,572
<b>A.2 Net initial carrying amount</b>	<b>494</b>	<b>2</b>	<b>-</b>	<b>152</b>	<b>-</b>	<b>648</b>
<b>B. Increases</b>	<b>280</b>	<b>32</b>	<b>-</b>	<b>35</b>	<b>-</b>	<b>347</b>
B.1 Purchases	279	11	-	35	-	325
<i>of which business combinations</i>	279	-	-	33	-	312
B.2 Increases of internally generated intangible assets	X	13	-	-	-	13
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	1	8	-	-	-	9
<b>C. Decreases</b>	<b>-</b>	<b>-11</b>	<b>-</b>	<b>-55</b>	<b>-</b>	<b>-66</b>
C.1 Sales	-	-	-	-	-	-
<i>of which business combinations</i>	-	-	-	-	-	-
C.2 Impairment losses	-	-11	-	-35	-	-46
- Amortisation	X	-11	-	-35	-	-46
- Write-downs recognised in	-	-	-	-	-	-
<i>shareholders' equity</i>	X	-	-	-	-	-
<i>income statement</i>	-	-	-	-	-	-
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-20	-	-20
<b>D. Net final carrying amount</b>	<b>774</b>	<b>23</b>	<b>-</b>	<b>132</b>	<b>-</b>	<b>929</b>
D.1 Total net adjustments	736	22	-	860	-	1,618
<b>E. Gross final carrying amount</b>	<b>1,510</b>	<b>45</b>	<b>-</b>	<b>992</b>	<b>-</b>	<b>2,547</b>
<b>F. Measurement at cost</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 10.2 Of which: Other companies

	(millions of euro)					Total
	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
<b>A. Gross initial carrying amount</b>	<b>208</b>	-	-	<b>983</b>	-	<b>1,191</b>
A.1 Total net adjustments	-37	-	-	-47	-	-84
<b>A.2 Net initial carrying amount</b>	<b>171</b>	-	-	<b>936</b>	-	<b>1,107</b>
<b>B. Increases</b>	<b>18</b>	-	-	<b>36</b>	-	<b>54</b>
B.1 Purchases	18	-	-	-	-	18
of which business combinations	18	-	-	-	-	18
B.2 Increases of internally generated intangible assets	X	-	-	-	-	-
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	36	-	36
<b>C. Decreases</b>	<b>-189</b>	-	-	<b>-972</b>	-	<b>-1,161</b>
C.1 Sales	-171	-	-	-936	-	-1,107
of which business combinations	-171	-	-	-936	-	-1,107
C.2 Impairment losses	-18	-	-	-36	-	-54
- Amortisation	X	-	-	-36	-	-36
- Write-downs recognised in	-18	-	-	-	-	-18
shareholders' equity	X	-	-	-	-	-
income statement	-18	-	-	-	-	-18
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
<b>D. Net final carrying amount</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
D.1 Total net adjustments	18	-	-	83	-	101
<b>E. Gross final carrying amount</b>	<b>18</b>	<b>-</b>	<b>-</b>	<b>83</b>	<b>-</b>	<b>101</b>
<b>F. Measurement at cost</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 10.3 Other information

As at 31 December 2020, there were commitments relating to investments in intangible assets, primarily software, of approximately 18 million euro.

### Information on intangible assets and goodwill

The application of IFRS 3 to the accounting of acquisitions may lead to the recognition of new intangible assets and goodwill. In the case of the Intesa Sanpaolo Group, the acquisitions carried out in the previous years, as well as those concluded during 2020, which involved the acquisition of the Unione Banche Italiane S.p.A. Group (hereinafter, the “UBI Group”), RBM Assicurazione Salute and Euroconsult Rental Division, led to the recognition of significant amounts for intangible assets and goodwill.

During 2020, various business combinations were finalised, the most significant of which was the acquisition of the UBI Group by Intesa Sanpaolo which launched a Public Purchase and Exchange Offer on 17 February 2020 in respect of all ordinary shares of UBI Banca. As that operation, which was completed in August 2020, entailed the acquisition of control of UBI Banca, it was classified as a business combination pursuant to IFRS 3 and, as a result, was recognised using the Acquisition Method. According to this method, at the acquisition date, the acquirer shall allocate the cost of a business combination, recognising the assets, liabilities and potential liabilities at their fair values (Purchase Price Allocation - “PPA”). As part of the PPA relating to the acquisition of the UBI Group, in compliance with the regulations set out in IFRS 3 and IAS 38, Intesa Sanpaolo identified and recognised the following intangible assets with finite useful lives:

- AUM (Asset Under Management) for 513 million euro: these refer to the placement and distribution of products linked to assets under management, portfolio management schemes, mutual funds, SICAVs, pension and insurance products in the UBI Group network (the branches of UBI Banca, IW Bank and financial advisors of IW Bank), as well as the in-house production component (designing and creating financial products and managing customers’ assets) of these products carried out by Pramerica SGR, which acts as a product factory for the sales network. These two separate activities were considered as different value components of the intangible assets, one linked to distribution and the other to the production of asset management products;
- AUA (Assets Under Administration) for 41 million euro: these include customer relationships relating to custody and administration accounts without management mandates to the intermediary;
- Acquiring for 40 million euro: this consists of the specific relationship with merchant customers linked to acquiring activities, i.e. the acquisition of transactions executed using payment cards linked to international circuits.

For the purpose of allocation to the Group CGUs the intangible assets recognised as part of the PPA for the acquisition of the UBI Group, it is specified that, even if, for the 2020 Financial Statements, a specific sector represented by the UBI Group was identified for the purpose of identifying the CGUs for impairment testing the intangible assets at operating segment level, pursuant to IFRS 8, the contributions of the UBI Group were allocated to the single Group Divisions. That approach was adopted early for the Financial Statements as at 31 December 2020. Thus, in relation to the integration of the entities of the UBI Group into the Divisions, which shall take place during 2021, as the identification of the “UBI Group” operating segment is provisional, and considering its carrying amount in the balance sheet and the lack of goodwill allocated (as known, the acquisition of the UBI Group entailed the recognition of badwill) its classification as a separate CGU would have given rise to a misleading representation of the results of the impairment test on goodwill, inconsistent with the expected dynamics of the Group Divisions in terms of prospective profitability in relation to equity and the work done to prepare the 2021 Budget and projections for the subsequent years of the Intesa Sanpaolo Group, in which the contribution of the UBI Group has been allocated to the single Divisions.

As a result, the intangible assets recognised as part of the PPA for the acquisition of the UBI Group were allocated to the following CGUs:

- AUM intangibles: 350 million euro allocated to the Banca dei Territori CGU, recognised with regard to the sales network of UBI Banca, 113 million euro to the Asset Management CGU, with regard to the production component of Pramerica SGR, and 50 million euro to the Private Banking CGU, as regards the AUM pertaining to IW Bank;
- AUA intangibles: 19 million euro allocated to the Banca dei Territori CGU and 22 million euro to the Private Banking CGU;
- acquiring intangibles: allocated to the Banca dei Territori CGU.

During 2020 the following additional acquisitions were finalised:

- acquisition by Intesa Sanpaolo Vita (“ISV”) of RBM Assicurazione Salute (“RBM”), the third largest Italian player in the health insurance market. As part of the PPA process, a specific intangible asset was recognised, typical of the insurance business, for around 32 million euro, i.e., the Value of Business Acquired (“VoBA”), previously not recognised in the RBM financial statements. The value of that intangible asset is represented by the capacity of contracts with customers in force at the time of acquisition to generate revenues over the useful life of acquired relationships. Moreover, a comparison between the total acquisition cost and the shareholders’ equity at fair value, including the intangible asset above, produced a residual difference of 279 million euro which was recognised as goodwill. Both goodwill and VoBA (insurance – production intangible asset) were allocated to the Insurance Division;
- acquisition by ISP Forvalue of Euroconsult Rental Division, subsequently renamed ISP Rent for You, with a company purpose of rental of operating assets to freelance professionals, businesses, companies, banks and public or private entities. Intesa Sanpaolo recognised goodwill of 18 million euro, posted following the business combination, as the residual amount of the acquisition cost and allocated to the Banca dei Territori Division.

Lastly, it is noted that, during 2020 several events occurred that resulted in a reduction or different allocation within the Group of total recognised intangible assets compared to 31 December 2019. More specifically:

- derecognition of the goodwill of Autostrade Lombarde following the finalisation of its sale on 26 October 2020 to Aleàtica S.A.U., a Spanish company specialised in infrastructure investments that is 100%-owned by the Australian fund IFM Global Infrastructure Fund.
- derecognition of the goodwill and intangible assets relating to the acquiring business line, transferred to Nexi on 30 June 2020, the date on which Intesa Sanpaolo and Nexi finalised the strategic agreement regarding payment systems. Under the terms of the agreement, Intesa Sanpaolo’s acquiring business unit was transferred to Nexi, with Nexi becoming Intesa Sanpaolo’s sole partner for acquiring activities. Intesa Sanpaolo maintains the relationship with its customers and distributes the acquiring services provided by Nexi.

- reclassification of a portion of goodwill determined at 25 million euro from the Private Banking Division to discontinued operations, following the approval by the Boards of Directors of Intesa Sanpaolo and Fideuram of the sale of the Custodian Bank and Fund Administration business line of Fideuram Bank Luxembourg;
- reclassification to discontinued operations of the goodwill, determined at 20 million euro, previously allocated to Banca dei Territori, associated with 31 branches of Intesa Sanpaolo which will be sold to Banca Popolare dell'Emilia Romagna in 2021.

The table below summarises the values of the intangible assets and goodwill recorded in the consolidated financial statements with the related changes during the period, subdivided by Cash Generating Unit (CGU), which represent the groups of assets subject to impairment testing on goodwill and other intangible assets in order to determine the recoverable amount.



Notes to the consolidated financial statements – Part B – Information on the consolidated balance sheet - Assets

CGU	Financial Statements 31.12.19	Acquisition of UBI Group	RBM Salute acquisition	Acquisition of ISP Rent for You	Reclassification of Custodian Bank and Fund Administration business line of Fideuram Bank Luxembourg	Reclassification of 31 ISP branches to be sold to BPER	Sale of Autostrade Lombarde	Disposal of Acquiring Business Line	Impairment losses	Other changes (1)	Amortisation	(millions of euro) Financial Statements 31.12.2020
<b>BANCA DEI TERRITORI DIVISION</b>	<b>2,568</b>	<b>409</b>	-	<b>18</b>	-	<b>-20</b>	-	-	<b>-981</b>	-	<b>-16</b>	<b>1,978</b>
- Asset management intangibles - distribution	65	207	-	-	-	-	-	-	-	-	-11	261
- Insurance intangibles - distribution	13	143	-	-	-	-	-	-	-	-	-4	152
- Brand name intangibles	1,507	-	-	-	-	-	-	-	-	-	-	1,507
- Intangible asset under administration	-	19	-	-	-	-	-	-	-	-	-	19
- Intangible Acquiring	-	40	-	-	-	-	-	-	-	-	-1	39
- Goodwill	983	-	-	18	-	-20	-	-	-981	-	-	-
<b>DIVISIONE IMI CORPORATE &amp; INVESTMENT BANKING</b>	<b>56</b>	-	-	-	-	-	-	-	-	-	-	<b>56</b>
- Goodwill	56	-	-	-	-	-	-	-	-	-	-	56
<b>ASSET MANAGEMENT DIVISION</b>	<b>1,060</b>	<b>113</b>	-	-	-	-	-	-	-	<b>-1</b>	<b>-2</b>	<b>1,170</b>
- Asset management intangibles - prod. and distribut.	-	113	-	-	-	-	-	-	-	-	-2	111
- Goodwill	1,060	-	-	-	-	-	-	-	-	-1	-	1,059
<b>PRIVATE BANKING DIVISION</b>	<b>1,697</b>	<b>72</b>	-	-	<b>-25</b>	-	-	-	-	-	<b>-5</b>	<b>1,739</b>
- Asset management intangibles - prod. and distribut.	31	36	-	-	-	-	-	-	-	-	-4	63
- Insurance intangibles - distribution	-	14	-	-	-	-	-	-	-	-	-	14
- Brand name intangibles	375	-	-	-	-	-	-	-	-	-	-	375
- Intangible asset under administration	-	22	-	-	-	-	-	-	-	-	-1	21
- Goodwill	1,291	-	-	-	-25	-	-	-	-	-	-	1,266
<b>INSURANCE DIVISION</b>	<b>618</b>	-	<b>311</b>	-	-	-	-	-	-	-	<b>-31</b>	<b>898</b>
- Insurance intangibles - production	124	-	32	-	-	-	-	-	-	-	-31	125
- Goodwill	494	-	279	-	-	-	-	-	-	-	-	773
<b>DIVISIONE INTERNATIONAL SUBSIDIARY BANKS</b>	-	-	-	-	-	-	-	-	-	-	-	-
- Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
<b>BANK OF ALEXANDRIA (Egypt)</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>PRAVEX BANK (Ukraine)</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>AUTOSTRADE LOMBARDE</b>	<b>171</b>	-	-	-	-	-	<b>-171</b>	-	-	-	-	-
- Goodwill	171	-	-	-	-	-	-171	-	-	-	-	-
<b>CGU TOTAL</b>	<b>6,170</b>	<b>594</b>	<b>311</b>	<b>18</b>	<b>-25</b>	<b>-20</b>	<b>-171</b>	-	<b>-981</b>	<b>-1</b>	<b>-54</b>	<b>5,841</b>
- Asset management intangibles	96	356	-	-	-	-	-	-	-	-	-17	435
- Insurance intangibles	137	157	32	-	-	-	-	-	-	-	-35	291
- Intangible asset under administration	-	41	-	-	-	-	-	-	-	-	-1	40
- Intangible Acquiring	-	40	-	-	-	-	-	-	-	-	-1	39
- Brand name intangibles	1,882	-	-	-	-	-	-	-	-	-	-	1,882
- Goodwill	4,055	-	279	18	-25	-20	-171	-	-981	-1	-	3,154
<b>DISCONTINUED OPERATIONS</b>	<b>69</b>	-	-	-	<b>25</b>	<b>20</b>	-	<b>-69</b>	-	-	-	<b>45</b>
- Goodwill - Custodian Bank business line	-	-	-	-	25	-	-	-	-	-	-	25
- Goodwill - 31 ISP branches to be sold to BPER	-	-	-	-	-	20	-	-	-	-	-	20
- Goodwill - Acquiring business line	49	-	-	-	-	-	-	-49	-	-	-	-
- Customer relations intangibles - Acquiring business line	20	-	-	-	-	-	-	-20	-	-	-	-

(1) = foreign exchange differences on the goodwill attributable to Eurizon Capital SLJ.

The intangible assets recognised include the intangible asset related to customers, represented by the measurement of the insurance portfolio (Value of Business Acquired), the assets under administration (Assets Under Administration, AUA) and under management (Assets Under Management, AUM), and the acquiring business. Such intangible assets, with a finite life, were originally measured by discounting the income margin cash flows over a period representing the residual life, contractual or estimated, of relationships existing at the time of the business combination.

The brand name, an intangible asset related to marketing, was also measured. This asset is considered to have an indefinite life since it is expected to contribute for an indefinite period of time to the formation of income flows.

For the intangible assets with a finite useful life, the amortisation for the year was recognised to the income statement (under "220. Net adjustments to/recoveries on intangible assets") for a total of 54 million euro gross of the tax effect.

Based on IAS 36, both intangible assets with an indefinite useful life and goodwill are submitted to impairment testing on an annual basis to verify recoverability of their value. In addition, intangible assets with a finite useful life must be tested for impairment whenever there is evidence of impairment indicators. The recoverable amount consists of the higher of the fair value and the value in use, less costs to sell.

In line with the guidance issued by ESMA which views the effects of the COVID-19 pandemic as an indicator of impairment, an impairment test on the recoverability of the value of goodwill and the brand name was carried out for the Half-yearly Report as at 30 June 2020, which showed recoverable amounts of the various CGUs higher than the corresponding book values. Therefore, no adjustments were made to intangible assets. In any event, as also indicated in the Half-yearly Report as at 30 June 2020, the sensitivity analyses conducted on the main parameters relevant for the purposes of the recoverable amount showed marginal critical issues with regard to the Banca dei Territori CGU. From June to December 2020, as a result of expansionary fiscal policies of governments, and an accommodating stance by the ECB in terms of monetary policy, the recovery in interest rates was further postponed, with estimates of negative values up to 2024 and only moderately positive values in 2025. As at 30 June 2020, conversely, the 3-month Euribor was estimated at positive values right from 2024, with a growth trend impacting also 2025. With regard to the GDP, both for Italy and the Eurozone, the updated estimates at December 2020 compared to those of June were revised downwards for 2021, while for the following years they forecast more significant growth, to then align by 2025, the last year of the analytical forecasting.

In line with the ESMA guidance, also for the purposes of the 2020 Financial Statements, in conducting the annual impairment testing of goodwill, the effects of the COVID-19 pandemic were carefully considered.

With regard to the other intangible assets with finite useful lives, specific analyses were conducted regarding the recoverable amount which did not identify any problems. Moreover, consideration should be given to the amortisation process that had reduced their carrying amounts compared to their initial book values and bearing in mind that the standard requires the recoverable amount be determined by referring to the assets (Technical reserves, Assets Under Management, Assets Under Administration or, more generally, customer relationships) of the entire CGU at the reporting date and not only to the residual assets for which the initial value of the intangible asset was determined. In this regard, it should be mentioned that IAS 36, for the purpose of calculating the value in use of intangibles subject to impairment testing, states that reference must be made to cash flows arising from intangible asset in its current condition (as at the impairment test date), with no distinction between cash flows arising from the asset initially recognised according to IFRS 3 and those relating to the asset outstanding at the impairment test date. This because it would be difficult, especially with regard to extraordinary transactions between businesses or changes in the asset following significant turnover in volumes, customers, contracts, etc., to separate cash flows relating to the original asset from others.

This concept can also be applied in impairment testing of goodwill to calculate the Value in use of the CGUs, for which the cash flows have to be considered with regard to all assets and liabilities of that CGU and not only the assets and liabilities for which goodwill was recognised on application of IFRS 3.

As in previous financial statements, given the volatility of the financial markets and the available market values for calculation of the recoverable amount of goodwill, the Value in use that represents the present value of net future cash flows from the asset (or business) being valued was used in the impairment tests for the 2020 financial statements and the Half-yearly Report as at 30 June 2020.

In particular, for the financial statements as at 31 December 2020, the impairment test on goodwill was conducted by applying the DCF – Discounted Cash Flow model – to which, as a check of the consistency of the results of using the DCF model, the DDM – Dividend Discounted Model – was added. These tests were also joined by an autonomous test, using an independent expert, of the fair value of the component of the brand name attributable to Banca dei Territori, the CGU to which the main portion of intangible assets have been allocated.

It is noted that the tests mentioned above did not concern the International Subsidiary Banks, Bank of Alexandria and Pravex Bank CGUs in consideration of the absence, as of the date of the test, of intangible assets with an indefinite life allocated to those CGUs to be subject to impairment test.

As a result of the increase in the carrying amount of the Banca dei Territori CGU following the capital increase for the Public Purchase and Exchange Offer on UBI Banca and the deterioration in the macroeconomic situation compared to the previous impairment testing – particularly with regard to the expected changes in interest rates, estimated to be negative until the end of 2024 and only marginally positive in 2025, which were partially offset by the positive effects of the estimated synergies resulting from the merger with the UBI Group – the impairment tests as at 31 December 2020 identified a goodwill impairment for the Banca dei Territori CGU of 981 million euro, gross of related tax. As a result of this impairment, the goodwill related to that CGU was fully written off.

Lastly, the methods, assumptions and results of the impairment test procedures for intangible assets and goodwill defined by management were approved by the Board of Directors prior to approval of the draft financial statements for 2020.

## Impairment testing of intangibles

### Insurance portfolio

Valuation of the insurance portfolio uses models normally applied to determine the embedded value, by discounting flows representing the income margins over a period deemed to express the residual maturity of the insurance portfolio outstanding at the valuation date. The resulting value, considered to have a finite life, is amortised at variable rates over a period representing the residual life of the insurance contracts.

The book value of insurance intangible assets refers to the insurance portfolio of Intesa Sanpaolo Vita and the subsidiary Intesa Sanpaolo Life DAC (formerly Intesa Sanpaolo Life), distributed by Intesa Sanpaolo. During 2020, the Value of Business Acquired (VoBA) deriving from the acquisition of ISP RBM Salute was added to this, for an amount of 32 million euro, allocated to the Insurance Division. The value of that intangible asset is represented by the capacity of contracts with customers in force at the time of acquisition to generate revenues over the useful life of acquired relationships. This is an intangible asset strictly linked to the specific contractual relationship with the customer (insurance policies) which, due to their nature, have a fixed term, estimated at 5 years.

Lastly, also during 2020, as part of the PPA process relating to the acquisition of the UBI Group, a specific intangible asset was recognised, linked to the distribution by UBI Banca and IW Bank of the insurance products of the UBI Group. The value of that intangible asset was estimated by an independent expert, discounting the net expected cash flows over a defined time horizon. The estimated useful life came to 27 years. The amount recognised in the financial statements came to 157 million euro. The component distributed by UBI Banca (143 million euro) was allocated to the Banca dei Territori CGU and the component distributed by IW Bank (14 million euro) was allocated to the Private Banking CGU.

For the 2020 financial statements, the amortisation of the asset for the year was recognised to the income statement. With reference to the intangible asset that was posted in the 2019 Financial Statements, the amortisation for the year in question amounted to approximately 20% of the carrying amount recognised in the Financial Statements at the end of 2019. The analyses conducted during the year on the main impairment indicators were updated and extended for this type of intangible as well. However, a thorough recalculation of value of the intangible asset was not performed since the trend of the insurance business did not present any particular critical issues in 2020. It is noted that also the insurance intangible assets recognised following the acquisition of the UBI Group and ISP RBM Salute were not subject to analyses of the retention of their value, considering the short period of time passed since their recognition (and, therefore, the absence of indicators of impairment arising in the meantime) and the amortisation recorded.

The table below provides the value of mathematical reserves, excluding those deriving from the UBI Group, (including the components that in the IFRS financial statements are classified under financial liabilities of the insurance segment) detailing the various product types that contributed to the initial valuation of the insurance portfolio.

Insurance portfolio	(millions of euro)	
	MODEL TECHNICAL RESERVES <sup>(a)</sup>	
	31.12.2020	Change compared to 31.12.2019
Traditional	72,919	+ 0.4%
Pension funds	3,795	+ 13.6%
Unit-linked	79,913	+ 3.6%
<b>TOTAL</b>	<b>156,627</b>	<b>+ 2.3%</b>

(a) The mathematical reserve and the premium reserve are included. The figure is gross of the "shadow reserve".

In 2020, technical reserves increased over the period considered. By year-end, the reserves amounted to around 157 billion euro, increasing (+2.3%) on the value recorded in December 2019 of 153 billion euro. In particular, the reserves for traditional products showed slight growth in the period considered (+0.4%), totalling around 73 billion euro as at 31 December 2020. The reserves for unit-linked products also recorded growth as at 31 December 2020 (+3.5%), with overall total reserves of approximately 80 billion euro.

An analysis of profitability of the products held in portfolios did not yield any indication of possible impairment of the asset.

The following table presents a summary of the values of insurance intangibles according to the relevant CGU.

CGU	(millions of euro)				
	Financial statements 31.12.2019	Acquisition of UBI Group	RBM Salute acquisition	Amortisation	Financial statements 31.12.2020
<b>BANCA DEI TERRITORI DIVISION</b>					
Insurance intangibles - distribution	13	143	-	-4	152
<b>INSURANCE DIVISION</b>					
Insurance intangibles - production	124	-	32	-31	125
<b>PRIVATE BANKING DIVISION</b>					
Intangible asset management - produc. and distribut.	-	14	-	-	14
<b>GROUP TOTAL</b>	<b>137</b>	<b>157</b>	<b>32</b>	<b>-35</b>	<b>291</b>

#### *Asset management and administration portfolio*

As part of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca in compulsory administrative liquidation, in 2017 the intangible assets linked to Assets Under Management (AUM) were calculated, represented by the capacity of the relationships existing at the acquisition date to generate cash flows over the residual useful life of those relationships. The valuation method used to estimate the economic value of those intangible assets is based on the future net cash flows from indirect deposits. Those flows are estimated based on the evolution of the customer assets and the net interest and other banking income net of operating costs and taxes. In particular, the evolution of assets under management was estimated over a defined time horizon, taking account of their decay physiologically observed over a past time frame deemed significant, specifically equal to 13 years. The valuation, supported by a survey by an independent third party, resulted in the recognition of an intangible asset linked to the asset management portfolio of the former Venetian banks of 80 million euro at the acquisition date, fully allocated to the Banca dei Territori CGU. Considering amortisation for the previous years (amounting to 15 million euro), and amortisation for the period (amounting to 6 million euro), as at 31 December 2020 the intangible asset is posted in the consolidated financial statements at a value of 59 million euro.

Similarly, as part of Fideuram's acquisition of the Morval Group, which operates in private banking and wealth management, starting from 2018, intangible assets referring to asset management relationships were recorded in the financial statements for 34 million euro which were fully allocated to the Private Banking CGU. Considering both amortisation for the previous years (amounting to 3 million euro) and amortisation for the period (amounting to 3 million euro), as at 31 December 2020 that intangible asset was posted in the consolidated financial statements at a value of 28 million euro.

Lastly, as previously stated, during 2020, as part of the PPA relating to the acquisition of the UBI Group, intangible assets were recognised linked to indirect deposits and, in particular, to the intangible assets pertaining to Assets under Administration (AUA) and Assets Under Management (AUM). In particular, AUM refer both to the placement and distribution of investment products with the UBI Group network (the branches of UBI, IW Bank and financial advisors of IW Bank), as well as the in-house production component (designing and creating financial products and managing customers' assets) of these products carried out by Pramerica SGR, which acts as a product factory for the sales network. Also considering their extensive integration within the UBI Group, the two separate activities may be considered as different value components of the intangible assets, one linked to distribution and the other to the production of asset management products;

Assets Under Administration include customer relationships relating to accounts of custody and administration without management mandates to the intermediary. Also in this case, the value of those intangible assets was estimated by an independent expert, discounting the net expected cash flows over a defined time horizon. The useful life attributed to the AUM intangibles has been estimated over a period of 20 years while that of the AUA intangibles has been estimated at 15 years. Overall, the amount recognised comes to 397 million euro, of which 356 million euro referring to the AUM intangibles and 41 million euro to the AUA intangibles. Those intangible assets were allocated to the Banca dei Territori CGU (207 million euro referring to the AUM intangibles and 19 million euro to the AUA intangibles) and to the Private Banking CGU (36 million euro referring to the AUM intangibles and 22 million euro to the AUA intangibles) for the distribution component and to the Asset Management CGU (113 million euro) for the component linked to the production of financial products.

With regard to impairment testing, it is noted that the analyses conducted showed no signs of impairment of the intangible assets recorded. In that regard, it is noted that, the volumes of assets underlying the measurement of the intangible assets are negligible if compared with the total assets of the CGUs (average contribution of around 8%), thus confirming the strength of the value of the intangible asset recognised in the financial statements and taking account of the fact that impairment testing must not be limited only to the cash flows deriving from the assets acquired, but should take account of all the cash flows linked to the assets of the specific CGU.

Lastly, for the purpose of completeness, it is noted that the AUM and AUA intangibles recognised following the acquisition of the UBI Group were not subject to analyses of the retention of the value of the assets, considering the short period of time passed since their recognition (and, therefore, the absence of indicators of impairment arising in the meantime) and the amortisation recorded.

The following table presents a summary of the values of the AUM and AUA intangibles attributable to the Banca dei Territori CGU, the Private Banking CGU and the Asset Management CGU.

CGU	(millions of euro)			
	Financial statements 31.12.2019	Acquisition of UBI Group	Amortisation	Financial statements 31.12.2020
<b>BANCA DEI TERRITORI DIVISION</b>				
Intangible asset management - distribution	65	207	-11	261
Intangible asset under administration	-	19	-	19
<b>PRIVATE BANKING DIVISION</b>				
Intangible asset management - produc. and distribut.	31	36	-4	63
Intangible asset under administration	-	22	-1	21
<b>ASSET MANAGEMENT DIVISION</b>				
Intangible asset management - produc. and distribut.	-	113	-2	111
<b>GROUP TOTAL</b>	<b>96</b>	<b>397</b>	<b>-18</b>	<b>475</b>

### *The Acquiring intangible*

As part of the PPA for the acquisition of the UBI Group, a specific intangible asset was identified referring to the relationship with merchant customers linked to Acquiring activities, i.e. the acquisition of transactions executed using payment cards linked to international circuits. The value of that activity lies in the economic benefits deriving - over time - from the relationships established with one's merchant customers and, as a result, the estimate of the value of that intangible asset was conducted by an independent expert, discounting the net expected cash flows over a defined time horizon. The useful life of the acquiring intangible has been estimated over a period of 15 years. The amount recognised in the financial statements came to 40 million euro and was allocated to the Banca dei Territori CGU. Following the recognition of amortisation for 2020, equal to 1 million euro, as at 31 December 2020 the intangible asset in question was recorded at a value of 39 million euro. Just as the other intangible assets recognised during 2020, the acquiring intangible asset was also not subject to specific impairment testing, considering its recent measurement, the lack of any indicators of impairment in the meantime and the amortisation recorded. With reference to the intangible assets recognised in 2018 following the acquisition of the Nexi Payments business line relating to the acquiring activities from customers of the former Venetian banks, it is noted that at the end of June 2020 the transfer to Nexi of the Intesa Sanpaolo acquiring business line was finalised, with the resulting elimination of the goodwill and specific intangible assets attributable to the line transferred to Nexi.

### *Brand name*

IFRS 3 considers the "brand name" a potential, marketing related intangible asset, which may be recorded in the Purchase Price Allocation (PPA) process.

For this purpose, please note that the term "brand" is used in accounting standards with an extensive meaning and not as a synonym of "logo" or "name". It is considered a general marketing term which defines a set of complementary intangible assets (in addition to the name and the logo, also the competencies, consumer trust, service quality, etc.) which concur to form brand equity.

With reference to acquisition of the Sanpaolo IMI Group, it was decided to limit the analysis to just two brands: the corporate brand Sanpaolo IMI, intended as an "umbrella" brand to which the brands of the other network banks were also related, and the brand of the subsidiary Banca Fideuram, as an autonomous brand widely recognised on the market for the placement of financial products through a network of financial advisors. Both are considered intangibles with indefinite useful life, since they are deemed to contribute indefinitely to the formation of income flows. Market methods and flow-based methods (and, thus, based on fundamental analyses) were used in the valuation of the two brands. Value was determined as the average of the values obtained using the various methods.

The amount recorded in the 2020 Financial Statements, to be subject to impairment testing, came to 1,882 million euro, of which 1,507 million euro was allocated to the Banca dei Territori CGU and 375 million euro to the Private Banking CGU.

Even if this is an intangible asset with no autonomous cash flows, and thus, is considered as part of the activities aimed at verifying the retention of the value of goodwill of the various CGUs, for the purposes of this impairment test it was considered that the impairment test of the value of goodwill of the Banca dei Territori CGU was negative, resulting in the full write down of the goodwill allocated. An autonomous test of the recoverability of the value of the brand name allocated to that CGU was thus conducted by an independent expert, Mauro Bini, Full Professor of Corporate Finance at Bocconi University. By applying various measurement models, Prof. Bini certified a fair value higher than the related carrying amount.

Lacking specific transactions on comparable banking brand names, the fair value was estimated using:

- Royalty Relief;
- the implicit value in estimating brands with comparable PPAs;
- the implicit value in the public estimates of brands provided by independent third parties (Brand Finance);
- Hirose.



*Royalty Relief Criterion*

The Royalty Relief criterion determines the value of the brand from the present value of income deriving from the brand, estimated as the product of a royalty rate reconstructed on the basis of implicit rates in comparable PPAs and the value of net turnover (operating income, for banks).

*The criterion of the implicit value in estimating brands with comparable PPAs*

The criterion of the implicit value in estimating brands with comparable PPAs determines the value of the brand based on the "Fair value of the brand/Operating income" multiples recorded on PPA and their fundamental drivers.

The multiple, calculated in relation to net operating income, is taken from the fair value of the brands recognised on PPA of commercial banks from the Markables database.

*Criterion of the implicit value in the public estimates of brands provided by independent third parties (Brand Finance)*

Brand Finance is a UK company specialising in valuing brands. Each year, Brand Finance publishes the updated estimated value of the brands of the top 500 global banks.

The valuation of brands carried out by Brand Finance is consistent with the relief from royalties criterion, widely used in valuation to estimate the value of brands. According to this criterion, the value of the brand corresponds to the current value of royalty flows saved. The royalty rates are determined based on the trademark license agreements of comparable companies and applied to the specific bank brand based on the strength of the brand estimated and discounted at an opportunity cost of capital in line with the assigned brand rating.

*Hirose Criterion*

This criterion is based on the comparison of the profitability of the branded company (in this case, the Banca dei Territori CGU) and unbranded competitor companies. The income-based method adopted is attributable to the profit-split criterion.

Based on the analyses conducted, all four methods used returned a value of the Intesa Sanpaolo brand for the Banca dei Territori CGU higher than the book value of that intangible asset, demonstrating the value of the Group's brand and the resulting competitive advantage it continues to provide the Group in relation to its competitors.

**Impairment testing of CGUs and goodwill***Introduction*

As mentioned above, under IAS 36, both intangible assets with an indefinite useful life and goodwill must be subjected to an impairment test to verify the recoverability of their value each year and whenever there is an indication of impairment.

As is known, following the rapid deterioration of global economic conditions caused by the COVID-19 epidemic, especially during the first part of the year, the outlook for the global financial markets was particularly negative and marked by extreme volatility. This was mainly due to the sharp drop in demand following temporary interruptions in production and expectations of a severe recession.

The epidemic and the related restrictions adopted by the various governments in an effort to contain its spread had a significant impact on the GDP of both the Eurozone and Italy in the first half of the year. More specifically, in the first part of 2020, global financial markets suffered sharp declines. However, there was a partial recovery starting from the end of March, thanks in part to measures taken by the ECB in terms of monetary policy and the extensive economic policies implemented by governments. These expansive measures, together with the gradual easing of the measures suspending businesses, led to a partial recovery in economic activity accompanied by easing of tensions in the financial markets. In fact, the sharp contraction in economic activity and international trade in April were followed by some signs of recovery the summer. After the return to sustained economic growth in the third quarter, which continued to be helped by the support policies implemented by governments, the European Union and the Eurosystem, the sharp rise in infections in the last months of 2020 brought back a situation of high uncertainty, which is affecting future growth prospects. The sudden progression of the second wave of the pandemic, prompted the whole of Europe to reimpose restrictive measures, with differing levels of constraints, and mainly aimed at avoiding general lockdowns by limiting the strictest measures to the areas most affected by the outbreaks, in order to allow economic and social activities to continue as far as possible. The fresh wave of the pandemic from October to December, particularly intense in the European Union and the United States, and the resulting tightening of the containment measures in many countries translated into a new slowdown in the global economy in the last quarter of 2020. Although the expectations regarding new vaccines give reason for cautious optimism, the outlook for the initial months of 2021 is still uncertain.

In general, the view of the supervisory authorities, which is shared by the Intesa Sanpaolo Group, is that, since the crisis is caused by a public health emergency and not by economic and financial factors like many others we have already experienced, the significant measures taken in most countries to contain the virus may lead to a gradual resumption of activities within the not so distant future. This means that there will be a considerable adverse impact on business in the short term, but we should already begin to see a reversal of this trend with a significant recovery in GDP from 2021. Accordingly, it therefore seems reasonable at this stage to assume that, although there may be a significant impact on the real economy in the short term, as soon as the health emergency is over, the measures to support the economy will bring about a significant recovery in production. This view is also confirmed by the latest estimates from the International Monetary Fund, which predict a fall in world GDP of 3.5% in 2020, followed by a recovery of 5.5% in 2021, from the ECB, which predicts a recovery in GDP in Europe of 3.9% in 2021, and from the Bank of Italy, which predicts a recovery of GDP in Italy of 3.5% in 2021. However, it is important to add that the expansionary measures and monetary policy approach of the ECB, which expects benchmark interest rates to remain at levels equal to or lower than the current ones until the outlooks for inflation soundly converge at a level sufficiently near to, but lower than, 2%, have further postponed the recovery in short-term interest rates, which are estimated at negative values up to 2024 and only moderately positive in 2025. Specifically, for the purpose of avoiding a pro-cyclical tightening of bank credit, the ECB expanded the securities purchasing programmes, including the launch of a specific temporary programme (PEPP, Pandemic Emergency Purchase Programme), and relaxed conditions on long-term refinancing



programmes, extending the range of assets eligible as collateral. Those solutions increased excess liquidity, resulting in an additional reduction in interest rates. The aspects mentioned above have a significant impact on the current and, above all, future profitability of banking activities.

This is the scenario that is also envisaged by the various Regulators who have expressed their views on the issue in a series of measures that aim, in general, to ensure that the impact of the current crisis is adequately analysed and to prevent issuers of financial instruments from limiting disclosure because of the uncertainty caused by the pandemic. Moreover, on 20 May 2020 the European Securities and Markets Authority (ESMA) published the document "Implications of the Covid-19 outbreak on the half-yearly financial reports" which dealt with the main implications of the COVID-19 pandemic, with specific reference to the information to be provided in the half-yearly reports of listed issuers. In October, ESMA also published its annual report, indicating the areas of particular importance for the 2020 annual reports to be published by listed companies, with the aim of promoting consistent application of the IFRS and other financial and non-financial disclosure requirements. Consistent with the scenario described above, ESMA finds that the pandemic has in fact introduced a high degree of uncertainty with regard to the knock-on effects on the economic and financial system, both at European and at international level. In this context, ESMA has consistently highlighted the need to continue providing the necessary level of transparency in financial communication. With specific reference to impairment testing intangible assets, ESMA deems that, in line with the provisions of IAS 36, the negative effect of the COVID-19 outbreak constitutes a strong basis to conclude that one or more of the impairment indicators in IAS 36 have been triggered. In carrying out the new calculation of the recoverable amount of the CGUs for the purposes of the 2020 Financial Statements, companies must carefully consider the effects of the pandemic and, in the current highly uncertain environment, the cash flow projections underlying the computation must be based on reasonable, supportable and realistic estimates, primarily external, to avoid the risk of overly optimistic or pessimistic biases. The discount rates used shall reflect current market assessments of the time value of money and the risks specific to the asset being tested and exclude risks and uncertainties that were already taken into account in the projected cash flows. ESMA also emphasised the importance of sensitivity analyses on the assumptions underlying the estimates made.

Consob, in turn, issued a specific document calling on issuers to provide updated information both on the risks associated with COVID-19, which may have an impact on operating results, financial position and cash flows, and on any measures taken or planned to mitigate such risks, together with an indication of the potential qualitative and/or quantitative impacts that were considered when estimating future company performance.

Lastly, it is noted that the Italian Valuation Body (*Organismo Italiano di Valutazione*, OIV) issued a guidance document in the form of a Discussion Paper for internal or external experts of the entities that must carry out impairment testing in compliance with the international financial reporting standards. The purpose of the paper is to reduce the divergences among the solutions adopted by experts to deal with the uncertainty caused by the crisis, favouring the convergence towards shared solutions in order to increase the reliability of the valuations made. The document takes the form of structured guidelines that provide a point of reference for estimating the recoverable amount of assets in a crisis scenario, offering several instructions to follow in building the valuation framework for the purpose of impairment tests, and presenting several solutions that can be adopted to handle the uncertainty in the valuations. The methodology adopted by Intesa Sanpaolo for the impairment test of goodwill and investments in associates and companies subject to joint control is in line with the guidelines set out in the OIV Discussion Paper.

Therefore, in light of that set out above, in line with the guidance provided by the main Supervisory Authorities, for the Financial Statements as at 31 December 2020, the effects of the COVID-19 pandemic were carefully considered in conducting the annual impairment testing of goodwill.

In particular, as regards the macroeconomic and banking scenario underlying the estimate of the expected cash flows, projections in line with market data were considered. More specifically, with regard to the GDP, for 2021 and 2022 the estimates are overall in line with the recovery rates processed by the international organisations mentioned above and, for the subsequent years, they were aligned with the average growth of the years preceding the start of the pandemic. With reference to interest rates, a scenario of negative short-term interest rates was priced in up to 2024, with a BTP/Bund spread greater than the current one for the period of the forecast. Subsequently, on completion of the provisional period, the long-term growth rate "g" relating to Italy (where all the goodwill recognised is indicated) was set as equal to the expected inflation rate and, therefore, equal to zero in real terms. The flows were discounted using rates higher than the current ones by over 175 bps.

In terms of the models used to estimate the Value in Use of the CGUs, no changes were made on that carried out in the previous years and in the Half-yearly Report as at 30 June 2020 and, considering the increased elements of uncertainty on the scenario, a second model (in alternative to the DCF – Discounted Cash Flow model), the DDM – Dividend Discounted Model, was enhanced.

Lastly, the enhancements applied in conducting the impairment test also include the verification of the autonomous recoverability of the value of the brand name.

#### *Definition of Cash Generating Units (CGUs)*

For impairment testing purposes, the estimation of the value in use relating to intangible assets with an indefinite life (including goodwill) that do not generate cash flows unless jointly with other business, as per IAS 36, requires the preliminary assignment of such intangible assets to relatively independent business units, able to generate cash flows strongly independent of those produced in other business areas, but interdependent within the business unit generating them.

In IAS/IFRS terminology, such business units are known as Cash Generating Units (CGUs). The meaning of the impairment test is significant for identification of the CGUs.

IAS 36 indicates the necessity to correlate the level at which the goodwill is tested with the level of internal reporting at which management controls the increases and decreases of such value. Definition of the level closely depends on the organisational models adopted and on the managerial responsibilities governing the operating guidelines and monitoring activity. Organisational models may ignore (and in the case of the Intesa Sanpaolo Group they do ignore) the network of legal entities through which operations are carried out, and are instead very often closely designed around the definition of business operating segments as envisaged by IFRS 8. Furthermore, the identification of CGUs for goodwill impairment test purposes is consistent with the definition of the recoverable amount of an asset - which is in itself the base for impairment

tests - according to which the relevant item is the amount that the company expects to recover from that asset, considering any synergies with other assets.

Therefore, in accordance with the criteria applied for the determination of the prices of the business combinations that gave rise to goodwill recognition, the recoverable amount for impairment testing purposes of the CGU to which goodwill is allocated must include not only the value of external (or universal) synergies but also the internal ones, the reason being that the specific acquirer may obtain additional value from the integration of activities obtained through business combinations, according to its business model.

The Intesa Sanpaolo Group's organisational model envisages that:

- management decisions be highly centralised at the level of the heads of the operational segments;
- strategies, identification of new products or services and commercial penetration initiatives be outlined and directed centrally for each operating division;
- planning processes and reporting systems be managed at the operational segment level;
- specialised transversal areas be defined to provide support and develop products benefiting many subsidiaries;
- the management of financial risks also be highly centralised in order to maintain, also as a result of regulatory provisions, a balance between the capital allocation policies and the financial risks in development of the various business lines;
- the divisions operate in homogeneous markets or sectors in terms of economic characteristics and development level.

As a result of this centralisation, income flows are highly dependent on the policies set up at the operational segment level, based on balanced development of the entire division and not of the individual operating areas or legal entities considered individually.

The operating divisions identified in the Intesa Sanpaolo Group are as follows:

- Banca dei Territori;
- IMI Corporate & Investment Banking;
- Insurance;
- Asset Management;
- Private Banking;
- International Subsidiary Banks.

For the foregoing reasons, the operating divisions cited above correspond, in general terms, to the Group's CGUs, while also representing the core business areas considered for segment reporting. These divisions are considered representative of cash generating units since each constitutes the smallest group of assets generating independent incoming cash flows and, as mentioned above, also the minimum level set by the Parent Company Intesa Sanpaolo for planning and reporting processes. Therefore, this is the minimum level to which goodwill may be allocated and monitored according to non-arbitrary criteria.

It is also noted that, even if, for the purpose of reporting in the 2020 Financial Statements, at operating segment level pursuant to IFRS 8 a specific segment represented by the UBI Group was identified, for the purpose of identifying the CGUs for the impairment test of goodwill as at 31 December 2020 the contributions of the UBI Group were allocated to the single Group Divisions, both in terms of the balance sheet and future cash flows. That approach, in line with the choices made in drawing up the 2021 Budget, was adopted for this impairment test, as the identification of the "UBI Group" operating segment is provisional, and considering its carrying amount in the balance sheet and the lack of goodwill allocated (as known, the acquisition of the UBI Group entailed the recognition of badwill), its classification as a separate CGU would have given rise to a misleading representation of the results of the impairment test, inconsistent with the expected dynamics of the Group Divisions in terms of prospective profitability in relation to equity and the work done to prepare the 2021 Budget and projections for the subsequent years of the Intesa Sanpaolo Group, in which the contribution of the UBI Group has been allocated to the single Divisions.

The International Subsidiary Banks Division needs specific comments, given the particular structure and conditions under which it operates.

It should firstly be mentioned that the cash flows of the various Group companies forming this business unit are strictly dependent upon policies formulated by the Division Governance Centres and Head Office Departments of the Parent Company. These policies are defined and implemented in compliance with a management plan designed to develop the entire Division in an organised manner, and not focusing only on the individual companies' strategies. Specifically, the expansion strategies for the various operating units, the identification and development of new credit, savings and service products, limits to the assumption of financial risk, commercial penetration and operations specialisation initiatives are outlined and steered at central level, following a portfolio strategy, and not devolved to the individual subsidiaries. Therefore, there is strong interaction of the flows that, at the same time, requires both single and integrated governance of all companies in the Division, and the central monitoring and control of operations of the overall business activities of the Division.

However, it is important to consider that not all factors affecting the correlation and interdependence of cash flows within the Division can be controlled by the Division's Head Office Departments.

In fact, there are circumstances outside the Group that could have varying levels of impact on the capacity to systematically manage CGU flows and control over their generation. These are circumstances largely determined in the wider sense by the conditions of the environment in which the various entities are located.

Indeed, for Banks operating abroad, the effects of country risk must be considered: i.e. the risk linked to economic, political and institutional events in the country in which the subsidiary and its business activities are based.

In view of the above, if the cash flows that the Parent Company expects from activities generated by a foreign subsidiary are deeply influenced - in terms of extent, quality and trends - by institutional, economic and political circumstances in the country in which the subsidiary is based, this subsidiary cannot be considered an integral part of the single management model for the CGU which it belongs to. The company in such a situation must, therefore, even if only temporarily, be excluded from the CGU, regardless of the Group Management's willingness to keep it within the CGU, due to the above-mentioned factors over which the Bank and Group's management clearly have no influence. The flows of the company, in fact, would be influenced to a greater extent by the country's conditions than by the unitary and centralised management policy adopted by the Division and, therefore, for impairment testing purposes, the company must be subjected to independent valuation until the conditions for the systemic central control of cash flows of the subsidiary are restored.

With regard to the Ukrainian Pravex Bank, for the purposes of the 2008 impairment testing, careful consideration of the economic and institutional events unfolding in Ukraine, which was undergoing a deep economic and currency crisis, and prudent assessment of their impact on the operational variables of the subsidiary in question, especially from the point of view of their interdependence on variables of the entire CGU, resulted in classification of this company as a completely separate CGU, treating it separately from the Group's International Subsidiary Banks Division. Subsequently, Pravex Bank was functionally allocated to Capital Light Bank (now the NPE Head Office Department), to then be moved back to the International Subsidiary Banks Division in 2018.

With regard to the subsidiary Bank of Alexandria, for the purposes of the 2011 impairment testing the bank was separated from the International Subsidiary Banks CGU due to a profound political crisis in Egypt.

For the purposes of the 2020 impairment testing, as no significant elements arose that cast doubt on the decision made for the previous financial statements, it was deemed appropriate to maintain the decisions made with respect to the previous financial statements, and thus to consider Pravex Bank and Bank of Alexandria as autonomous, distinct CGUs in conducting the impairment test for the consolidated financial statements. However, it bears recalling that the goodwill associated with Pravex Bank and Bank of Alexandria were fully written down in conjunction with the impairment tests for the 2008 and 2011 financial statements, respectively, and there is no goodwill even relating to the other International Subsidiary Banks of the Division.

In Pravex Bank's and Bank of Alexandria's cases, the separate assessment of the banks for impairment testing purposes does not affect the Group's intention to support the development of the subsidiaries.

Lastly, it is noted that, as at 31 December 2020, the Autostrade Lombarde CGU is no longer included, as the company was sold in October 2020 at a price higher than the book value including goodwill.

As previously mentioned, the International Subsidiary Banks and Bank of Alexandria and Pravex Bank CGUs, as of the date of the test, did not possess intangible assets with an indefinite life and, as a result, were not subject to an impairment test.

#### *Book value of the CGUs*

The book value of the CGUs must be determined in a manner consistent with the criterion used to estimate their recoverable amount. For a banking business, the cash flows generated by a CGU cannot be identified without considering the cash flows deriving from financial assets/liabilities, as these represent the core business. In other words, the recoverable amount of the CGUs is influenced by the aforementioned cash flows and therefore the CGUs' book value must include financial assets/liabilities in accordance with the scope of the recoverable amount estimate process.

Consequently, these assets and liabilities must be properly allocated to the associated CGUs.

On this basis (so-called "equity side"), the book value of Intesa Sanpaolo's CGUs may be determined in terms of contribution to consolidated shareholders' equity including the minority interest.

Accordingly, the carrying amount of the CGUs composed of companies belonging to a single operating division was determined by summing up the individual contributions to the balance sheet.

However, where the Parent Company or other Group companies contribute to multiple CGUs from a management standpoint, and this division is not represented in accounting information, management values must be used. In this specific case, the management driver was identified as each division's "regulatory capital", which represents the capital absorption necessary to handle the types of risk envisaged by the regulatory supervision rules.

It is specified that the contribution of the carrying amount of the UBI Group which, as previously mentioned, was identified as an autonomous operating segment as at 31 December 2020 pursuant to IFRS 8, was allocated to the Group's CGUs in line with the representation adopted for the purposes of the 2021 Budget and the future cash flows, and with the integration through which the UBI Group will be incorporated into the Divisions of the Intesa Sanpaolo Group during 2021.

The table below provides the book values of the CGUs and the goodwill and brand name allocations to each. The values, determined for impairment testing purposes, include the portion of goodwill attributable to minority interests (included in the last column with minority interests).

(millions of euro)

Values	Value as at 31.12.2020			
	Book value	of which goodwill Group share	of which brand name	of which minority interests
<b>CGU</b>				
Banca dei Territori	22,305	981	1,507	58
IMI Corporate & Investment Banking	23,232	56	-	69
Insurance	7,228	773	-	1
Asset Management	2,612	1,059	-	95
Private Banking	4,693	1,266	375	-
International Subsidiary Banks	6,397	-	-	91
Bank of Alexandria (Egypt)	684	-	-	137
Pravex Bank (Ukraine)	49	-	-	-
<b>TOTAL</b>	<b>67,200</b>	<b>4,135</b>	<b>1,882</b>	<b>451</b>
Non-current assets held for sale and discontinued operations (*)	45	45	-	-
<b>GROUP TOTAL</b>	<b>67,245</b>	<b>4,180</b>	<b>1,882</b>	<b>451</b>

(\*) As at 31 December 2020 the goodwill attributable to the Custodian Bank and Fund Administration business line of FLB (Private Banking CGU) to be sold during 2021 and the 31 branches to be sold to BPER in compliance with the instructions from the competent authorities following the acquisition of UBI Banca was reclassified to discontinued operations.

#### Criteria for estimates of CGUs' value in use

The value in use of CGUs is determined by estimating the present value of future cash flows that may be expected to be generated by the CGUs. These cash flows are normally estimated by using the latest publicly available business plan or, in its absence, through the drawing up by management of an internal forecast plan. The forecasting period for the analysis usually consists of a maximum of five years. The cash flow of the final year of the forecast is projected in perpetuity (through the use of perpetual return formulae, or, alternatively, temporary return formulae, if it is not realistic to expect the assets subject to measurement to generate positive cash flows over the long term), using an appropriate growth rate "g" for the purposes of the so-called "Terminal Value." The "g" rate is determined by assuming as growth factor the rate of increase in the gross domestic product of the countries in which the cash flows are generated.

Alternatively, the Terminal Value could be determined on the basis of a final sale or liquidation value. For the determination of the value in use, the cash flows must be discounted at a rate that reflects the present valuations of the time value of money and the asset's specific risks. Specifically, the discount rates to be used must incorporate the present market values with reference to the risk-free component and the risk premium associated with the equity component observed over a sufficiently long time period to reflect different market conditions and economic cycles.

In addition, given the diverse risks of the respective operating areas, different Beta coefficients must be used for each CGU. All the resulting rates have been adjusted to take into account the "Country Risk".

Exceptions to the approach based on the Value in Use regard the goodwill recognised on the business line relating to the Custodian Bank and Fund Administration activities, held for sale, and the going concern associated with the 31 branches of Intesa Sanpaolo to be sold to BPER in 2021. It is noted that in the 2020 Financial Statement, that goodwill was reclassified to the specific balance sheet caption "Non-current Assets Held for Sale and Discontinued Operations", as per the provisions of IFRS 5. Assets classified based on IFRS 5 are excluded from the scope of application of IAS 36. As a result, the goodwill relating to the Custodian Bank and Fund Administration business line, which showed no signs of impairment at the moment prior to its classification as discontinued operations, as it is significantly lower than the fair values recognised on defining the sale price, was reclassified to discontinued operations and, in line with the provisions of IFRS 5, valued at the lower of the cost and the fair value less costs to sell.

The goodwill inherent in the going concern composed of the branches of Intesa Sanpaolo to be sold to BPER was included among the balance sheet assets considered in determining the capital loss on disposal already recorded in the 2020 Financial Statements, taking account of the indications of IFRS 5 which states that a discontinued operation must be recognised at the lower of the carrying amount and the fair value net of costs to sell.

#### Cash flow estimates

Also with regard to calculation of the value in use of CGUs for impairment testing purposes for the 2020 financial statements, the volatility of financial markets and the uncertainties regarding the future macroeconomic environment make the definition of near-term future cash flows from operating activities and the identification of growth rates in order to calculate the Terminal value of CGUs particularly complex.

The medium-term forecasting scenario of reference has been drawn up by the Intesa Sanpaolo Research Department taking account of the forecasts of the main Italian and international organisations and institutions.

In particular, the forecasts for the period 2021-2025 are based on a reference scenario for the global economy that continues to be significantly influenced by the effects of the COVID-19 pandemic. As detailed below, this scenario is, on the whole, only marginally different from the 2021-2023 scenario outlined by the ECB and the Bank of Italy and used for credit assessment purposes as suggested by the above-mentioned Authorities, and shows very low growth rates for the subsequent years.

The reference scenario assumes that the winter wave of infections will stop the economic activity in Europe in the first half of the year and that, instead, the effects in Asia and the Americas will be limited. Subsequently, a recovery would take shape, initially connected with the easing of the restrictions, then expanding. The volatility of advanced economies would decrease



due to the greater resilience guaranteed by the progress of the vaccination campaigns launched at the end of December 2020.

In 2021 the global GDP is expected to rebound by 5.1% after falling by around -4.2% in 2020, while international trade, which has returned to the pre-crisis levels in November 2020, could grow by 12.4% at current prices, after -9.4% in 2020. The baseline scenario projects a global recovery driven by Asia in 2021. From a sector perspective, the rebound is sharper for services than manufacturing, which was more resilient, especially during the second wave of the pandemic. The easing of restrictions and the decline in infections could lead to a quick end of compulsory savings, towards increased demand for services (tourism, travel, food services and entertainment) as well as for purchases of durable and semi-durable consumer goods.

In the United States, GDP is expected to grow by 4.2% in 2021, and by 2.7% in 2022, following a decrease of -3.5% in 2020. The Federal Reserve is expected to keep official rates unchanged until the end of 2023, while in 2021 the asset purchasing programmes are expected to counteract the upward pressure that a sharp rise in debt issuance could otherwise exert on medium/long-term rates. Nonetheless, the improvement in economic outlook still results in a modest increase in the slope of the yield curve, also because the purchasing programmes will be decreased as the post-pandemic recovery continues.

In the Eurozone, the economic impact of the pandemic was harsher than in the United States, also during the second wave. However, in the second wave, more selective containment measures were adopted, which had a smaller impact on economic activity than during the first wave in the spring. Moreover, the recovery in global trade supported manufacturing activities, partially offsetting the weakness of internal demand. In terms of annual averages, the GDP dropped by -6.6% in 2020, with a new decrease in the autumn quarter, due to the health restrictions introduced at varying times in all countries. In 2021 a rebound of 4.1% is expected, followed by another year of robust growth in 2022. Also in Europe, the recovery is supported by extensive fiscal stimulus, though less than in the United States, which mitigated the impact of the crisis on household disposable income: the aggregate deficit of the area is estimated at 8.4% of the GDP in 2020, and should fall to 6.2% in 2021, especially due to the improvement in the cyclical component and the reabsorption of the emergency support measures. Monetary policies will continue to play a role in supporting the economic cycle. Growth should remain above potential even in 2022 as a result of the fiscal stimulus decided by European governments in recent months and the possible impact of the NGEU (Next Generation EU) recovery plan that will be launched by the European Union in the coming months. The scenario adopts the assumption that the peak in NGEU disbursements will occur in 2023, with a differential contribution to the growth in aggregate demand that is higher in 2022 and in 2023. In the Eurozone, GDP will return to pre-crisis levels only in the second half of 2022. This is due to the persistent decline in demand for travel and tourism, lower foreign demand, the adverse effects on income of households as a result of fewer hours worked and self-employed workers' income, and the increased likelihood of business defaults. The unemployment rate is expected to peak in the first half of 2021 at 8.7%, to then decrease once again in the second half. However, the peak will be higher than the minimum reached in the first quarter of 2020. The profile assumed for GDP growth deviates little from the central forecast published by the staff of the ECB in December 2020, following the closing of this scenario: in particular, the ECB forecasts slightly lower growth in 2021 (3.9%) but higher in 2022 (4.2%) and in 2023 (2.1%). Compared to December's consensus, the scenario shown here is more conservative up to and including 2024.

Inflation, decreasing in 2020 as a result of the temporary collapse in oil prices during the first wave of the pandemic and Germany's temporary cut of VAT, will return to growth in 2021 due to the elimination of those transitional factors. Nonetheless, the levels remain similar to those prior to the pandemic crisis, and thus, compatible with continuing with the phase of accommodating monetary policy.

For Italy, the baseline scenario forecasts a GDP rebound of 4.7% y/y in 2021, following the drop of -8.9% in 2020. GDP growth remains above potential in 2022 (2.4%) and in 2023 (1.4%), in the assumption that aggregate demand remains supported by the flows connected with the NGEU programme. As the recovery strengthens, fiscal policy should go back to focusing on debt reduction with short-term negative effects on demand. However, these could be mitigated by the launch of the EU recovery plan, which could contribute increasing resources up to 2023. GDP will return to its pre-crisis level only from 2024 onwards. The longer-term projections (0.6%) remain anchored to a conservative estimate of potential growth. As a result, the unemployment rate will peak during 2021 and then fall, but will remain well above the lows before the pandemic (and even more so at the anomalous level recorded in the second quarter of 2020, which was distorted by a large shift of workers into the pool of inactive people). A decrease in real estate prices is assumed in 2021 (partly as a correction of an anomalous increase recorded by ISTAT during the pandemic crisis), followed by a subsequent moderate recovery.

Note that the cost of credit for the purposes of the 2021 Budget was estimated assuming real GDP growth for Italy of 3.5%, in line with the macroeconomic forecasts provided by the Bank of Italy, which follow those provided by the ECB for the Eurozone on 10 December 2020, considering the ECB's indications that "[...] *significant institutions are recommended to continue anchoring their IFRS 9 baseline scenarios using the ECB's forecasts in an unbiased manner*".

Growth projections for the Italian economy are generally lower than the consensus estimates published in the same period over the 2021-25 time horizon. In the short term, the projection for 2021 is higher than that published by the Bank of Italy in December 2020 (3.5%) and that of the European Commission (4.1%), while the projection for 2022 is much lower than that of the Bank of Italy (3.8%). In effect, should downside risks connected with the pandemic crisis take shape in the first quarter of 2021, this would lead to a reduction in the 2021 estimate, but an increase in that for 2022.

The baseline scenario assumes that no new peaks in political instability will occur in the forecast horizon, or that their effects on risk premiums will be offset by the net purchases of the Eurosystem and the reduction of the portion of debt held by other sectors. The performance of government debt, however, has an adverse impact on the risk premium: the baseline scenario implies that the debt-to-GDP ratio will be 162% at the end of 2021 and will not decrease significantly in the following years. However, considering the enhanced safeguards, it is assumed that 2021 refinancing will be carried out without increases in the BTP-Bund spread and that subsequently there will be a partial, gradual convergence toward the historic average.

The European Central Bank has stated that it intends to keep official rates at levels no higher than the current levels until the forecast inflation has clearly neared the target level, and provided that the forecasts are also confirmed by a consistent trend in the underlying inflation. Moreover, it cannot be ruled out that the ECB may demonstrate greater tolerance in relation to a period of inflation higher than the target, to offset the long phase of low inflation observed over recent years. In conclusion, the scenario does not include changes in official rates, either upward or downward, over the next three years. Subsequently, it is assumed that interest rates will gradually move towards positive ground.

Forecasts for short-term interest rates remain stable until mid-2023, with 3-month Euribor rates just below -0.5%. The projection profile has been lowered over the entire horizon, as a result of the relatively protracted impact of the pandemic crisis on the levels of economic activity and, thus, on the time needed for inflation to return to moving towards the target of the European Central Bank. The exceptionally high level of surplus reserves, which were further expanded by the launch of the new temporary purchase programme named PEPP (Pandemic Emergency Purchase Programme), and which is expected to continue over much of the forecast horizon due to the policy of reinvesting maturing principal payments, will tend to keep very short-term rates close to the ECB overnight deposit rate for a longer period compared to past assumptions.

The level of quarterly interest rates in the baseline scenario is lower than the consensus estimates over the entire horizon of the forecast. Up to mid-2023, the projections deviate slightly from the implicit rates in futures, whose curve flattened further during the pandemic crisis, but should rise afterwards. The positive spread between long-term projections and consensus, on one hand, and implicit rates in futures on the other, is explained by the fact that the projection implicitly assumes a partial process of normalisation (albeit at lower levels than in the pre-crisis period).

Estimates for the medium and long-term interest rate curve have been lowered further over the forecast horizon. Five-year swap rates will rise back above zero only starting in 2024, while ten-year swap rates should turn positive again in 2022. The interest rate curve will get steeper starting in 2021, as a reflection of the international economic recovery and the return of inflation to pre-crisis levels in a scenario where very short-term interest rates remain blocked by the forward guidance of the Central Bank. From 2022, the decrease in the net purchases of the ECB will also begin to have an impact.

The pandemic and the subsequent policy measures have had a significant impact on the bank credit market. Unlike other crises, there has not been a supply shock, thanks to the ECB's measures (APP – Asset Purchase Programme, PEPP and TLTRO III) to support liquidity and longer-term funding, the moratoria and publicly guaranteed loans, as well as initiatives by supervisory and regulatory authorities to enable banks to support credit and deal with the risks associated with the crisis. Due to the extension of the duration of the ECB measures and the persistence of very low interest rates over a long term, supply conditions remain favourable overall over the entire time horizon of the scenario, despite increased prudence on the part of banks in response to perceived risks and the foreseeable deterioration in credit quality, temporarily mitigated by the support policies put in place.

The demand shock had contrasting effects, negative for loans to households, which slowed down significantly from March, and positive for loans to businesses, whose trend reversed, to climb back up again. Loans to businesses are buoyed by liquidity needs and exceptional credit support measures through public guarantees. The result has been an enormous volume of applications for loans with public guarantees and increasing disbursements. The moratoria also contributed to the stock of loans. After an initial and temporary rebound in short-term loans, due to immediate liquidity needs, the gradual implementation of public guarantee transactions translated into a double-digit trend in medium/long-term loans, which will partly continue in 2021.

The worsening of credit risk and the expected emergence of non-performing exposures will affect lending in 2021. For loans to businesses, after the large volumes disbursed in 2020, a sharp slowdown in momentum is expected, especially as government liquidity and credit support measures are phased out.

From 2022 onwards, growth will be moderate and more consistent with the trend in GDP. The increase in indebtedness that occurred in 2020 and partly also in 2021, will have to be countered in subsequent years with measures to strengthen the capital structure along with a return to funding from market sources, limiting the use of bank credit.

The outlook for mortgages is influenced by the residential real estate sector scenario, which weakened in 2020 and saw a deterioration in both short-term and medium-to-long-term forecasts. More generally, the performance of household lending is being affected by the reduction in disposable income, the fragile employment situation, together with uncertainty and the resulting precautionary savings, which are holding back spending decisions. Therefore, it is deemed that the trend in loans to households will continue to be lacklustre also in 2021, at least for the first half of the year. On the other hand, interest rates are still very low and the supply from banks has not been particularly restricted for lending to households.

A recovery in household lending is expected at a moderate pace in the years thereafter, thanks to negative key interest rates until 2024 and very low rates in 2025. Moreover, mortgage growth will be aided by a gradual rise in house prices from 2022, while the relaxed tone in the supply of bank credit to households will continue over the coming years.

In contrast to loans, for customer deposits the effects of the pandemic strengthened the trends underway prior to the onset of the crisis. In particular, current accounts, which had already been very lively for several years, gained even more momentum, growing by more than 10% y/y. The strong performance of the on-demand component led to a significant increase in overall deposits and customer deposits, despite the sharp decline in the bond component.

Growth in deposits in this phase was driven by several factors: on the one hand, the climate of uncertainty and risk aversion, which resulted in a strong preference for liquidity, combined with lower consumption levels and higher propensity to save. On the other hand, balances on company accounts were partly fuelled by the increase in bank debts resulting from access to temporary liquidity and credit support measures.

For the above reasons, the robust trend in current accounts is expected to continue in 2021. Even after the unprecedented economic and social scenario caused by the pandemic has passed, in the years following 2021 conditions will remain favourable to growth in current accounts, given the very low or negative market yields, abundant liquidity, which will still be ensured by the ECB for an extensive period, and the likelihood that the climate of uncertainty will persist. However, the pace will be much more moderate than in 2020 and gradually decelerating. Overall, deposits are expected to grow over the entire forecast period.

Bonds fell sharply from March 2020 onwards due to the reduced need for medium/long-term funding linked to the substantial liquidity made available by the ECB. Growth in bonds will not return until 2022, but will be modest over the entire scenario horizon. Favourable financial conditions may return to support issues on the wholesale market, fuelled by the placement of eligible instruments that meet the requirements of loss absorption, in a scenario of modest growth in medium/long-term loans. Customer deposits will record moderate growth on the whole.

With negative key interest rates until 2024 and favourable conditions for accessing credit, interest rates on loans will remain very low in 2021 and in the following years. The policy measures implemented to support liquidity and lending help to keep lending rates down despite the increase in credit risk. A modest rise in lending rates will follow the rise in monetary and policy interest rates assumed in the two-year period 2024-25.



The large inflow to current accounts and the substantial contribution of the LTRO III, both in terms of negative rates and large volumes, will reduce the cost of funding in 2021 and the following years. Current account rates are expected to remain at record lows, with some possible slight haircuts, but without any fall in negative territory. Based on the approach taken for monetary and policy rates, a small rise in interest rates on deposits should be visible only in 2024.

The spread between lending and funding rates is expected to narrow slightly in 2021 compared to the 2020 average, and remain essentially unchanged in 2022-23. The renewed growth of lending rates, along with the slower pace of adjustments to borrowing rates, will allow for a slight widening of the spread only in the period from 2024-25. Nonetheless, unit profitability of dealing will remain very low over the entire horizon.

Like in the previous eight years, in 2020 the mark-down on on-demand deposits was in negative territory, where it is expected to remain over the entire horizon of the scenario, to near zero only in 2025, given the very low Euribor rates.

The mark-up on short-term interest rates is expected to fall slightly in 2021 compared to the 2020 average, partly due to the overhang of that which occurred in the second half of 2020. This will be followed by substantial stabilisation in the following two-year period 2022-23. A modest reduction in the mark-up will take place in 2024-25 when market rates should start rising.

In 2020, assets under management were stable. Portfolio management schemes also proved to be very resilient. Life insurance, on the other hand, saw a fall in new business compared to 2019, which was particularly sharp for traditional policies and smaller for unit-linked policies overall.

For 2021, net positive inflows are expected, higher than the previous year, both for mutual funds and portfolio management schemes. Favourable performance of stock market indices is expected to support that growth.

For the life insurance sector, in 2021 a significant recovery in overall new business is expected. More specifically, the likelihood of an internal shift is confirmed, with much greater premium growth from unit-linked policies than traditional policies.

The persistent framework of low interest rates will continue to favour the asset management and life insurance businesses even for the years following, from 2022 to 2025. Inflows of investments to these segments may be fuelled by the stock of significant capital inflows to bank deposits in past years and in 2020. Based on these factors that characterise the medium-term scenario, the strategy of diversifying revenues implemented by banks in response to the erosion of the profitability of traditional dealing due to the low level of interest rates should continue.

The table below illustrates the macroeconomic variables expected in the period 2021-2025, only for Italy, as no goodwill was recognised for the CGUs operating in foreign countries.

Italy	2020	(values as a percentage)				
		2021	2022	2023	2024	2025
<b>REAL ECONOMY</b>						
Real GDP Italy	-8.9	4.7	2.4	1.4	1.0	0.6
Consumer prices Italy	-0.1	0.2	1.1	1.3	1.5	1.5
Period-end ECB rate	0.00	0.00	0.00	0.00	0.25	0.50
3-month Euribor rate	-0.42	-0.53	-0.52	-0.44	-0.09	0.24
10-year IRS	-0.1	-0.1	0.1	0.3	0.8	1.0
10-year BTP	1.12	0.82	1.10	1.43	1.99	2.34
Spread vs. Bund (basis points)	161	122	123	129	137	147
<b>BANKING SECTOR</b>						
Loans	1.4	3.6	1.3	1.8	2.0	2.1
Direct customer deposits	5.6	3.9	2.5	2.6	2.5	2.4
Loan rate	2.36	2.24	2.24	2.27	2.47	2.66
Funding rate	0.55	0.50	0.49	0.51	0.61	0.71
Average customer spread	1.81	1.74	1.76	1.77	1.86	1.95
Mutual funds	2.2	4.3	3.9	3.5	3.7	3.4
Portfolio management	3.3	3.1	2.6	2.4	2.6	2.3
Life technical reserves	2.9	4.0	3.7	3.7	3.7	3.7

Compared to the forecast drawn up for the last impairment test conducted, referring to the Half-yearly Report as at 30 June 2020, the expansionary measures and monetary policy approach of the ECB have further postponed the recovery in short-term interest rates, which are now estimated at negative values up to 2024 and only moderately positive in 2025. As at 30 June 2020, conversely, the 3-month Euribor was estimated at positive values right from 2024, with a growth trend impacting also 2025; Specifically, the 3-month Euribor forecast up to 2025 by the macroeconomic projections considered as at 30 June 2020 came to 78 bps, compared to a figure of 24 bps from the reference scenario updated as at 31 December 2020. The forecasts regarding changes in the 3-month Euribor are consistent with those referring to the ECB benchmark rate, for which the scenario in June 2020 projected an increase of 0.25 bps starting in 2023, with a value of 1.25 by 2025, while the scenario updated to December 2020 forecasts an increase of 0.25 bps only in 2024 and a value of 0.50 by 2025. Those estimates also reflect the forecasts of the 10-year BTP yield, estimated at over 360 bps in 2025 in the scenario of June 2020 and now revised downwards to around 100 bps in 2025 in the scenario updated to December 2020. With regard to the other macroeconomic variables, it is noted that for the GDP, both for Italy and the Eurozone, the updated estimates at December 2020 compared to those of June were revised downwards for 2021, while for the following years they forecast more significant growth, to then align by 2025, the last year of the analytical forecasting.

With respect to the forecasts made in the impairment tests for the 2019 financial statements, on one hand, the final figures for 2020 were impacted by the effects on the real economy produced by the lockdowns and the public support measures in response to the pandemic, which resulted in a very sharp fall in GDP and a significantly higher than estimated growth rate for

the bank deposit and loan aggregates, whereas, on the other hand, the forecast figures were confirmed for the financial component of the rates.

With regard to the outlook, and in particular at the end of the projection period, the current forecasts confirm the repositioning of GDP to 0.6% at the end of the period, considered a structural growth rate for Italy, with consequent growth rates for deposits and loans of just over 2%. In contrast, for interest rates the new estimate for the 3-month Euribor for 2024 gives a conservative value that is still negative (as opposed to the positive value estimated last year) with a consequent average banking spread down by around 30 bps and only returning to positive territory in the second half of 2025, with an estimated positive impact on the spread prudently limited to 10 bps. Long-term interest rates are also now conservatively expected to be significantly lower in 2024 (10-year IRS down from 1.6% last year to the current 0.8%) and slightly higher in 2025.

The various CGUs' expected cash flows were subject to impairment testing, taking account of the macroeconomic scenario described above, and were estimated by following a two-stage assessment process.

In this case, future estimates made internally for the period 2021-2025 have been used, which take into account the budget data for 2021, whereas the future cash flows for the following years have been determined through inertial tracking of the cash flows for 2021, and therefore without considering the effect of new managerial initiatives, based on the forecasts relating to the macroeconomic scenario produced by the Research Department for the period 2021-2025. The future cash flows also take into account the estimated synergies from the integration of the UBI Group. Estimated cash flows envisage a gradual recovery in consolidated operating income also in relation to revenue synergies deriving from the aggregation of the UBI Group. Revenues are expected to grow, supported by the positive contribution of all Business Divisions and accompanied by a decrease in the cost of risk. In particular, the trend in operating income will see a recovery in fees and commissions due to the increase in assets under management and the recovery of commercial banking activity, an initially moderate, then more sustained growth trend in net interest income and the growing positive contribution of the insurance business. In terms of operating costs, the Group expects to achieve a reduction in the total balance, especially due to the continuation of cost containment actions, the significant synergies deriving from the streamlining of ongoing and project charges and the savings on personnel expenses as a result of the net exits agreed.

The net income projected for the forecast years until 2025 has been adjusted, in accordance with IAS 36, to consider non-monetary components and the minority-interest share of net income. It also excludes the effects of any reorganisation and restructuring transactions, except for the effects of the actions already considered in the 2018-2021 Business Plan, and the capital gains on future sales of company assets. In addition, cash flows include those allocated to the various CGUs deriving from central corporate assets. In accordance with the equity-side approach mentioned above in relation to the determination of the carrying values of CGUs, the cash flows used for impairment testing include the flows correlated with financial assets and liabilities, given that these represent the company's core business.

Among various financial valuation techniques, such as that used for determining the value in use, the value of a company at the end of the flow forecast period, the so-called terminal value, is normally determined by infinite compounding, at an appropriate "g" rate, of the cash flow achievable "at full capacity". This rate, even if subject to time variations, may be assumed to be constant or decreasing (or increasing in rarer circumstances).

As an alternative to the terminal value estimation methodology, doctrine also envisages (i) the exit multiple approach and (ii) the approach based on an estimation of the liquidation value of the company. Specifically, with regard to approach (i) it should be mentioned that an exit multiple estimate has complex (and potentially subjective) elements that become even more marked at times of market uncertainty and volatility such as now. Approach (ii) is valid only for companies due to be wound up on termination of the forecasting period, and therefore not applicable with a view to a business as a going concern.

In the decisions to be taken with regard to the criteria for extrapolating cash flows beyond the forecasting period, account must be taken of the market context in which the prospective scenario is being determined.

As regards the impairment test as at 31 December 2020, 2025 - the last year of the analytical forecast, separating out the main non-recurring components - was projected in perpetuity, based on the growth factors described below, for the purposes of the terminal value.

In line with the impairment tests of the previous years, the "g" rate was determined as the average growth rate of Italy's nominal GDP, observed and forecast in the 2008-2025 period (it should be noted that, in consideration of the impairment made in the previous financial statements, no goodwill is allocated to the International Subsidiary Banks, Bank of Alexandria and Pravex Bank CGUs; consequently, it is not necessary to calculate the "g" rate for the purpose of the goodwill test for the foreign countries where the Group operates). Nominal GDP is the sum of the real GDP growth rate and the inflation rate. Expected real GDP and inflation figures used to calculate the "g" rate were drawn from the forecasts prepared by the Intesa Sanpaolo Research Department described above. Each component has been calculated as the average for the period 2008-2025.

The decision made in terms of observation period for the growth rates, considering the current particular macroeconomic situation, calls for specific consideration.

Real GDP dynamics in recent years were negative or only marginally positive due to the economic-financial crisis. A turnaround in the macroeconomic crisis has been underway since 2015 with a recovery, albeit a rather weak one, in growth. This growth, with the exception of 2020 which was greatly affected by the COVID-19 health emergency, has been confirmed by the latest update of the macroeconomic forecasts provided by the Research Department.

In order to take into account both crisis periods of the last decade and the expected effects of the pandemic, including the prospects of an economic recovery beginning in 2021, the growth rate for estimating terminal value was calculated as the average GDP rates for the 2008-2025 period, inasmuch as this period was deemed sufficiently extensive to include, and thus average, a period of severe crisis and a prospective period of a return to a scenario of (moderate) economic growth, while still taking into account the impact of the public health crisis in 2020. In short, the reference period is characterised by logics of prudence since it considers, on the one side, the financial crisis beginning in 2008 and, on the other, the effects of the COVID-19 pandemic and the expectation of economic growth until 2025. Please note that Italy presents a negative value for its average real growth rate for the period 2008-2025. The forecasting estimates for the next few years show moderate growth in real terms, leading to slightly negative average growth for the period 2008-2025.

Since the "g" rate is used to determine terminal value, it was considered realistic and rational not to assume negative real growth to be projected infinitely. Accordingly, for calculation purposes, real average growth was assumed to be zero and the "g" rate thus corresponded with the average increase in inflation for the period 2008-2025. That choice also seems consistent

with the distribution, for the period considered, of the data on the real GDP, which shows a significant majority of positive findings as compared to negative ones which, however, in absolute terms, tend to prevail in the average figure. Furthermore, with a prudential approach, it was checked that the “g” rate was not higher than Italy’s GDP growth rate in 2025 or, for each CGU, the growth rate of the last year of analytical forecasting.

#### *Cash flow discounting rates*

For the determination of the value in use, the cash flows must be discounted at a rate that reflects the present market valuations, the time value of money and the asset’s specific risks.

In practice, the first characteristic (current market conditions) translates into the calculation of all parameters based on the latest available information as at the reference date of the estimate, so as to best take into account the current market assessments. The second characteristic (consistency between risks/flows and rates) must follow the specificity of flows used for impairment testing of the CGUs. This rate (in its various components) must therefore be decided by observing the specific nature of flows used to assess each CGU, in order to maintain coherence and consistency with the flows. Specifically, consistency becomes important with regard to inflation, country risk and other risk factors that, according to IAS 36, may be expressed in the flows or rate. It is important to point out that a characteristic common to all CGUs recording goodwill (and, in general, intangibles with an indefinite life) is the long-term perspective of flows used to estimate the CGU’s value in use. In fact, by its very nature, goodwill has an indefinite useful life, and therefore future cash flows are normally infinitely projectable. This long-term perspective should be reflected in all discounting rate benchmarks by means of the appropriate selection of each, in such a way that they express normalised conditions in the long term. The discounting rate should normally include the cost of the various sources of funding of the asset to be assessed, in other words the equity cost and debt cost (i.e. WACC, weighted average capital cost).

However, in the case of a banking entity, it is estimated according to an equity-side approach, that is to say by considering only the cost of equity capital (Ke), in a manner consistent with the methods for determining cash flows, which, as stated above, include those deriving from financial assets and liabilities.

The cost of capital is determined using the Capital Asset Pricing Model (CAPM). Based on this model, the cost of capital is calculated as the sum of risk-free rate and a risk premium, in turn dependent on the specific risks implicit in the business activities (i.e. both business segment risk and country risk).

The cost of capital is determined net of taxes, in order to ensure consistency with the discounted cash flows.

As the various CGUs of the Intesa Sanpaolo Group operate in different business segments and with different risk factors, the specific costs of capital of each CGU were identified.

It should be noted that, since cash flows were determined in nominal terms, discounting rates were also determined in nominal terms, meaning that they incorporate inflation expectations.

Entering into the details of the various components that contribute to the determination of discounting rates, it may be remarked that:

- in regard to the risk-free component and the country risk premium (CRP), reference was made to the current extremely low values with respect to the general interest rate scenario. Although the level of interest rates is not expected to increase until 2025 onwards, it is in any case appropriate to reflect on whether the current situation may or may not reasonably be expected to last beyond the so-called “explicit period” of forecasting of the financial flows for the assessments regarding the impairment tests. In fact, as is common knowledge, terminal value, calculated as the perpetual return of cash flows “at full capacity” after the forecast period, is an important component to calculate the value of the CGUs: in this sense the reflection must focus on the analysis of the current macroeconomic context, to check whether the current level of interest rates may be representative of an ordinary situation and, therefore, can be incorporated in the discount rate of the flow implied in the terminal value, according to a long-term calculation logic, such as the one underlying the impairment test process. Based on the situation described above, the currently low level of interest rates (especially in the risk-free component), heavily affected by the monetary policies of the ECB, will unlikely persist beyond the medium term; therefore, considering the aforementioned long-term prospect that must guide the impairment test, for the 2020 Financial Statements it was deemed appropriate to adopt a prudent approach involving the use of differentiated discount rates for the discounting of the cash flows of the CGUs, in line with that adopted for the previous Financial Statements and the Half-yearly Report as at 30 June 2020, and as permitted by IAS 36. Specifically:
  - concerning the risk-free component included in the cash flow discounting rate of the explicit forecast horizon, a decision was made to use the average monthly return (December 2020) of the 10-year German Government bonds (Bund);
  - concerning the risk-free component included in the cash flow discounting rate of the terminal value (cash flow projectable beyond the explicit forecast period), a decision was made to use the average annual return of 10-year German government bonds (Bund) forecast for 2025, which is the last year of flow forecast period, estimated by the Intesa Sanpaolo Research Department.

In line with the above, also for the CRP a methodology was considered that envisages the use of differentiated values. In addition, it should be noted that there is no goodwill allocated to CGUs other than those (mainly) operating in Italy - the “country risk” essentially coincides with the “Italy risk”. Therefore, in the methodological choices for the impairment test of goodwill for the purpose of the 2020 Financial Statements, the CRP was calculated as follows:

- concerning the CRP included in the financial flow discounting rate of the explicit forecast horizon, the average BTP-Bund spread of December 2020 was considered;
  - concerning the CRP included in the financial flow discounting rate of the terminal value, the average annual BTP-Bund spread estimated for 2025 was considered, based on the medium-term forecast scenario mentioned previously;
- Therefore, for the purposes of terminal value, risk-free rates and country-risk spreads 175 bps higher than the current values at year-end overall, thus able to be projected in perpetuity, according to a long-term approach, underlying the impairment test, were prudentially considered;
- the equity risk premium – represented by the difference between stock market yield and the Return on Investment on risk-free securities determined in reference to a sufficiently wide time horizon – was calculated on the basis of historical data, given its higher degree of reliability and visibility and also in the light of the current macroeconomic context, which

reflects particularly volatile stock market prices not always representative of economic “fundamentals,” while also creating a framework of uncertainty within which it is difficult to formulate reliable forecasts of results in order to estimate the equity risk premium implicit in stock market quotations. Specifically, the geometric mean for the equity risk premium was used, recorded on the US market for the period 1928-2020, adjusted for the differential between the US inflation rate and the German inflation rate (the market used as the basis for risk-free calculation);

- the Beta coefficient, which measures the specific degree of risk of an individual company or business sector, was calculated by identifying a sample of companies, comparable in business terms, for each CGU, and with reference to this sample the average or median Beta figure used was that recorded on a monthly basis over a five-year period;

#### *Summary of growth rates and discounting rates used*

The following table presents a summary, for each CGU subject to impairment test, of the parameters relevant to determining value in use: weighted average 2020-2025 growth rates for the cash flows of the various CGUs, including the allocation of cash flows related to the central corporate assets, the “g” growth rates for terminal value purposes, and the various discounting rates and inflation rates.

RATES/PARAMETERS  CGU	Nominal growth rates for impairment test (2021-2025)	NOMINAL DISCOUNTING RATES				LONG-TERM "G" GROWTH RATES		INFLATION RATES
		2020 flows	2020 Terminal Value	2019 flows	2019 Terminal Value	2020	2019	2020
<b>CGU subject to impairment test</b>								
Banca dei Territori	n.a. <sup>(1)</sup>	6.68%	8.44%	8.58%	10.57%	1.19%	1.32%	1.19%
IMI Corporate & Investment Banking	9.73%	7.01%	8.77%	7.15%	9.14%	1.19%	1.32%	1.19%
Insurance	12.92%	6.23%	7.99%	6.21%	8.20%	1.19%	1.32%	1.19%
Asset Management	9.15%	6.01%	7.78%	6.97%	8.96%	1.19%	1.32%	1.19%
Private Banking	11.00%	6.90%	8.66%	7.14%	9.13%	1.19%	1.32%	1.19%

(1) Considering the 2021 flow with a negative sign, the representation of the 2021-2025 growth rate is not applicable.

#### *Impairment testing results*

The outcomes of the impairment test showed the need to recognise impairment of the goodwill, amounting to 981 million euro, allocated to the Banca dei Territori CGU. The remaining CGUs to which intangible assets with finite useful lives have been allocated did not indicate a need for this, since their values in use at 31 December 2020 were significantly higher than their accounting carrying amounts. Taking account of the correlated tax effects, the net impact on the 2020 income statement derives from the impairment indicated above, and was a negative 912 million euro. In addition, it is specified that, for the sake of completeness of the analysis, the value in use was calculated also for the CGUs to which intangible assets with an indefinite life are no longer allocated. The Group's total value in use was confirmed to be greater than the sum of the carrying amounts of the individual CGUs.

The table below breaks down the adjustments recorded as at 31 December 2020:

(millions of euro)

CGU	Amounts as at 31 December 2020							
	Carrying amount before impairment testing			Impairment		Carrying amount after impairment testing		
	Goodwill before impairment testing	Brand name before impairment testing	Goodwill	Brand name	Goodwill after impairment testing	Goodwill after impairment testing	Brand name after impairment testing	
Banca dei Territori	22,305	981	1,507	-981	-	21,324	-	1,507
IMI Corporate & Investment Banking	23,232	56	-	-	-	23,232	56	-
Insurance	7,228	773	-	-	-	7,228	773	-
Asset Management	2,612	1,059	-	-	-	2,612	1,059	-
Private Banking	4,693	1,266	375	-	-	4,693	1,266	375
International Subsidiary Banks	6,397	-	-	-	-	6,397	-	-
Bank of Alexandria (Egypt)	684	-	-	-	-	684	-	-
Pravex Bank (Ukraine)	49	-	-	-	-	49	-	-
Non-current assets held for sale and discontinued operations <sup>(1)</sup>	45	45	-	-	-	45	45	-
<b>TOTAL</b>	<b>67,245</b>	<b>4,180</b>	<b>1,882</b>	<b>-981</b>	<b>-</b>	<b>66,264</b>	<b>3,199</b>	<b>1,882</b>

(1) As at 31 December 2020 the goodwill attributable to the Custodian Bank and Fund Administration business line of FLB (Private Banking CGU) to be sold during 2021 and the 31 branches to be sold to BPER in compliance with the instructions from the competent authorities following the acquisition of UBI Banca was reclassified to discontinued operations.

#### Verification of the results of impairment testing using an alternative calculation method

As the value of a company or a business line may also be determined by discounting the distributable cash flows, understood as the future cash flows estimated to be generated by the business area (the single CGUs) net of the share of income that must be retained in equity to meet the supervisory requirements, the recoverability of the book value of the goodwill allocated to the CGUs was verified also by discounting the aforementioned cash flows according to the excess capital version of the Dividend Discounted Model (DDM).

With reference to the supervisory requirements, a Common Equity Tier 1 ratio of 10.25% was used which, in relation to the target ratio set out in the Group Risk Appetite Framework, considers a prudential buffer to implement the current uncertainty linked to the pandemic scenario, and is also significantly higher than the capital requirement (8.63%) communicated by the ECB following the results of the Supervisory Review and Evaluation Process (SREP).

Thus, the distributable cash flows were obtained by integrating the expected cash flows determined as illustrated above, factoring in an increase in capital surplus in relation to the above-mentioned minimum limits of capital, or a decrease in the shares of income needed to cover the requirements deriving from the estimated growth trend in risk-weighted assets. These flows, estimated for each CGU, were discounted by applying the same discounting rates and growth rates "g" used in applying the Discounted Cash Flow (DCF) method.

The results of this method confirmed the results based on the calculation made using the DCF method, also with regard to the presence of impairment in the goodwill allocated to the Banca dei Territori CGU. However, it is specified that the impairment of the Banca dei Territori CGU resulting from the application of the DDM model was lower than the impairment resulting from the DCF method (thus, in this case, the goodwill attributed to the Banca dei Territori CGU would be only partially written down), as the excess capital version of the DDM considers the cash flows in excess of the minimum capital requirement to be potentially distributable, with the resulting benefit on the final value, irrespective of the dividend policy adopted by the Bank. Therefore, in the DDM, the restrictions imposed by the ECB regarding the distribution of dividends for 2019 and, partially, 2020 profits are substantially neutral. Conversely, the DCF model considers as the carrying amount of the CGUs their respective equity, which thus incorporates dividends not distributed, while expected future cash flows were estimated not envisaging a commitment of that liquidity, as at the moment it is considered as surplus assets with a view to its possible distribution as soon as this will be possible in compliance with the instructions of the Supervisory Authorities, while continuing to guarantee the Banks' capital adequacy.

In any case, with regard to the Banca dei Territori CGU, despite the fact that the application of the control method resulted in lower impairment than that resulting from the main method, which would entail maintaining a part of the goodwill relating to that CGU in the year-end financial statements, that goodwill was prudentially written down in full based on the results of the main method.

#### Reconciliation of the results of the impairment test with the market valuation

Based on its market valuation, the Group's value in use is higher than its market capitalisation. The price of the Intesa Sanpaolo stock as at 31 December 2020 (1.91 euro), was down compared to the values measured at the end of the previous year. The performance of Intesa Sanpaolo stock during 2020 recorded a decrease of around 19%, outperforming the Italian sector index (FTSE It All-Shr Banks -21%), while underperforming the Borsa Italiana benchmark index (FTSE MIB Index -5%). Intesa Sanpaolo stock still recorded a better performance than the Stoxx 600 Banks index, which fell by 24% since the beginning of the year.



As regards the equity markets, in the first part of 2020, especially between the end of February and mid-March, global prices fell sharply while volatility surged to very high levels. These trends specifically concerned the share prices of companies, including banks, whose outlook is particularly influenced by the impact of the measures to contain the pandemic. Since April, share prices have partially recovered the losses recorded in the most severe phase of the pandemic, benefiting from a greater propensity of investors to take risks, aided by the significant expansionary measures, both monetary and fiscal, and the gradual easing of restrictions.

In the last quarter of the year, after an initial phase of correction, due to renewed fears deriving from an increase in infections in the autumn, share prices recorded sharp increases, primarily benefiting from the announcements of the effectiveness of vaccines produced by leading pharmaceutical companies. Those increases also continued in the initial months of 2021: in this period, the Intesa Sanpaolo stock grew by over 15%.

Moreover, please note that securities in the banking sector have also been pricing in the effects of the ECB's recommendations issued during the year on dividend distribution in their market capitalisation.

Financial analysts' valuations, which are based on short-term outlooks, recorded a decrease in average target prices in 2020, which were nevertheless higher than the share price quoted at the end of the year. The average target price was 2.3 euro per share, a decrease of about 5% compared to the figure envisaged at the end of 2019 (2.4 euro per share). It is also noted that in the first two months of 2021 the target prices of analysts grew, returning to the levels of end-2019.

In any event, it bears observing that valuations expressed by financial analysts have different characteristics from the "fundamental" assessment represented by value in use.

The following may be observed regarding those valuations:

- the prospective income flows forecast by analysts generally extend to 2022 and, at Group level, are substantially in line with the estimates generated within the Group. In particular, referring to the analyses that provide details also for the single Divisions, the internally generated estimates are conservative for the Banca dei Territori, Asset Management and International Subsidiary Banks Divisions, substantially in line for the Private Banking Division and more generous for the IMI Corporate & Investment Banking and Insurance Divisions;
- the cost of the capital used (in cases where this parameter is explicitly stated) is often determined in overall terms at Group level; the cost of capital of Intesa Sanpaolo used to discount the terminal value cash flows is lower than the values shown in the report by the analysts; The latter tend to keep the discount rates applied constant, unlike those used for the purpose of impairment testing, which must be in line with the current levels of market rates, as envisaged by IAS 36. Moreover, the cost of capital used by the analysts is generally estimated as the minimum return requested by a generic investor, implicit in stock market prices. Thus, the cost of capital reflects short-term macroeconomic and context factors which, as previously mentioned, fall outside the Group's ability to generate sufficient profits to remunerate its shareholders over the long term;
- similarly to the observations made for the impairment test of the 2019 Financial Statements and the 2020 Half-yearly Report, from the methodological standpoint, use was often made of multiples (in terms of P/E or ROE) or other criteria (Gordon Model) applied to current market quotations or expected profitability for the coming years (referring to 2022 at the latest); these are thus methods that provide a fair value, rather than a long-term value in use. That aspect has a considerable impact on the differences between the target prices and the value in use per share estimated internally. The internal estimates of future cash flows used to calculate the value of the bank specifically show that, in the medium/long-term, once the risks and uncertainties that characterise the short-term scenario have been mitigated, the Group will be capable of generating profitability higher than its current profitability. That aspect is not captured by the analysts' estimates which, as stated, have a short-term horizon.

It bears observing that the valuations in question were intended for financial investors and thus aimed to determine prices and values in the short term. These valuations represent the value potentially obtainable from sale on the market of limited amounts of securities, i.e. the disposal of a minority interest, and are therefore closely pegged to prices and to current market conditions. Conversely, the value in use is based on the consideration that the value of an asset is a direct expression of the cash flows it is able to generate throughout the period of its use. This value is thus also based on the internal expectations of the company, as opposed to market valuations, which are instead based on the short-term expectations of the market itself.

In brief, therefore, the difference in the values from the analysts' estimates, which reflect on a methodological difference between the fair value and the value in use, may be explained by the following factors:

- different time horizon of reference considered by the market as opposed to the internal estimate: the limited period covered by the estimates of the cash flows (2022 vs. 2025 used for the purpose of the impairment test), as stated, has a considerable impact on the valuation of the Group, as well as the fact that the analysts, specifically considering the limited horizon of the projections considered, generally estimate a long-term growth rate  $g$  of 0%;
- different value of the cost of capital: in the analysts' estimates, as it is calculated as the implicit value in the current stock market prices, is generally placed at high values and factors in elements external to the Group's ability to generate profits for the purpose of remunerating its shareholders;
- different unit of valuation: the fair value calculated by the analysts represents the price of a single share, different from the Value in Use, which measures the Bank's entire capital. However, there is a control premium between the two values, which is lacking in the former case, and which is generally valued within a range of 15% to 25%.

Lastly, it is also important to note that the Intesa Sanpaolo Group operates in many sectors in addition to banking. In particular, it is important to note the operations in the wealth management segments, which show great resilience, even in periods of crisis. The application of stock market multiples of listed competitors to the single CGUs of Intesa Sanpaolo would result in the value of Intesa Sanpaolo being the sum of the parts more than 50% higher than the capitalisation of the security, confirming that which in doctrine is documented as a "holding discount". This states that the value of the company that holds diversified equity assets is generally less than the sum of the single assets.

In conclusion, it is believed that impairment tests must be performed with the awareness of the fact that the current economic situation, further penalised by the emergency linked to the COVID-19 emergency, has a deep impact on expected short- and medium-term cash flows from operating activities, specifically on adjustments to loans, without however affecting the Intesa Sanpaolo Group's primary sources of income and competitive edges, as has also been demonstrated by the results of the past few years, with constant achievement of the forecast targets, and the profit trends for 2020: despite the most serious



crisis since WWII, in 2020 the Group obtained significant operating results, the trend in the main revenue aggregates saw a contained impact from the critical context, and the structural ability to reduce operating costs was confirmed.

Moreover, in this regard, it should be noted that in recent years the Group has sold businesses or equity investments that have generated significant gains from disposal (e.g. Setefi, Allfunds Bank, Intrum and Nexi), confirming the existence of hidden value within the Group that are not reflected in the book values but are recognised in transactions with third parties. Moreover, the resilient and well diversified business model, which focuses on the product factories where a large part of the difference in book values is concentrated, guarantees a primary source of income for the Group even in adverse conditions solely in relation to the scenario of the banking sector.

Nevertheless, the expansionary measures and monetary policy approach of the ECB further postponed the recovery in short-term interest rates during the year, which are now estimated at negative values up to 2024 and only moderately positive in 2025, significantly influencing the profitability of the Banca dei Territori CGU. As that CGU operates mainly as a retail commercial bank, it is the Group CGU that has felt the greatest impact as a result of a negative, or marginally positive interest rate scenario. As previously indicated, the results of the impairment test showed the need to fully write down the goodwill allocated to that CGU. Instead, for the other CGUs of the ISP Group to which goodwill is allocated, the recoverable amounts were largely higher than their respective carrying amounts.

In consideration of such factors, Value in Use is considered to be a better expression of the recoverable amount of the Group's operating activities in the current market situation.

Accordingly, in developing the valuation model, caution was applied both when estimating projected cash flows and choosing financial parameters:

- projected cash flows at Group level were substantially in line with those predicted by the financial analysts, whose estimates run to 2022. Moreover, the final figures for the last few years have been substantially in line with forecast figures;
- projected cash flows of the single CGUs include the full attribution to the CGUs of the financial effects of the services provided by the Corporate Centre. Therefore, it was not necessary to calculate the recoverable amount of the Group as a whole (2nd level test), required by IAS 36 in the event it is not possible to allocate the central (or corporate) assets to the single CGUs;
- the cost of capital was determined analytically, based on parameters taken from the markets for each CGU, depending on the different risk of the respective businesses, also considering analytically the various risk factors; furthermore, considering the extremely low level of the current risk-free rates, for the purpose of the terminal value, the risk-free rates and country-risk spreads forecast for 2025 were considered which, for the CGUs with goodwill, were over 175 bps higher than the current values in December 2020 used to discount cash flows in the explicit forecast period. As a consequence, the average weighted value obtained for the Ke of the single CGUs is absolutely in line with Intesa Sanpaolo's cost of capital expressed by the market;
- the “g” growth rate, for the purpose of terminal value for Italy, which represents the area where residual goodwill is still recognised, has been set at zero in real terms.
- The expected cash flows for the purposes of determining the Value in Use did not consider a liquidity commitment referring to the dividends for the years 2019 and 2020, which were not distributed due to the restrictions set out by the ECB. Actually, as a result of the current scenario of negative interest rates, the returns on that liquidity considered in the projected cash flows is negative. In any event, for the purpose of determining the Value in Use of the CGUs, only the dividend on the net income for 2020 (not that for 2019) was considered, prudently, as a surplus asset to be added to the value determined by discounting the cash flows, with a view to its full distribution based on the Intesa Sanpaolo dividend policy (pay-out ratio of 75%), once the restrictions placed by the regulator have been overcome.

The parameters and information used to test the recoverability of intangible assets with indefinite useful life are significantly influenced by the macroeconomic environment and financial market trends, which might undergo changes that cannot be predicted at the present time. If, in the future, the macroeconomic scenario should deteriorate with respect to the assumptions, this would have effects on the estimate of the various CGUs' cash flows and on the main assumptions adopted, which could yield results in the financial statements of the coming years different from those outlined in these Financial Statements.

The assumptions adopted for this impairment test have been formulated in an environment marked by extreme uncertainty, particularly in relation to the implications of the public health emergency on production activities and possible future outbreaks of the disease. Nonetheless, it must be noted that the business units that still have significant amounts of goodwill (Insurance, Asset Management and Private Banking) have always had, and are expected also in the future to have profitability that largely justifies the values of goodwill recognised.

#### *Sensitivity analyses*

Since the value in use is determined by using estimates and assumptions that may contain some level of uncertainty, sensitivity analyses to verify the sensitivity of the results obtained to changes in the parameters and in the underlying hypotheses, referring to the DCF method, were carried out, as required by the IAS/IFRS. These analyses are even more important given the extremely high-level of forecasting uncertainty particularly regarding the extent and duration of the negative effects of the COVID-19 pandemic, and the effects associated with the economic recovery that is likely to follow. In this regard, considering alternative scenarios and stress factors in the main valuation and macro-economic variables makes it possible to evaluate the impact on the impairment test results related to the contingent uncertainty, which, among other things, makes it particularly difficult to make forecast estimates.

For CGUs that present residual values of goodwill, the impact on the value in use of an increase of up to 50 bps in discount rates or a decrease of up to 50 bps in the growth rate for terminal value purposes was verified. In addition, analyses were conducted of changes in the Value in Use resulting from a decrease in the cash flows used for terminal value purposes. No events of impairment would emerge in any of the CGUs tested, even in the event of an increase in discounting rates of 50 bps, or a decrease in the “g” rate of 50 bps or a decrease in the terminal value cash flow of 10%. Those analyses excluded the Banca dei Territori CGU for which, as a result of this impairment test, the goodwill was fully written down.

The table below illustrates the sensitivity (in percentage terms) of the Value in Use of the CGUs that present goodwill to changes in the “g” rate or discounting rate of +/-10 basis points, as well as a reduction in the cash flows used for terminal value purposes of 10%.

CGU	Sensitivity	CHANGE IN VALUE IN USE		
		Sensitivity to growth rate "g" - 10 bps	Sensitivity to discount rate + 10 bps	Sensitivity to Terminal value cash flows - 10%
IMI Corporate & Investment Banking		-0.97%	-1.25%	-10.15%
Insurance		-1.17%	-1.46%	-7.55%
Asset Management		-1.19%	-1.49%	-7.49%
Private Banking		-1.03%	-1.32%	-7.25%

Based on the table above, changes in discount rates (increasing) or growth rates (decreasing) within 10 bps would lead to a general decrease in the Values in Use ranging between 0.97% and 1.49%. Regarding the cash flow considered for the purpose of the terminal value, a 10% decrease of the same would lead to reductions in the Values in Use ranging between 7.25% and 10.15%. In any event, no issues of impairment would arise for any CGU at that amount of sensitivity.

Still considering stress testing, analyses were performed with the aim of determining the limits for the main inputs, beyond which impairment testing of the CGUs would require the recognition of impairment. The following table presents the “g” growth rates and discounting rates for each CGU that would result in a Value in Use in line with its carrying amounts, assuming equal cash flows to be discounted.

CGU	Sensitivity	"g" growth rate	Difference compared to the "g" rate used	TV discounting rate	Difference compared to the Ke discounting rate used
IMI Corporate & Investment Banking		-3.98%	-517 bps	12.66%	389 bps
Insurance		-9.66%	-1.085 bps	15.69%	770 bps
Asset Management <sup>(1)</sup>		n.a	n.a	n.a	n.a
Private Banking <sup>(1)</sup>		n.a	n.a	n.a	n.a

(1) For the Asset Management and Private Banking CGUs, the flows discounted over the explicit forecasting horizon are substantially already higher than the carrying amounts. As a result, the sensitivity analysis of the parameters that modify the discounted Terminal Value, if cash flows remain equal, is not applicable, as there would never be a reduction in the Terminal Value that would lead the value in use of the CGU to values close to the carrying amount.

As shown by the data contained in the table, the Values in Use of the CGUs would reduce until the book values, with consequent impairment problems, only in correspondence with the significant worsening of the discounting rates (Ke) and the “g” growth rates.

In order to consider in the forecasting estimates the key variables deriving from scenarios in alternative to the baseline scenario used for this impairment test, the impacts on the average gross income of the Group and the CGUs were estimated for the period 2021-2023, corresponding to a worsening of several macroeconomic parameters - the real Italian GDP and the BTP-Bund spread - considered over the time horizon. Those sensitivity results are consistent with the Group's replies following the ECB's recommendation set out in the SREP 2020 Operational Letter of 23 November 2020.

Specifically, it was verified that reductions of -50 and -100 bps in the Italian GDP for each year from 2021 to 2023 would result in an average annual reduction in the Group's gross income in the range of -4% - -6%, mainly attributable to Banca dei Territori. The reasons for this are attributable to:

- the negative impact on profitability of the Divisions due to the decrease in lending volumes;
- the negative impact on the fee and commission component due to the decrease in managed assets and the slowdown in commercial banking activities;
- the increase in the cost of funding related to the downgrading of the country's credit rating;
- the increase in adjustments to loans due to the tightening of the general conditions on the credit market.

Considering that the goodwill of the Banca dei Territori CGU has already been fully written down, no issues of impairment would arise for any CGU at that amount of sensitivity.

Lastly, it bears recalling that, with regard to the uncertainty linked to the pandemic scenario and the resulting difficulty in formulating medium/long-term economic-financial forecasts, the reference macroeconomic scenario underlying the future cash flows of the CGUs, as well as the timing of the return to a pre-crisis situation, are in line with those forecast by the Supervisory Authorities.

## SECTION 11 – TAX ASSETS AND LIABILITIES – CAPTION 110 OF ASSETS AND CAPTION 60 OF LIABILITIES

### 11.1 Deferred tax assets: breakdown

Deferred tax assets, recognised with regard to deductible temporary differences, totalled 17,177 million euro, of which 15,771 million euro refers to taxes recorded through profit or loss and 1,406 million euro to taxes with a balancing entry under shareholders' equity.

The first of these amounts refers to losses brought forward, to the portion of tax benefits not offset in relation to adjustments to loans and provisions for risks and charges deductible in future years, and to the benefit from realignment of the taxable value of goodwill, trademarks and other intangible assets pursuant to Article 15, par. 10, 10-bis and 10-ter of Law Decree 185/2008. Deferred tax assets recorded as a balancing entry under shareholders' equity almost exclusively refer to tax on negative valuation reserves for financial assets measured at fair value through other comprehensive income, to the cash flow hedges and to recognition of actuarial losses on personnel funds.

### 11.2 Deferred tax liabilities: breakdown

Deferred tax liabilities amounted to 2,745 million euro and the balancing entry is in the income statement (1,253 million euro) as well as in shareholders' equity (1,492 million euro).

### 11.3 Changes in deferred tax assets (through profit or loss)

	31.12.2020	Of which:			(millions of euro)
		Banking group	Insurance companies	Other companies	31.12.2019
<b>1. Initial amount</b>	<b>12,526</b>	<b>12,154</b>	<b>329</b>	<b>43</b>	<b>12,696</b>
<b>2. Increases</b>	<b>5,239</b>	<b>5,124</b>	<b>91</b>	<b>24</b>	<b>434</b>
2.1 Deferred tax assets recognised in the period	1,713	1,626	63	24	328
a) related to previous years	16	16	-	-	22
b) due to changes in accounting criteria	-	-	-	-	-
c) value recoveries	-	-	-	-	-
d) other	1,697	1,610	63	24	306
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	422	410	12	-	106
2.4 Business combinations	3,104	3,088	16	-	-
<b>3. Decreases</b>	<b>-1,994</b>	<b>-1,897</b>	<b>-41</b>	<b>-56</b>	<b>-604</b>
3.1 Deferred tax assets eliminated in the period	-1,509	-1,468	-40	-1	-458
a) reversals	-1,228	-1,223	-4	-1	-374
b) write-offs	-3	-3	-	-	-6
c) due to changes in accounting criteria	-	-	-	-	-
d) other	-278	-242	-36	-	-78
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-430	-429	-1	-	-146
a) changes into tax credits pursuant to Law no. 214/2011	-	-	-	-	-3
b) other	-430	-429	-1	-	-143
3.4 Business combinations	-55	-	-	-55	-
<b>4. Final amount</b>	<b>15,771</b>	<b>15,381</b>	<b>379</b>	<b>11</b>	<b>12,526</b>

Increases d) "other" refers to deductible temporary differences arising during the year, mainly connected to provisions for risks and charges, the recognition of convertible deferred tax assets on the IRES tax loss and depreciation, amortisation and impairment of property and equipment and intangible assets not deductible during the year.

The caption "Other increases" mainly includes: (i) transfer of deferred tax assets from those as a balancing entry recorded in equity, related to the Purchase Price Allocation of the UBI Group; (ii) the reversal of the offsetting with deferred tax liabilities carried out as at 31 December 2019; (iii) the item also includes deferred tax assets posted in relation to the tax loss carried forward (3.5% additional IRES) and deferred tax assets posted in relation to the tax loss carried forward (24% IRES) not used in the fiscal consolidation mechanism.

Decreases a) "reversals" mainly refer to the elimination of deferred tax assets pursuant to Law no. 214/2011 and deferred tax assets previously recorded in relation to provisions for risks and charges, as a result of their use during the year.

The caption "Other decreases", sub-caption b) "other" includes the transfer to the caption "Assets available for sale" of the taxation originated on provisions for risks and charges in relation to the going concern including the branches to be sold to BPER by UBI, as they relate to the going concern to be sold.

## 11.4 Changes in deferred tax assets pursuant to Law 214/2011

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Initial amount</b>	<b>8,247</b>	<b>8,281</b>
<b>2. Increases</b>	<b>2,427</b>	<b>4</b>
<b>3. Decreases</b>	<b>-664</b>	<b>-38</b>
3.1 Reversals	-644	-
3.2 Changes into tax credits	-	-3
a) from losses for the year	-	-3
b) from fiscal losses	-	-
3.3 Other decreases	-20	-35
<b>4. Final amount</b>	<b>10,010</b>	<b>8,247</b>

## 11.5 Changes in deferred tax liabilities (through profit or loss)

	31.12.2020	Of which:			31.12.2019
		Banking group	Insurance companies	Other companies	
<b>1. Initial amount</b>	<b>1,189</b>	832	310	47	<b>1,404</b>
<b>2. Increases</b>	<b>428</b>	364	56	8	<b>249</b>
2.1 Deferred tax liabilities recognised in the period	81	20	53	8	102
a) related to previous years	-	-	-	-	2
b) due to changes in accounting criteria	-	-	-	-	-
c) other	81	20	53	8	100
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	177	174	3	-	147
2.4 Business combinations	170	170	-	-	-
<b>3. Decreases</b>	<b>-364</b>	-318	-16	-30	<b>-464</b>
3.1 Deferred tax liabilities eliminated in the period	-247	-231	-16	-	-395
a) reversals	-201	-200	-1	-	-21
b) due to changes in accounting criteria	-	-	-	-	-
c) other	-46	-31	-15	-	-374
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-88	-87	-	-1	-69
3.4 Business combinations	-29	-	-	-29	-
<b>4. Final amount</b>	<b>1,253</b>	878	350	25	<b>1,189</b>

Increases c) "other" refers to taxable temporary differences arising during the year, mainly relating to goodwill and the higher value of equity investments.

Other increases under point 2.3 mainly refer to write-off of netting against deferred tax assets through profit or loss applied as at 31 December 2019. This caption also includes the reclassification from deferred tax assets recorded in equity to those through profit and loss.

Decreases a) "reversals" mainly refer to the discharge of deferred tax liabilities on goodwill and on intangible assets.

Other decreases, under point 3.3, essentially include the netting against deferred tax assets through profit or loss for the year.

## 11.6 Changes in deferred tax assets (recorded in equity)

	31.12.2020	Of which:			(millions of euro)
		Banking group	Insurance companies	Other companies	31.12.2019
<b>1. Initial amount</b>	<b>1,225</b>	872	128	225	<b>1,242</b>
<b>2. Increases</b>	<b>1,492</b>	1,414	75	3	<b>244</b>
2.1 Deferred tax assets recognised in the period	496	421	75	-	240
a) related to previous years	-	-	-	-	-
b) due to changes in accounting criteria	-	-	-	-	-
c) other	496	421	75	-	240
2.2 New taxes or tax rate increases	13	10	-	3	-
2.3 Other increases	6	6	-	-	4
2.4 Business combinations	977	977	-	-	-
<b>3. Decreases</b>	<b>-1,311</b>	-1,085	-1	-225	<b>-261</b>
3.1 Deferred tax assets eliminated in the period	-404	-404	-	-	-219
a) reversals	-375	-375	-	-	-192
b) write-offs	-	-	-	-	-
c) due to changes in accounting criteria	-	-	-	-	-
d) other	-29	-29	-	-	-27
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-687	-681	-1	-5	-42
3.4 Business combinations	-220	-	-	-220	-
<b>4. Final amount</b>	<b>1,406</b>	1,201	202	3	<b>1,225</b>

Increases c) "other" refers to deductible temporary differences arising during the year, mainly connected with the results of cash flow hedging derivatives, financial assets measured at fair value through other comprehensive income and non-deductible adjustments to loans to customers.

Decreases a) "reversals" mainly refer to the elimination of deferred tax assets previously recorded in relation to the fair value measurement of cash flow hedging derivatives and financial assets measured at fair value through other comprehensive income following the adjustment of the valuation effects or the related realisation during the year.

Other decreases, under point 3.3, essentially include the netting against deferred tax liabilities recorded in equity and the transfer of deferred tax assets to those through profit or loss, related to the allocation of the Purchase Price Allocation of the UBI Group.

## 11.7 Changes in deferred tax liabilities (recorded in equity)

	31.12.2020	Of which:			(millions of euro)
		Banking group	Insurance companies	Other companies	31.12.2019
<b>1. Initial amount</b>	<b>677</b>	337	340	-	<b>824</b>
<b>2. Increases</b>	<b>1,327</b>	1,097	229	1	<b>487</b>
2.1 Deferred tax liabilities recognised in the period	490	280	209	1	471
a) related to previous years	2	2	-	-	-
b) due to changes in accounting criteria	-	-	-	-	-
c) other	488	278	209	1	471
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	19	18	1	-	16
2.4 Business combinations	818	799	19	-	-
<b>3. Decreases</b>	<b>-512</b>	-512	-	-	<b>-634</b>
3.1 Deferred tax liabilities eliminated in the period	-167	-167	-	-	-502
a) reversals	-148	-148	-	-	-89
b) due to changes in accounting criteria	-	-	-	-	-
c) other	-19	-19	-	-	-413
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-345	-345	-	-	-132
3.4 Business combinations	-	-	-	-	-
<b>4. Final amount</b>	<b>1,492</b>	922	569	1	<b>677</b>

Increases c) "other" mainly refers to taxable temporary differences arising during the year connected with the measurement of financial assets measured at fair value through other comprehensive income.

Other increases under point 2.3 mainly refer to write-off of netting against deferred tax assets through profit or loss applied as at 31 December 2019.

Decreases a) “reversals” mainly refer to the discharge of deferred tax liabilities previously recorded in relation to the valuation of financial assets measured at fair value through other comprehensive income and impairment losses on property pursuant to IAS 16.

Other decreases refer to the netting against deferred tax assets recorded in equity as well as through profit or loss and the transfer of deferred tax assets to those through profit or loss, related to the allocation of the Purchase Price Allocation of the UBI Group.

#### *Probability test on deferred taxation*

IAS 12 requires for deferred tax assets and liabilities to be recognised according to the following criteria:

- a deferred tax liability (or DTL) must be recognised, as a general rule, for all taxable temporary differences;
- a deferred tax asset (or DTA) must be recognised for all deductible temporary differences to the extent that it is probable that taxable income will be earned that can offset the deductible temporary differences. Deferred tax assets not recognised in the past - inasmuch as the conditions for their recognition were not met - are recognised during the year in which those conditions arise.

Deferred tax assets are then divided into “eligible” deferred tax assets and “ineligible” deferred tax assets.

For the former, as illustrated in greater detail hereinafter, the regulations set out a specific mechanism for conversion into tax credits which legitimises, in and of itself, their recognition in the financial statements.

Instead, the book value of “ineligible” deferred tax assets must be tested to determine whether it is likely that taxable income will be earned in the future that will ensure their recovery (probability test).

“Eligible” deferred tax assets amounted to 10,010 million euro, while “ineligible” deferred tax assets subjected to the probability test amounted to 7,167 million euro<sup>33</sup> (joined by 2,745 million euro in deferred tax liabilities).

The probability test on the “ineligible” deferred tax assets carried in the 2020 Financial Statements separately regarded, due to the different conditions of use of the underlying temporary differences, the following cases:

- IRES deferred tax assets recognised in relation to previous tax losses. In particular, these were deferred tax assets relating to the tax losses (i) of Intesa Sanpaolo - mainly generated by the former Veneto Banca, Banca Popolare di Vicenza and their former subsidiaries Banca Nuova and Banca Apulia (“former Venetian banks”), in addition to those generated, only for the purposes of the additional IRES, by Intesa Sanpaolo and the banks merged into Intesa Sanpaolo - and (ii) the companies of the former UBI Group, primarily UBI Banca, which is expected to be merged into Intesa Sanpaolo during 2021;
- deferred tax assets recognised for tax losses of the Luxembourg subsidiary Intesa Sanpaolo Holding International (ISPHI);
- other deferred tax assets triggered by deductible temporary differences for IRES tax purposes, arising at the Group’s Italian companies (including those of the former UBI Group) included in the consolidated financial statements (“Other deferred tax assets - IRES”);
- deferred tax assets triggered by deductible temporary differences for IRAP tax purposes (“Deferred tax assets - IRAP”).

In the 2020 Financial Statements, deferred tax assets relating to previous tax losses were recognised for a total of 2,000 million euro, of which 1,541 million euro equal to the base IRES tax rate of 24% and 459 million euro to the additional IRES tax rate of 3.5%). Of those deferred tax assets, 1,423 million euro – already net of the benefit, recognised by Intesa Sanpaolo, deriving from the transformation into tax credits of 110 million euro in deferred tax assets relating to tax losses, due to the sale carried out by 31 December of non-performing loans, pursuant to Art. 55 of Law Decree no. 18/2020 (“Cura Italia” Decree) – relates to the Parent Company (including the former Venetian banks) and 577 million euro to the companies of the former UBI Group, primarily UBI Banca, to be merged into Intesa Sanpaolo.

The probability test on the deferred tax assets relating to the tax losses was conducted considering the individual position of Intesa Sanpaolo.

For the losses of the former Venetian banks, the possibility of use on an exclusively individual basis by Intesa Sanpaolo derives from the regulations that set out the transfer (Art. 7, paragraph 3 of Law Decree no. 99/2017, converted with amendments by Law no. 121/2017, and Art. 15 of Law Decree no. 18/2016) at the time of the purchase of the business lines of Banca Popolare di Vicenza and Veneto Banca (in 2017) and the subsequent merger of their former subsidiaries Banca Nuova and Banca Apulia (effective on 1 January 2018 and 1 January 2019, respectively). For the losses of UBI Banca and the other companies in the former UBI Group to be merged into Intesa Sanpaolo, the same possibility is triggered by the planned incorporation into the Parent Company during 2021.

The income prospects of Intesa Sanpaolo have been estimated, for the years 2021-2025, using the forecasting estimates drawn up by the Planning and Control Head Office Department starting from the final 2020 data and 2021 budget, considering the update to the “Long-term macroeconomic and banking estimates” issued by the Research Department in December 2020, without considering the effects of the new managerial leverage (taken from the same database used for the impairment test on intangibles in the 2020 Financial Statements). For the years following 2025, it was prudently assumed that the gross result would remain constant, therefore, equal to that estimated for 2025 (without, therefore, considering a growth rate “g”).

Based on the analyses conducted, total absorption of the deferred tax assets in question could be achieved over a time horizon deemed compatible with the “probability” of recovery required by IAS 12.

For the purpose of completeness, it is noted that the financial statements of the former UBI Group as at 31 December 2019 indicated deferred tax assets not recognised for the Group of approximately 550 million euro, relating entirely to tax losses carried forward without limits of the banks (the former Good Banks) acquired. On PPA, without prejudice to the fact that those amounts shall, in any event, be potentially recognisable in future years, it was decided to adopt an approach in line with that of UBI, prudently choosing not to recognise those DTA. That approach was also confirmed for the purposes of drawing up

<sup>33</sup> To that amount, 410 million euro in “ineligible” deferred tax assets were added, recognised under Balance Sheet Asset caption “120. “Non-current assets held for sale and discontinued operations”, which were also subject to the probability test.



these Financial Statements. The matter will be reconsidered at the time of making income forecasts linked to the new business plan.

In the 2020 Financial Statements, deferred tax assets of 47 million euro are also entered, which derive from previous years' tax losses being absorbed of the Luxembourg subsidiary Intesa Sanpaolo Holding International (ISPHI). The analyses carried out in relation to the income forecasts of the Luxembourg subsidiary confirm the ability of that company to use the losses against which deferred tax assets are recognised.

In conducting the probability test for the other deferred tax assets for IRES and the deferred tax assets for IRAP carried in the Group's Financial Statements as at 31 December 2020, deferred tax assets arising from temporary deductible differences associated with impairment losses on loans (other than those deriving from the first-time adoption of the IFRS 9; see below), as well as - if carried in the financial statements within 2014 - from goodwill and other intangible assets with indefinite useful lives<sup>34</sup> ("eligible deferred tax assets" and "eligible temporary differences") were considered separately from others. In this regard, it bears noting that, effective from the tax period ended 31 December 2011, deferred tax assets (for corporate income tax or IRES) recognised to account for tax losses due to the deferred deduction of "eligible" temporary differences are eligible for conversion into tax credits (article 2, paragraph 56-bis, of Law Decree 225 of 29 December 2010, introduced by article 9 of Law Decree 201 of 6 December 2011). Effective from the 2013 tax period, a similar conversion is allowed where the regional business tax (IRAP) return shows a negative net production value also in relation to IRAP deferred tax assets that pertain to "eligible" temporary differences that have contributed to determining the negative net production value (article 2, paragraph 56-bis.1, of Law Decree 225 of 29 December 2010, introduced by Law 147/2013). The above convertibility forms - which are in addition to that already envisaged for cases in which the separate financial statements show a loss for the year (article 2, paragraphs 55 and 56, of Law Decree 225/2010, as most recently amended by Law 147/2013) - provide an additional, supplementary recovery method suited to ensuring the recovery of "eligible" deferred tax assets in all situations, regardless of the company's future profitability. If in a given year there are surplus "eligible" temporary differences with respect to taxable income or net production value, the recovery of deferred tax assets takes the form not of a decrease in current taxes, but of the recognition of deferred tax assets on the tax loss or the negative net production value, convertible into tax credits pursuant to Art. 2, paragraphs 56-bis and 56-bis.1, of Law Decree 225/2010. The convertibility of deferred tax assets on tax losses and negative net production values that result from eligible temporary differences is therefore a suitable and sufficient condition for the recognition of "eligible" deferred tax assets, making it possible to exclude them from the area of application of the probability test.

A limit to the straight convertibility of "eligible" deferred tax assets was introduced by art. 11 of Law Decree 59 of 3 May 2016, amended by Law Decree 237 of 23 December 2016, which subordinated the transformation into tax credits of the eligible deferred tax assets which were not matched by an actual prepayment of taxes (so-called "type 2 DTA") to the payment of an annual fee, equal to 1.5% of their overall value, for the years 2016-2030. Instead, no fee is due for the transformation into tax credits of the "eligible" deferred tax assets which were matched by an actual prepayment of greater taxes ("type 1 DTA"). Considering that the "eligible" deferred tax assets recognised by the Companies that are part of the fiscal consolidation of Intesa Sanpaolo, as well as those included in the Parent Company's financial statements following the acquisition of the business lines of the former Venetian Banks and, most recently, those of the former UBI Group are all "type 1 DTA", the Group is not currently required to pay this fee.

Article 1, paragraphs 1067 and 1068 of the 2019 Budget Act (Law 145 of 30 December 2018) envisage the deductibility (both for IRES and IRAP purposes) over ten tax periods, starting from the one under way as at 31 December 2018, of the adjustments to loans to customers recognised in the financial statements of banks and financial institutions on first-time adoption of IFRS 9<sup>35</sup>. According to that clarified in the Explanatory Report on the Measure, deferred tax assets recognised in financial statements in relation to the deferral of said deduction cannot be converted into tax credits based on the aforementioned provisions of Law Decree no. 225/2010. Therefore, those taxes must be subject to probability testing.

Based on the above, the probability test on other deferred tax assets - IRES was carried out as follows:

- identifying the "other deferred tax assets - IRES", i.e. those not relating to the tax losses of Intesa Sanpaolo or the companies in the former UBI Group to be merged, as well as ISPHI, which were subject to a specific test to determine whether they could be recognised in the financial statements (see above);
- identifying "ineligible" deferred tax assets among other deferred tax assets, as they cannot be converted into tax credits (see above);
- analysing such "ineligible" deferred tax assets and deferred tax liabilities carried in the consolidated financial statements, distinguishing them by causal relationship and by foreseeable recovery timing;
- provisionally determining the amount of the Group's future taxable income in order to verify its ability to recover the "ineligible" "other deferred tax assets - IRES". The estimate of future taxable income was made, for the years 2021 to 2025, using the forecasting data drawn up by the Planning and Control Head Office Department starting from the final 2020 data and 2021 budget, considering the update to the "Long-term macroeconomic and banking estimates" issued by the Research Department in December 2020, without considering the effect of the new managerial leverage (taken from the same database used for the impairment test on intangibles in the 2020 Financial Statements). For the subsequent years, an overhang of the forecasts was cautiously assumed, without considering a growth rate "g".

The analysis conducted indicated an IRES taxable base that was sufficient and adequate to allow recovery of the deferred tax assets relating to IRES carried in the financial statements as at 31 December 2020.

Also for "deferred tax assets - IRAP", the probability test was conducted analytically, referring only to the "ineligible" deferred tax assets (for those that can be converted into tax credits, as stated, the prospective certain use based on the cases of conversion into tax credits set out in paragraphs 56-bis and 56-bis.1 of Art. 2 of Law Decree 225/2010, effectively constitutes a sufficient prerequisite for recognition in the financial statements, implicitly passing the related probability test). The test was conducted by comparing the estimated forecast taxable income for IRAP purposes of Intesa Sanpaolo and the companies to

<sup>34</sup> With art. 17 of Law Decree 83 of 27 June 2015, the convertibility into tax credits was excluded (for any reason provided for by Law Decree 225 of 29 December 2010) of the deferred tax assets relating "to the value of the goodwill and the other intangible assets entered for the first time starting from the financial statements relating to the year underway at the date the provision comes into force", i.e. starting from 2015.

<sup>35</sup> The ten-year instalment period, which should have originally concluded in 2027, was extended by one year by the 2020 Budget Act (Law no. 160 of 27 December 2019).

be merged, estimated on the basis of the same forecast data assumed in carrying out the probability test on tax losses, with the cancelled ineligible temporary differences found as at 31 December 2020 and resulting in the residual IRAP taxable base for each year.

Considering that, for IRAP purposes, different from that set out for IRES tax losses, there is no carrying forward of tax losses or the possibility of offsetting them as part of a fiscal unit, where in one or more years the residual taxable base is negative, the deferred tax assets - IRAP that can be recognised in the financial statements must be limited to only the amounts of the temporary differences that can be recovered in each year considered.

The calculations performed resulted in a positive residual IRAP taxable base in each of the years included in the reference time horizon of the test.

In support of the positive results of the probability test please note that:

- the future earnings estimates used for the probability test are updated annually to take account of intervening changes in the market scenarios;
- for the purposes of additional prudence, when performing the probability test, the taxable profit for the years where no specific estimate of future profits is available, even when there is a trend of growth in profits, is assumed to be equal (i.e. not increasing with respect) to the taxable profit of the last year covered by said estimate;
- under the current Italian regulations, tax losses can be carried forward without time limits (Article 84, Combined Tax Regulations);
- the tax losses of the Intesa Sanpaolo Group against which deferred tax assets are recognised derive from clearly identifiable causes attributable to “contingent” aspects: i) the acquisition of the former Venetian banks, which accounts for around 65% (60% net of the “Cura Italia” Decree effect) of the DTAs relating to prior losses, and the acquisition of UBI Banca; and ii) some rules specific to the Italian tax system, which resulted in DTAs whose reversals affect and will continue to affect the taxable income, but only within a set timeframe (accrual of adjustments to loans not deducted until 2014; accrual of expected losses on loans to customers recognised as a result of the IFRS 9 FTA; and repeated deferral of the start and end of the recovery period for goodwill realigned for payment);
- Intesa Sanpaolo has a solid income track record, also confirmed by the last financial year which closed with strong results despite an environment heavily affected by the pandemic.

Therefore, the prospects for recovery resulting from the estimates are considered to meet the “probability of recovery” requirement of IAS 12 and, consequently, the above-mentioned deferred tax assets can be recognised in the balance sheet at 31 December 2020 for their full amount.

#### 11.8 Other information

There is no other information to be noted in addition to the above.

## SECTION 12 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES - CAPTION 120 OF ASSETS AND CAPTION 70 OF LIABILITIES

### 12.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>A. Non-current assets held for sale</b>		
A.1 Financial assets	26,304	333
A.2 Investments in associates and companies subject to joint control	4	-
A.3 Property and equipment	695	38
<i>of which: resulting from the enforcement of guarantees</i>	6	12
A.4 Intangible assets	45	-
A.5 Other	1,654	-
<b>Total A</b>	<b>28,702</b>	<b>371</b>
<i>of which measured at cost</i>	28,357	96
<i>of which Fair value level 1</i>	-	-
<i>of which Fair value level 2</i>	156	-
<i>of which Fair value level 3</i>	189	275
<b>B. Discontinued operations</b>		
B.1 Financial assets measured at fair value through profit or loss	-	-
- <i>Financial assets held for trading</i>	-	-
- <i>Financial assets designated at fair value</i>	-	-
- <i>Other financial assets mandatorily measured at fair value</i>	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	49
B.4 Investments in associates and companies subject to joint control	-	-
B.5 Property and equipment	-	-
<i>of which: resulting from the enforcement of guarantees</i>	-	-
B.6 Intangible assets	-	70
B.7 Other assets	-	4
<b>Total B</b>	<b>-</b>	<b>123</b>
<i>of which measured at cost</i>	-	123
<i>of which Fair value level 1</i>	-	-
<i>of which Fair value level 2</i>	-	-
<i>of which Fair value level 3</i>	-	-
<b>C. Liabilities associated with non current assets held for sale</b>		
C.1 Debts	-32,597	-4
C.2 Securities	-17	-
C.3 Other	-3,062	-2
<b>Total C</b>	<b>-35,676</b>	<b>-6</b>
<i>of which measured at cost</i>	-35,668	-6
<i>of which Fair value level 1</i>	-	-
<i>of which Fair value level 2</i>	-6	-
<i>of which Fair value level 3</i>	-2	-
<b>D. Liabilities associated with discontinued operations</b>		
D.1 Financial liabilities measured at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Allowances	-	-1
D.5 Other	-	-34
<b>Total D</b>	<b>-</b>	<b>-35</b>
<i>of which measured at cost</i>	-	-35
<i>of which Fair value level 1</i>	-	-
<i>of which Fair value level 2</i>	-	-
<i>of which Fair value level 3</i>	-	-

As at 31 December assets held for sale amounted to 28,702 million euro and were mainly composed of: (i) 26,395 million euro relating to the branches to be sold by the Parent Company and UBI to BPER and Banca Popolare di Puglia e Basilicata (that amount includes performing loans of 24,053 million euro and non-performing loans of 898 million euro, net values); (ii) 1,090 million euro relating to the business line to be sold by Fideuram Bank Luxembourg, relating to the Custodian Bank and Fund Administration activities and several ancillary activities, along with the related contracts and resources, and (iii) 1,189 million euro referring to non-performing loans which will be disposed of as part of the operations planned for 2021, after aligning the carrying amount with the estimated prices that it may be possible to realise, also through specific fairness opinions, which, for the loans coming from the UBI Group, correspond to the fair values determined in the PPA.

“Liabilities associated with assets held for sale” amounted to 35,676 million euro and were mainly composed of: (i) 34,598 million euro relating to the branches to be sold by the Parent Company and UBI to BPER and Banca Popolare di Puglia e Basilicata, and (ii) 1,065 million euro relating to the business line to be sold by Fideuram Bank Luxembourg, relating to the Custodian Bank and Fund Administration activities and several ancillary activities, along with the related contracts and resources.

With regard to the going concerns to be sold to BPER and Banca Popolare di Puglia e Basilicata, it is noted that once the process of accurately identifying the assets and liabilities relating to those going concerns, as at 31 December 2020, the Group reclassified them under non-current assets held for sale and discontinued operations, as disposal groups and associated liabilities pursuant to IFRS 5, under caption 120. “Non-current assets held for sale and discontinued operations” and caption 70. “Liabilities associated with non-current assets held for sale and discontinued operations”, respectively.

In that regard, it is specified that the criteria set out in the Standard to identify the business line sold as a “discontinued operation” were not met, as the business lines cannot be considered as separate major lines of business pursuant to paragraph 32 of IFRS 5. In particular, the branches to be sold cannot be considered separate lines of business from the Group as a whole, as they mainly operate in retail lending and deposit collection, which, even following the disposal, will remain the Bank’s core business. Nor can the branches be considered as separate geographic areas of business, considering the regions and provinces of location of the branches included in the going concerns.

In compliance with the provisions of IFRS 5, the assets and liabilities included in the going concern to be sold were measured based on the sale price referring to the going concerns as a whole. Specifically, both the sale price of the going concern sold to BPER, which, based on contractual provisions was calculated as a multiple less than one (in this case, 0.38x) of the going concern’s regulatory capital, and that referring to the going concern to be sold to Banca Popolare di Puglia e Basilicata were lower than the book values of those going concerns. Therefore, at the time of reclassification, the book values of the going concerns were aligned with the sale prices, recording a capital loss, net of the related price adjustments and tax effects, of 1,146 million euro. Limited to the portion attributable to the branches of UBI, the capital loss of 1,061 million euro net of tax effects was applied as a decrease to the negative goodwill recorded in the consolidated income statement on conclusion of the Purchase Price Allocation process envisaged by IFRS 3. The loss recognised at the time of reclassification was not allocated to the single assets and liabilities of the two going concerns, based on the provisions of IAS 36, according to which an impairment loss cannot decrease the book value of an asset to below its recoverable amount. In the case in question, the contracts signed with BPER and Banca Popolare di Puglia e Basilicata state prices referring to the going concerns as a whole, defined by the parties based on an assessment conducted not on the quality of the underlying assets but, rather, on the current market values of the banking business, which show significantly lower prices than the net book value. As a result, the recoverable amount of the single assets and liabilities pertaining to the going concerns is not impacted by the price agreed by the parties and, therefore, the loss recorded on reclassification cannot be allocated to the single assets and liabilities. Therefore, the capital losses were recorded as a balancing entry to caption 70. “Liabilities associated with non-current assets held for sale and discontinued operations” so that the net book value of the going concerns would align with the sale price.

Additionally, it should be noted that:

- in order to balance the going concern to be sold to BPER, based on the agreement between the parties, positions were added to assets to balance the going concerns and, in particular, interbank positions and/or cash and cash equivalents. Those captions will be accurately quantified at the execution date, as they will be used to offset the going concern based on the value of the assets and liabilities at that date. Therefore, for the purposes of these consolidated financial statements, given the impossibility of accurately identifying the interbank positions and/or cash and cash equivalents, it was decided not to classify those captions as “discontinued”. This is because the interbank positions and/or cash and cash equivalents which must be sold at the execution date cannot be identified as at 31 December 2020, and, therefore, the requirements set out by the accounting standard for their reclassification are not met;
- the agreement reached with BPER defines a settlement whereby, at the execution date, derivative instruments of 85 million euro must be sold which, at that date, can be used to reconstruct a macrohedge of the risk being sold. In line with the treatment illustrated above with regard to interbank positions and/or cash and cash equivalents, as at 31 December 2020 those derivative instruments were not reclassified under liabilities held for sale, as they could not be accurately identified at the reporting date.

## 12.2 Other information

There is no other significant information to note as at 31 December 2020.

## 12.3 Information on companies subject to significant influence not carried at equity

As at 31 December 2020, there were no investments in companies subject to significant influence not carried at equity and classified as held for sale.

**SECTION 13 – OTHER ASSETS – CAPTION 130****13.1 Other assets: breakdown**

Captions	(millions of euro)
Other	3,913
Amounts due from tax authorities	4,611
Amounts to be credited and items under processing	989
Cheques and other instruments held	420
Transit items	201
Amounts to be debited - deriving from securities transactions	49
<b>TOTAL 31.12.2020</b>	<b>10,183</b>
<b>TOTAL 31.12.2019</b>	<b>7,988</b>

The sub-caption “Other” includes the following main components: (i) prepayments and accrued income of 590 million euro; (ii) stamp duty of 507 million euro; (iii) costs incurred to obtain and execute contracts, for an amount of 402 million euro, mainly referring to costs for bonuses capitalised by Fideuram - Intesa Sanpaolo Private Banking (and, therefore, subject to amortisation for 44 million euro) as they are strictly related to the acquisition and maintenance of the funding; and (iv) operating loans, i.e. loans for operations connected with the provision of non-financial activities and services, for an amount of 86 million euro.

Amounts due from tax authorities include tax credits of the insurance segment of 2,893 million euro.

## LIABILITIES

### SECTION 1 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - CAPTION 10

#### 1.1 Financial liabilities measured at amortised cost: breakdown of amounts due to banks

Transaction type/Amount	(millions of euro)							
	31.12.2020				31.12.2019			
	Book value	Fair value			Book value	Fair value		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3		
<b>1. Due to central banks</b>	<b>86,235</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>51,541</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>2. Due to banks</b>	<b>29,712</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>51,783</b>	<b>X</b>	<b>X</b>	<b>X</b>
2.1 Current accounts and on demand deposits	5,026	X	X	X	4,457	X	X	X
2.2 Time deposits	2,981	X	X	X	2,396	X	X	X
2.3 Loans	17,690	X	X	X	40,855	X	X	X
2.3.1 Repurchase agreements	10,067	X	X	X	33,924	X	X	X
2.3.2 Other	7,623	X	X	X	6,931	X	X	X
2.4 Debts for commitments to repurchase own equity instruments	-	X	X	X	175	X	X	X
2.5 Lease liabilities	4	X	X	X	8	X	X	X
2.6 Other debts	4,011	X	X	X	3,892	X	X	X
<b>Total</b>	<b>115,947</b>	<b>-</b>	<b>101,979</b>	<b>13,963</b>	<b>103,324</b>	<b>-</b>	<b>90,122</b>	<b>13,162</b>

The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies.

Repurchase agreements related to assets sold not derecognised are detailed in Part E - Section E.2.

The caption Due to Central Banks includes the balance of TLTRO refinancing operations for a total of 82,854 million euro, including the UBI Group, fully attributable to the TLTRO III.

The Group's repurchase agreements shown in the table include long-term repurchase agreements with a total carrying amount of 238 million euro, attributable to Banca Fideuram for de-risking transactions completed in previous years with the twofold aim of both funding the bank's operations (through repurchase transactions) and reducing the credit risks associated with the portfolio of securities issued (also through the acquisition of financial guarantees). The transactions have a non-replaceable underlying portfolio of Italian government securities (with maturities from 2020 to 2033) hedged against interest rate risk through interest rate swap contracts and against credit risk through credit default swap contracts, already recorded in the financial statements at the time of execution of the repurchase transactions and recognised under financial assets measured at amortised cost. The nominal value and the maturity date of the repurchase agreements are the same as that of the securities.

For recognition purposes, an assessment was conducted aimed at understanding the purpose underlying the contractual agreements, taking into account the instructions provided by the supervisory authorities in Bank of Italy/Consob/IVASS Document No. 6 of 8 March 2013, "Accounting treatment of 'long-term structured repurchase agreements'."

The analysis focused on the structure, cash flows and risks associated with the transactions and was aimed at verifying whether the cases described above were similar to the long-term structured repurchase agreements described in the above Document, and, in order to be compliant with the principle of the prevalence of substance over form, whether the indicators referred in paragraph B.6 of the Guidance on Implementing IFRS 9, according to which the transaction may be considered substantially similar to a credit derivative contract, and, in particular, a credit default swap, were present.

The case described above consists of repurchase agreements that are not concurrent with the purchases of the securities and execution of the interest rate swaps, because the securities and derivative instruments were already present in the portfolio. In addition, buying securities and entering into derivatives occurred with market counterparties other than those with which the repurchase agreements were entered into. The credit risk was also closed with financial guarantees.

Consequently, the analysis shows elements of differentiation from the long-term structured repurchase agreements described in the aforementioned Document, supporting the inapplicability of the guidelines provided in paragraph B.6 of the Guidance on Implementing IFRS 9, with the result that the transactions must be recognised in the financial statements with the individual contractual components shown separately.



**1.2 Financial liabilities measured at amortised cost: breakdown of amounts due to customers**

(millions of euro)

Transaction type/ Group members	31.12.2020						31.12.2019		
	Book value	Fair value			Book value	Fair value			
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>1. Current accounts and on demand deposits</b>	<b>380,881</b>	X	X	X	<b>294,894</b>	X	X	X	
<b>2. Time deposits</b>	<b>26,951</b>	X	X	X	<b>21,915</b>	X	X	X	
<b>3. Loans</b>	<b>3,846</b>	X	X	X	<b>6,371</b>	X	X	X	
3.1 Repurchase agreements	944	X	X	X	4,505	X	X	X	
3.2 Other	2,902	X	X	X	1,866	X	X	X	
<b>4. Debts for commitments to repurchase own equity instruments</b>	<b>27</b>	X	X	X	<b>14</b>	X	X	X	
<b>5. Lease liabilities</b>	<b>1,736</b>	X	X	X	<b>1,480</b>	X	X	X	
<b>6. Other debts</b>	<b>8,924</b>	X	X	X	<b>6,507</b>	X	X	X	
<b>Total</b>	<b>422,365</b>	-	<b>352,682</b>	<b>69,997</b>	<b>331,181</b>	-	<b>313,393</b>	<b>18,227</b>	

**1.3 Financial liabilities measured at amortised cost: breakdown of securities issued**

(millions of euro)

Transaction type/Amount	Book value	31.12.2020			Book value	31.12.2019		
		Fair value				Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>A. Securities</b>								
1. bonds	81,846	47,158	36,678	48	74,794	40,488	35,761	6
1.1 structured	6,862	-	6,933	48	2,098	690	1,351	6
1.2 other	74,984	47,158	29,745	-	72,696	39,798	34,410	-
2. other	9,988	-	7,886	2,104	10,083	-	7,589	2,494
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	9,988	-	7,886	2,104	10,083	-	7,589	2,494
<b>Total</b>	<b>91,834</b>	<b>47,158</b>	<b>44,564</b>	<b>2,152</b>	<b>84,877</b>	<b>40,488</b>	<b>43,350</b>	<b>2,500</b>

**1.4 Details of subordinated debts/securities**

There were no subordinated debts with banks and customers as at 31 December 2020.

As at the reporting date, subordinated securities issued amounted to 11,786 million euro, of which 9,888 million euro attributable to the Parent Company and 1,898 million euro to UBI S.p.A.

**1.5 Details of structured debts**

There were no structured debts as at 31 December 2020.

**1.6 Lease payables**

Lease payables are quantified by applying IFRS 16.

**SECTION 1 BIS - FINANCIAL LIABILITIES PERTAINING TO INSURANCE COMPANIES MEASURED AT AMORTISED COST PURSUANT TO IAS 39 - CAPTION 15**

The breakdown of the IAS 39 captions included in caption 15 of the Balance Sheet Liabilities pertaining to insurance companies is provided below.

In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by Bank of Italy Circular 262, "Caption 15 Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39" was created, which comprises the components set out in the table below:

<b>Breakdown of financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 - Caption 15</b>	<b>31.12.2020</b>	<b>31.12.2019</b>
10. Due to banks	609	2
20. Due to customers	428	77
30. Securities issued	898	747
<b>Total - Caption 15</b>	<b>1,935</b>	<b>826</b>

**1.1 Bis Due to banks: breakdown**

<b>Transaction type/Amount</b>	<b>31.12.2020</b>	<b>31.12.2019</b>
	(millions of euro)	
<b>1. Due to central banks</b>	-	-
<b>2. Due to banks</b>	<b>609</b>	<b>2</b>
2.1 Current accounts and deposits	-	-
2.2 Time deposits	-	-
2.3 Loans	607	-
2.3.1 Repurchase agreements	-	-
2.3.2 Financial leasing loans	-	-
2.3.3 Other	607	-
2.4 Debts for commitments to repurchase own equity instruments	-	-
2.5 Lease liabilities	-	-
2.6 Other debts	2	2
<b>TOTAL (Book value)</b>	<b>609</b>	<b>2</b>
<b>Fair value - level 1</b>	-	-
<b>Fair value - level 2</b>	<b>2</b>	<b>2</b>
<b>Fair value - level 3</b>	<b>607</b>	-
<b>Total Fair value</b>	<b>609</b>	<b>2</b>

**1.2 Bis Breakdown of "Due to banks": subordinated debts**

As at 31 December 2020 subordinated debts amounted to 606 million euro, entirely attributable to Intesa Sanpaolo Vita.

**1.3 Bis Breakdown of "Due to banks": structured debts**

There were no structured debts pertaining to Insurance Companies as at 31 December 2020.

**1.4 Bis Due to banks subject to microhedging**

There were no structured debts due to banks subject to microhedging pertaining to Insurance Companies as at 31 December 2020.

**1.5 Bis Lease payables**

Lease payables are quantified by applying IFRS 16.

**1.6 Bis Due to customers: breakdown**

Transaction type/Amount	(millions of euro)	
	31.12.2020	31.12.2019
1. Current accounts and deposits	-	-
2. Time deposits	-	-
3. Loans	-	-
3.1 Repurchase agreements	-	-
3.2 Financial leasing loans	-	-
3.3 Other	-	-
4. Debts for commitments to repurchase own equity instruments	341	-
5. Lease liabilities	7	8
6. Other debts	80	69
<b>Total (Book value)</b>	<b>428</b>	<b>77</b>
<b>Fair value - level 1</b>	<b>-</b>	<b>-</b>
<b>Fair value - level 2</b>	<b>348</b>	<b>7</b>
<b>Fair value - level 3</b>	<b>80</b>	<b>69</b>
<b>Total Fair Value</b>	<b>428</b>	<b>76</b>

The amount under Debts for commitments to repurchase own equity instruments refers to put options sold with minority stakes of fully consolidated equity investments as underlying asset, attributable to the Put & Call Agreement for the purchase of 50% of Intesa Sanpaolo RBM Salute S.p.A.

**1.7 Bis Breakdown of “Due to customers”: subordinated debts**

There were no subordinated debts due to customers pertaining to Insurance Companies as at 31 December 2020.

**1.8 Bis Breakdown of “Due to customers”: structured debts**

There were no structured debts due to customers pertaining to Insurance Companies as at 31 December 2020.

**1.9 Bis Due to customers subject to microhedging**

There were no amounts due to customers subject to microhedging pertaining to Insurance Companies as at 31 December 2020.

**1.10 Bis Lease payables**

Lease payables are quantified by applying IFRS 16.

**1.11 Bis Securities issued: breakdown**

Transaction type/Amount	(millions of euro)							
	31.12.2020				31.12.2019			
	Book value	Fair Value			Book value	Fair Value		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 3	
<b>A. Securities</b>								
1. Bonds	898	-	898	-	747	-	747	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	898	-	898	-	747	-	747	-
2. Other	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-	-	-
<b>Total</b>	<b>898</b>	<b>-</b>	<b>898</b>	<b>-</b>	<b>747</b>	<b>-</b>	<b>747</b>	<b>-</b>

**1.12 Bis Breakdown of “Securities issued”: subordinated securities**

As at 31 December 2020, a total of 898 million euro pertaining to insurance companies, fully attributable to Level 2 other bonds (fair value 898 million euro), which at the end of 2019 amounted to 747 million euro.

**1.13 Bis Breakdown of “Securities issued”: securities subject to microhedging**

There were no Securities issued subject to microhedging pertaining to Insurance Companies.

## SECTION 2 – FINANCIAL LIABILITIES HELD FOR TRADING – CAPTION 20

## 2.1 Financial liabilities held for trading: breakdown

(millions of euro)

Transaction type/Amount	31.12.2020					31.12.2019				
	Nominal or notional amount	Fair value			Fair value (*)	Nominal or notional amount	Fair value			Fair value (*)
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3		
<b>A. Cash liabilities</b>										
1. Due to banks	11,117	12,913	210	-	13,123	3,978	4,616	8	-	4,624
2. Due to customers	2,438	2,810	12	-	2,822	2,274	2,440	4	-	2,444
3. Debt securities	4,736	-	4,821	-	X	6,264	5,918	442	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other	4,736	-	4,821	-	X	6,264	5,918	442	-	X
3.2.1 Structured	4,736	-	4,821	-	X	6,264	5,918	442	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
<b>Total A</b>	<b>18,291</b>	<b>15,723</b>	<b>5,043</b>	<b>-</b>	<b>15,945</b>	<b>12,516</b>	<b>12,974</b>	<b>454</b>	<b>-</b>	<b>7,068</b>
<b>B. Derivatives</b>										
1. Financial derivatives	X	19	36,367	122	X	X	5,446	25,166	99	X
1.1 Trading	X	19	36,343	106	X	X	5,446	25,101	75	X
1.2 Fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	24	16	X	X	-	65	24	X
2. Credit derivatives	X	-	1,758	1	X	X	2	1,084	1	X
2.1 Trading	X	-	1,758	1	X	X	2	1,084	1	X
2.2 Fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
<b>Total B</b>	<b>X</b>	<b>19</b>	<b>38,125</b>	<b>123</b>	<b>X</b>	<b>X</b>	<b>5,448</b>	<b>26,250</b>	<b>100</b>	<b>X</b>
<b>Total (A+B)</b>	<b>18,291</b>	<b>15,742</b>	<b>43,168</b>	<b>123</b>	<b>X</b>	<b>12,516</b>	<b>18,422</b>	<b>26,704</b>	<b>100</b>	<b>X</b>

(\*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies.

Repurchase agreements related to assets sold not derecognised are detailed in Part E - Section E 2.

The aggregate 3.2.1 Other structured securities includes securitised derivatives which provide for partial or full redemption of the premiums paid on maturity, pursuant to Bank of Italy Circular no. 1034598/14 of 21 October 2014, issued by the Group throughout 2019. The market environment resulting from the COVID-19 emergency also had a significant effect on the trend in own credit risk (DVA), which recorded a sudden and material increase. The analysis of the number of daily trades and their values on the two related listed markets (EuroTLX and SeDeX) showed an extremely illiquid situation, especially in the initial months of the year, as well as a significant widening of the bid-ask spread. As a result, the certificates previously classified at level 1 of the fair value hierarchy were transferred to level 2.

Derivative instruments include 4,683 million euro in certificates with characteristics similar to financial derivative instruments due to the prevalence of market risk in relation to the return of the premiums paid.

The changes in fair value recorded during the year due to the change in its own credit rating were negative by 77 million euro and related to derivatives and Debt securities - Other.

## 2.2 Breakdown of “Financial liabilities held for trading”: subordinated liabilities

As at 31 December 2020, the Group did not have any subordinated liabilities classified under Financial liabilities held for trading.

## 2.3 Breakdown of “Financial liabilities held for trading”: structured debts

As at 31 December 2020, structured debts classified under Financial liabilities held for trading amounted to 42 million euro due to customers and 27 million euro due to banks.

## SECTION 3 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE – CAPTION 30

## 3.1 Financial liabilities designated at fair value: breakdown

Transaction type/Amount	31.12.2020					31.12.2019				
	Nominal value	Fair value			Fair value (*)	Nominal value	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
<b>1. Due to banks</b>	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
<i>of which:</i>										
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
<b>2. Due to customers</b>	<b>5</b>	-	<b>4</b>	-	<b>4</b>	<b>4</b>	-	<b>4</b>	-	<b>4</b>
2.1 Structured	5	-	4	-	X	4	-	4	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
<i>of which:</i>										
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
<b>3. Debt securities</b>	<b>2,930</b>	-	<b>3,028</b>	-	<b>2,878</b>	-	-	-	-	-
3.1 Structured	2,930	-	3,028	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
<b>Total</b>	<b>2,935</b>	-	<b>3,032</b>	-	<b>2,882</b>	<b>4</b>	-	<b>4</b>	-	<b>4</b>

(\*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

The illustration of the criteria used to determine fair value is contained in Part A – Accounting policies.

The Group has classified the LECOIP for the employment agreements, terminated early, of employees of Group companies and life policies connected to social initiatives, managed by the Group based on fair value, under sub-caption 2.1 “Due to customers – structured”.

The Group has classified the certificates which provide for partial or full redemption of the premiums paid on maturity to sub-caption 3.1 “Debt securities – structured”. As they were issued after 1 January 2020, these are classified under “Financial liabilities designated at fair value” (Fair Value Option), as a result of the implementation of a new business model for the distribution of those instruments based on a banking book approach, with the goal of generating stable inflows.

Certificates representing Financial liabilities designated at fair value record the related changes in fair value attributable to changes in own credit risk in the statement of comprehensive income (shareholders’ equity). During the year, the changes attributable to the Group’s own credit rating were negative for 143 million euro, in addition to 7 million euro attributable to the companies of the UBI Group acquired during the year, posted under shareholders’ equity reserves.

## 3.2 Breakdown of “Financial liabilities designated at fair value”: subordinated liabilities

As at 31 December 2020, the Group did not have any subordinated liabilities classified under Financial liabilities designated at fair value.

**SECTION 3 BIS – FINANCIAL LIABILITIES PERTAINING TO INSURANCE COMPANIES MEASURED AT FAIR VALUE PURSUANT TO IAS 39 - CAPTION 35**

The breakdown of the IAS 39 captions included in caption 35 of the Balance Sheet Liabilities pertaining to insurance companies is provided below.

In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by Bank of Italy Circular 262, "Caption 35 Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39" was created, which comprises the components set out in the table below:

<b>Breakdown of financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39 - Caption 35</b>	<b>31.12.2020</b>	<b>31.12.2019</b>
40. Financial liabilities held for trading	58	45
50. Financial liabilities designated at fair value through profit or loss	77,149	75,886
60. Hedging derivatives	-	4
<b>Total - Caption 35</b>	<b>77,207</b>	<b>75,935</b>

**3.1 Bis Financial liabilities held for trading: breakdown**

Transaction type/Amount	(millions of euro)									
	31.12.2020					31.12.2019				
	Nominal or notional amount	Fair value			Fair value (*)	Nominal or notional value	Fair value			Fair value (*)
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3			
<b>A. Cash liabilities</b>										
<b>1. Due to banks</b>	-	-	-	-	-	-	-	-	-	-
<b>2. Due to customers</b>	-	-	-	-	-	-	-	-	-	-
<b>3. Debt securities</b>	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	-
3.2 Other	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	-
3.2.2 Other	-	-	-	-	X	-	-	-	-	-
<b>Total A</b>	-	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>										
<b>1. Financial derivatives</b>	X	4	54	-	X	X	-	45	-	X
1.1 Trading	X	4	48	-	X	X	-	45	-	X
1.2 Fair value option	X	-	6	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
<b>2. Credit derivatives</b>	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
<b>Total B</b>	X	4	54	-	X	X	-	45	-	X
<b>Total (A+B)</b>	X	4	54	-	X	X	-	45	-	X

(\*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

**3.2 Bis Breakdown of "Financial liabilities held for trading": subordinated liabilities**

With regard to Financial liabilities held for trading: subordinated liabilities, no amounts were recorded for Insurance Companies as at 31 December 2020.

**3.3 Bis Breakdown of "Financial liabilities held for trading": structured debts**

With regard to Financial liabilities held for trading: structured debts, no amounts were recorded for Insurance Companies as at 31 December 2020.



**3.4 Bis Financial liabilities measured at fair value: breakdown**

(millions of euro)

Type of transaction/Values	31.12.2020					31.12.2019				
	Nominal value	Fair value			Fair value (*)	Nominal value	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
<b>1. Due to banks</b>	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
<b>2. Due to customers</b>	<b>77,149</b>	-	<b>77,149</b>	-	<b>78,165</b>	<b>75,886</b>	-	<b>75,886</b>	-	<b>75,886</b>
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	77,149	-	77,149	-	X	75,886	-	75,886	-	X
<b>3. Debt securities</b>	-	-	-	-	-	-	-	-	-	-
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
<b>Total</b>	<b>77,149</b>	-	<b>77,149</b>	-	<b>78,165</b>	<b>75,886</b>	-	<b>75,886</b>	-	<b>75,886</b>

(\*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

**3.5 Bis Breakdown of “Financial liabilities measured at fair value”: subordinated liabilities**

There were no subordinated liabilities classified under Financial liabilities measured at fair value as at 31 December 2020.

**3.6 Bis Hedging derivatives: breakdown by type of hedge and level**

	Fair value 31.12.2020			Notional value 31.12.2020	Fair value 31.12.2019			Notional value 31.12.2019
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>A) Financial derivatives</b>	-	-	-	-	-	<b>4</b>	-	<b>141</b>
1) fair value	-	-	-	-	-	-	-	-
2) cash flows	-	-	-	-	-	4	-	141
3) foreign investments	-	-	-	-	-	-	-	-
<b>B) Credit derivatives</b>	-	-	-	-	-	-	-	-
1) fair value	-	-	-	-	-	-	-	-
2) cash flows	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	<b>4</b>	-	<b>141</b>

**3.7 Hedging derivatives: breakdown by hedged portfolio and type of hedge**

There were no hedging derivatives for hedged portfolios pertaining to Insurance Companies.

## SECTION 4 – HEDGING DERIVATIVES – CAPTION 40

## 4.1 Hedging derivatives: breakdown by type of hedge and level

Captions	Fair value 31.12.2020			Notional value 31.12.2020	Fair value 31.12.2019			Notional value 31.12.2019
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>A) Financial derivatives</b>	<b>1</b>	<b>7,084</b>	<b>3</b>	<b>153,406</b>	<b>-</b>	<b>9,284</b>	<b>4</b>	<b>137,400</b>
1) Fair value	1	3,386	3	147,451	-	7,592	4	131,347
2) Cash flows	-	3,698	-	5,955	-	1,692	-	6,053
3) Foreign investments	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1</b>	<b>7,084</b>	<b>3</b>	<b>153,406</b>	<b>-</b>	<b>9,284</b>	<b>4</b>	<b>137,400</b>

## 4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions/Type of hedge	FAIR VALUE							CASH FLOW		FOREIGN INVESTM.
	Specific							Generic		
	debt securities and interest rates	equities and stock indices	foreign exchange rates and gold	credit risk	commodities	other		Specific	Generic	
1. Financial assets measured at fair value through other comprehensive income	156	-	14	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	2,260	X	279	-	X	X	X	5	X	X
3. Portfolio	X	X	X	X	X	X	516	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
<b>Total assets</b>	<b>2,416</b>	<b>-</b>	<b>293</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>516</b>	<b>5</b>	<b>-</b>	<b>-</b>
1. Financial liabilities	44	X	121	-	-	-	X	16	X	X
2. Portfolio	X	X	X	X	X	X	-	X	3,677	X
<b>Total liabilities</b>	<b>44</b>	<b>-</b>	<b>121</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16</b>	<b>3,677</b>	<b>-</b>
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

The table indicates negative fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.

These mainly refer to fair value micro hedges of loans disbursed and cash flow macro hedges of portfolios of liabilities. These cash flow hedges refer to floating-rate securities used to fund fixed-rate investments.

## SECTION 5 – FAIR VALUE CHANGE OF FINANCIAL LIABILITIES IN HEDGED PORTFOLIOS – CAPTION 50

## 5.1 Fair value change of hedged liabilities

Fair value change of hedged liabilities/Group members	31.12.2020	31.12.2019
1. Positive fair value change of financial liabilities	733	527
2. Negative fair value change of financial liabilities	-	-
<b>Total</b>	<b>733</b>	<b>527</b>

**SECTION 6 – TAX LIABILITIES – CAPTION 60**

For information on this section, see Section 11 of Assets.

**SECTION 7 – LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – CAPTION 70**

For information on this section, see Section 12 of Assets.

**SECTION 8 – OTHER LIABILITIES – CAPTION 80****8.1 Other liabilities: breakdown**

Captions	(millions of euro)
Other	8,043
Due to tax authorities	2,099
Due to suppliers	1,979
Amounts to be credited and items under processing	1,223
Personnel charges	473
Amounts due to third parties	424
Due to social security entities	198
<b>TOTAL 31.12.2020</b>	<b>14,439</b>
<b>TOTAL 31.12.2019</b>	<b>12,070</b>

The sub-caption “Other” includes the following main components: (i) illiquid portfolio items and transactions in securities for 2,744 million euro; (ii) credit transfers being executed for 1,663 million euro; and (iii) accrued expenses and deferred income for 758 million euro.

That sub-caption also includes, as required by paragraph 116 a) of IFRS 15, liabilities arising from contracts with customers of 96 million euro.

**SECTION 9 – EMPLOYEE TERMINATION INDEMNITIES – CAPTION 90****9.1 Employee termination indemnities: annual changes**

Captions	31.12.2020	31.12.2019
<b>A. Initial amount</b>	<b>1,134</b>	<b>1,190</b>
<b>B. Increases</b>	<b>545</b>	<b>315</b>
B.1 Provisions in the year	9	16
B.2 Other	536	299
- of which business combinations	277	-
<b>C. Decreases</b>	<b>-479</b>	<b>-371</b>
C.1 Benefits paid	-148	-147
C.2 Other	-331	-224
- of which business combinations	-1	-
<b>D. Final amount</b>	<b>1,200</b>	<b>1,134</b>
<b>Total</b>	<b>1,200</b>	<b>1,134</b>

C.1. refers to benefits paid as at 31 December 2020.

For greater detail on actuarial calculations, see Section 10.5 – Post employment defined benefit plans.

**9.2 Other information**

The present value of employee termination indemnities qualifying as unfunded defined benefit plans totalled 1,200 million euro as at 31 December 2020, while at the end of 2019 it amounted to 1,134 million euro.

**SECTION 10 – ALLOWANCES FOR RISKS AND CHARGES – CAPTION 100****10.1 Allowances for risks and charges: breakdown**

Captions/Components	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Allowances for credit risk associated with commitments and financial guarantees given</b>	<b>626</b>	<b>482</b>
<b>2. Allowances on other commitments and other guarantees given</b>	-	-
<b>3. Post-employment benefits</b>	<b>324</b>	<b>232</b>
<b>4. Other allowances for risks and charges</b>	<b>5,014</b>	<b>3,283</b>
4.1 legal disputes	965	770
4.2 personnel charges	2,601	1,632
4.3 other	1,448	881
<b>Total</b>	<b>5,964</b>	<b>3,997</b>

There are no amounts attributable to the caption “2 – Allowances on other commitments and other guarantees given”.

The contents of 4 – Other allowances for risks and charges are illustrated in point 10.6 below.

**10.2 Allowances for risks and charges: annual changes**

Captions	(millions of euro)			
	Allowances on other commitments and other guarantees given	Post-employment benefits	Other allowances for risks and charges	Total
<b>A. Initial amount</b>	-	<b>232</b>	<b>3,283</b>	<b>3,515</b>
<b>B. Increases</b>	-	<b>111</b>	<b>4,520</b>	<b>4,631</b>
B.1 Provisions in the year	-	6	4,097	4,103
B.2 Time value changes	-	2	1	3
B.3 Changes due to discount rate variations	-	-	-	-
B.4 Other	-	103	422	525
- of which business combinations	-	81	356	437
<b>C. Decreases</b>	-	<b>-19</b>	<b>-2,789</b>	<b>-2,808</b>
C.1 Uses in the year	-	-12	-1,162	-1,174
C.2 Changes due to discount rate variations	-	-	-5	-5
C.3 Other	-	-7	-1,622	-1,629
- of which business combinations	-	-	-	-
<b>D. Final amount</b>	-	<b>324</b>	<b>5,014</b>	<b>5,338</b>

As specified in the comment to the previous table, there are no amounts attributable to the caption “Allowances on other commitments and other guarantees given”.

Other allowances for risks and charges include net provisions of 797 million euro to caption 200, letter b) of the income statement and net provisions to other income statement captions, for the residual amount. These include the provision related to the capital loss connected to the sales of the Going Concerns to BPER and Banca di Puglia e Basilicata for 1,572 million euro, the provision made as a consequence of the agreement on exit incentives signed with the trade unions on 29 September 2020, as a result of the integration with UBI Banca, and the provisions recognised in relation to the charges for integration of the UBI Group.

Sub-caption C.3 “Other” includes allowances for risks and charges allocated against the sale of the Going Concerns to BPER, transferred to “Liabilities associated with non-current assets held for sale”.

Lastly, as at 31 December 2020 there were variations amounting to 5 million euro due to changes in the discounting rate.

**10.3 Allowances for credit risk associated with commitments and financial guarantees given**

Captions	(millions of euro)			
	Allowances for credit risk associated with commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	Total
1. Commitments to disburse funds	98	85	95	278
2. Financial guarantees given	35	70	243	348
<b>Total</b>	<b>133</b>	<b>155</b>	<b>338</b>	<b>626</b>

**10.4 Allowances on other commitments and other guarantees given**

As at 31 December 2020, there were no allowances on other commitments and other guarantees given.

**10.5 Post-employment defined benefit plans***1. Illustration of the characteristics of the funds and related risks*

As already illustrated in Part A – Accounting policies, for defined benefit plans, the liability of the Bank, according to IAS 19 “Employee Benefits”, is determined via the “projected unit credit method” by an independent actuary.

The defined benefit plans, in which the Intesa Sanpaolo Group companies are co-obliged, can be distinguished in:

- internal supplementary pension funds;
- external supplementary pension funds.

Internal funds include:

- Three defined benefit plans in force for the London branch, relating to the former Cariplo, Banca Commerciale Italiana and Banco Ambrosiano Veneto branches. The private pension funds have been set up by the UK employers to integrate the levels of the local state pension, which has always been very low. The London branches of Banca Commerciale Italiana, Cariplo and Banco Ambrosiano Veneto set up defined benefit plans for their employees at the time of their opening, under the form of Trusts incorporated under English law and managed by Boards of Trustees, appointed partly by the employers and partly by beneficiaries. Such funds are operational for employees hired until the end of 1999 for Banco Ambrosiano Veneto and Cariplo and until the end of 2000 for Banca Commerciale Italiana. In general, all funds guarantee a pension payable when the beneficiary turns 65 and the benefit is determined, with different rules for the various funds, on the basis of the annual gross wage received in the last year of service;
  - Post-retirement medical plan and other benefits for employees of Bank of Alexandria (Egypt): defined benefit plans providing health coverage and other benefits to employees, even after retirement. The bank is responsible for the costs and risks related to the disbursement of said benefits;
  - Defined benefit plans in effect within Banca Intesa Beograd: these are long-term benefits established by the Collective Contract (which refers to provisions of law in the Republic of Serbia) for employees in service to be paid upon termination of employment;
  - Defined benefit plans at UBI Banca: in general, the purpose of these is to guarantee to subscribers a benefit to supplement the pensions paid by the “disability, retirement and survivors” fund managed by INPS, in the amount and using the methods set out in the individual regulations. These include the Funds pertaining to the former Centrobanca, the former Banca Regionale Europea, the former Carime and the former Banca Adriatica. The Supplementary Pension Fund for Personnel of Centrobanca - Banca Centrale di Credito Popolare S.p.A., which has a residual number of 8 subscriber retirees, and provides a direct supplementary pension for retirement and seniority, once the requirements to access the benefits provided by INPS are met (provided that the retiree has been a subscriber of the Fund for at least 15 years) and a direct supplementary pension for disability, once the requirements to access the benefits provided by INPS are met (provided that at least 5 years have passed since registering with the Fund).
- The Fund for personnel of the former Banca Regionale Europea is a fund that supplements the Compulsory Insurance for Disability, Retirement and Survivors for the personnel of Banca Regionale Europea (incorporated into UBI Banca effective in November 2016) deriving from the former Banca del Monte di Lombardia and the former Cassa di Risparmio di Cuneo. The fund provides the following benefits as a direct pension:
- o for retirement, when the subscribers have reached the contractual age limits in force at the specific time, provided that they have participated in the Fund for at least 15 years;
  - o for seniority, when the subscribers have reached the minimum threshold of service in force at the specific time, set out in the contract;
  - o for disability, when, having certified the status of disability at any age, seniority that can be calculated for the benefit of at least five years has been reached or, with any seniority, if the disability is permanent and derives from work-related causes.

Moreover, survivors of the subscriber shall be due an indirect pension in the event of death in service after one year of membership in the Fund or after any period if the death derives from work-related causes, and a survivor's pension in the event of death, provided that the direct pension has been liquidated.

The Fund of the former Carime, merged into UBI Banca in February 2017, in turn includes the following funds: the Fund of the former Cassa di Risparmio di Calabria e Lucania, the Fund of the former Cassa di Risparmio di Puglia

and the Fund of the former Cassa di Risparmio Salernitana. The funds provide the following pension benefits, as direct pensions for:

- o retirement, when the members reach 60 years of age, for men, or 55 years of age, for women, and provided that they have at least 15 years of service;
- o seniority, when the members have accrued 35 years of service, for men, or 30 years, for women, irrespective of their age;
- o disability, at any age, when they are absolutely and permanently unable to work and are subscribers of the fund (moreover, for the Fund of the former Cassa di Risparmio di Puglia, the disability must be due to work-related causes and for the Fund of the former Cassa di Risparmio Salernitana, at least 5 years' participation is required).

Moreover, survivors of the subscriber shall be due an indirect pension in the event of death in service, and a survivor's pension in the event of death, provided that the direct pension has been liquidated.

The Fund of the former Banca Adriatica, merged into UBI Banca in October 2017, includes, in turn: the Retirement Fund for personnel in the lending segment of the former Cassa di Risparmio di Macerata S.p.A. (former Banca Ca.Ri.Ma.), the Retirement Fund for former employees of Banca Ca.Ri.Ma., transferred to Se.Ri.Ma. (now Equitalia Servizi di Riscossione S.p.A.), the Retirement Fund for personnel of the former Mediocredito Fondiario Centro Italia Spa, the Retirement Fund for personnel in the tax-collection segment of the former Cassa di Risparmio di Pesaro, the Retirement Fund for personnel of the former Cassa di Risparmio di Jesi, the Retirement Fund for personnel in the tax-collection segment of the former Cassa di Risparmio di Pesaro Spa, transferred to the former SE.RI.T. S.p.A.

External funds include:

- the Intesa Sanpaolo Group Defined-Benefit Pension Fund "Fondo Pensione a Prestazione definita del Gruppo Intesa Sanpaolo", the new name given to the former Supplementary Pension Fund for the Employees of Banco di Napoli "Fondo di Previdenza Complementare per il Personale del Banco di Napoli – Sezione A", identified as a collector of other "defined benefit" forms under the reorganisation and rationalisation of the existing pension schemes within the Intesa Sanpaolo Group, with protection of the rights of the (active and retired) subscribers. To this end, the "Fund" – in the virtually separated sections within Section A – has been assigned the asset captions contained in the financial statements of the pre-existing pension schemes, in order to ensure full coverage of the supplementary benefits. The Fund, which is a legal entity with independently managed assets, includes the following: employees enrolled in the plan and other beneficiaries from former Banco di Napoli; retired employees receiving Supplementary Pension Cheques, formerly the SANPAOLO IMI internal fund; current and retired employees of the Cassa di Risparmio in Bologna, formerly enrolled in the Complementary pension fund for the employees of said bank, transferred to the Complementary pension fund for the employees of Banco di Napoli in 2004; retired employees of the Complementary pension fund of the former Fin.Opi, transferred to the Fund in question on 1 June 2005; current and retired employees of Banca Popolare dell'Adriatico, formerly enrolled in the Company pension fund for the employees of the former Banca Popolare dell'Adriatico, transferred to the Fund in question on 30 June 2006; retired employees of Cassa di Risparmio di Udine e Pordenone, formerly enrolled in the Complementary pension fund for the Employees of said bank, transferred to the Fund in 2006; retired employees of Cassa di Risparmio di Forlì, formerly enrolled in the Complementary pension fund for the employees of said bank, transferred to the Fund in question on 1 January 2007; retired employees of the former Carive internal Fund, transferred to the Fund in question on 1 January 2008; retired employees of the former CR Firenze FIP internal fund, transferred to the Fund in question on 1 January 2010; retired employees of Cassa di Risparmio di Terni e Narni internal fund, transferred to the Fund in question on 1 January 2010; retired employees of Cassa di Risparmio di Pistoia e Pescia internal fund, transferred to the Fund in question on 1 September 2012; retired tax-collection personnel of the Supplementary pension fund for tax-collection personnel formerly employed by Cariplo, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the supplementary pension fund for employees of Mediocredito Lombardo S.p.A., transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Pension Fund for key Managers, former Key Managers and entitled parties of former Comit, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the "Casse del Centro" Pension Funds, in particular those enrolled in the Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Città di Castello, Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Foligno, Company supplementary pension AGO fund for employees of Cassa di Risparmio di Spoleto, Supplementary/complementary pension fund for the mandatory pension for employees of Cassa di Risparmio di Rieti, Pension fund for the Employees of Cassa di Risparmio della Provincia di Viterbo and Company supplementary pension fund for employees of Cassa di Risparmio di Ascoli Piceno, transferred to the Fund in question on 1 January 2015; retired employees already formerly enrolled in the Company Supplementary pension of INPS benefits for employees of Cassa di Risparmio di Civitavecchia, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the supplementary fund of SIL – Società Italiana Leasing S.p.A., transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of Banca Monte Parma, transferred to the Fund in question on 1 January 2016; employees and retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of the former Crediop hired before 30 September 1989, transferred to the Fund in question on 1 January 2016; retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of Cassa di Risparmio di Mirandola, transferred to the Fund in question on 1 April 2016; retired employees formerly enrolled in the Pension Fund for the Personnel of the former Cassa di Risparmio di Prato transferred to the Fund in question on 1 May 2018; retired employees formerly enrolled in the Defined Benefit Plan of the former Cassa di Risparmio di Fabriano e Cupramontana transferred to the Fund in question on 1 May 2018; current and retired employees of the Supplementary pension fund for the personnel of Istituto Bancario Sanpaolo di Torino, transferred to the Fund in



question on 1 January 2019; and current and retired employees of the Supplementary pension fund for the personnel of Cassa di Risparmio di Padova e Rovigo, transferred to the Fund in question on 1 July 2019.

It is necessary to specify that if the Fund, after approval of the financial statements, shows a technical imbalance according to the statutory method, the Articles of Association envisage immediate settlement by the Banks jointly responsible;

- Pension fund for the employees of Cariplo, a fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment in addition to AGO cheques to former Cariplo employees already retired on 30 June 1998;
- a defined benefit plan at the New York branch: the fund was established in 1977 by the branch of Banca Commerciale Italiana and guarantees a pension treatment to all the employees resident in the United States who have been in service at the Bank for at least 5 years. The benefit is considered to be accrued even if the employment relationship ceases in advance. The benefit is calculated based on the highest average wage considering three consecutive years out of the last 10 years of service, or, if the employment relationship ceases before, based on the average wage in the last three years of service. The fund is no longer managed by the New York branch, but has been fully transferred to the Prudential Fund (a defined benefit plan that manages the positions of members);
- the pension fund of Cassa di Risparmio di Firenze: fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment to the bank's employees in service as at 31 December 1990 and already enrolled in the former "contracted-out" fund;
- an employee pension plan of Intesa Sanpaolo Private Banking (Suisse) Morval SA: the plan provides supplementary benefits when the pension is due under the local social security provisions (LPP) or in the event of an unfavourable event (disability and death); the obligations are covered by dedicated assets, managed through a contractual relationship between the company and Axa Fondazione previdenza professionale, Winterthur;
- the Pension Fund of the UBI Banca Group of the former Banca Popolare di Bergamo: in implementation of the agreement of 21 March 1989, the Fund provides monthly disbursements to the beneficiaries, supplementary benefits in the form of an annuity in the amount set out in the agreement;
- The Pension Fund for Personnel of the former Banca Popolare di Ancona: the Fund disburses benefits in addition to or supplementing the benefits provided by INPS according to the regulations of 5 types of defined-benefit pensions acquired over time by way of incorporation and/or agreements. Segment I of that Fund is defined benefit, with a guarantee of settlement of the respective shares of the subscribers by UBI Banca, Credito Valtellinese and Agenzia Entrate Riscossioni.

On 5 December 2017, Intesa Sanpaolo S.p.A., also in its capacity as Parent Company, signed an agreement with the Trade Unions, as Fund Founders, for the integration of the Supplementary Pension Fund for the Personnel of Istituto Bancario San Paolo di Torino into the Supplementary Pension Fund for the Personnel of Banco di Napoli - Section A (which from 1 January 2019 changed its name to the "Fondo pensione a prestazione definita del Gruppo Intesa Sanpaolo", with registered office in Torino). This agreement also provided for the formulation of an individual capitalisation offer for the supplementary benefits to be made to the participants, which was carried out in the second half of 2018 and continued during 2019 and 2020: the subscriptions received in the current year led to a decrease in the obligation of around 10 million euro, partly covered by the Fund's assets (around 5 million euro) and partly through the use of Funds set up specifically for this purpose by the Bank, under the guarantee given (around 5 million euro).

With regard to the investment and integrated risk management policies, the Funds verify the level of coverage and the possible outcomes under various scenarios. For this purpose, various investment configurations and portfolio mixes and allocations are defined, in order to satisfy the pension and profitability objectives as adequately as possible.

## *2. Changes in the year of net liabilities (assets) with defined benefits and redemption rights*

As already illustrated in Part A – Accounting policies, for defined benefit plans, the liability is determined by the "projected unit credit method" and is recorded in the balance sheet net of any plan assets. Moreover, with application of the new revised IAS 19 from 1 January 2013, actuarial profits and losses calculated in the valuation process for the plans are immediately recognised in the statement of comprehensive income and, therefore, in shareholders' equity.

(millions of euro)

Pension plan liabilities defined benefit obligations	31.12.2020			31.12.2019		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
<b>Initial amount</b>	<b>1,134</b>	<b>253</b>	<b>1,734</b>	<b>1,190</b>	<b>199</b>	<b>1,775</b>
Current service costs	4	3	8	3	3	7
Recognised past service costs	-	-	-	-	-	-
Interest expense	5	14	10	13	15	21
Actuarial losses due to changes in financial assumptions	25	17	66	57	22	125
Actuarial losses due to changes in demographic assumptions	6	-	1	1	3	35
Actuarial losses based on past experience	3	11	8	1	4	2
Positive exchange differences	-	-	-	-	16	3
Increases - business combinations	277	81	9	-	-	-
Participants' contributions	X	-	1	X	-	1
Actuarial profits due to changes in financial assumptions	-	-4	-	-	-	-
Actuarial profits due to changes in demographic assumptions	-10	-2	-1	-	-	-
Actuarial profits based on past experience	-29	-	-10	-	-	-30
Negative exchange differences	-	-14	-2	-	-	-
Benefits paid	-148	-13	-119	-147	-8	-125
Decreases - business combinations	-1	-	-	-	-	-
Curtailments of the fund	X	-	-14	X	-	-77
Settlements of the fund	X	-	-	X	-	-
Other increases	225	-	1	240	-	1
Other decreases	-291	-1	-	-224	-1	-4
<b>Final amount</b>	<b>1,200</b>	<b>345</b>	<b>1,692</b>	<b>1,134</b>	<b>253</b>	<b>1,734</b>

Pension plan liabilities defined benefit obligations	31.12.2020			31.12.2019		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Unfunded plans	1,200	167	-	1,134	84	-
Partly funded plans	-	-	-	-	-	-
Wholly funded plans	-	178	1,692	-	169	1,734

The actuarial gains and losses recorded for variations in financial assumptions are due to the changes in the rates. The trend of the EUR Composite AA curve used for calculating the current value of defined benefit obligations showed an average decline of 0.49% for the various maturities, compared to the previous year.

### 3. Information on the fair value of plan assets

The following tables show the changes in plan assets for certain defined benefit plans and their composition.

(millions of euro)

Plan assets	31.12.2020		31.12.2019	
	Internal plans	External plans	Internal plans	External plans
<b>Initial amount</b>	<b>132</b>	<b>1,577</b>	<b>109</b>	<b>1,616</b>
Return on assets net of interest	2	52	11	75
Interest income	2	9	3	19
Positive exchange differences	-	-	6	2
Increases - business combinations	-	9	-	-
Employer contributions	5	3	6	3
Participants' contributions	-	2	-	-
Negative exchange differences	-7	-2	-	1
Decreases - business combinations	-	-	-	-
Benefits paid	-3	-119	-	-125
Curtailments of the fund	-	-9	-3	-39
Settlements of the fund	-	-	-	-
Other changes	-	14	-	25
<b>Final amount</b>	<b>131</b>	<b>1,536</b>	<b>132</b>	<b>1,577</b>

(millions of euro)

Plan assets: additional information	31.12.2020				31.12.2019			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
<b>Equities</b>	67	51.1	267	17.4	70	53.0	243	15.4
- of which level-1 fair value	67		246		70		224	
<b>Mutual funds</b>	-	-	279	18.2	-	-	224	14.2
- of which level-1 fair value	-		216		-		165	
<b>Debt securities</b>	52	39.7	478	31.1	50	37.9	587	37.2
- of which level-1 fair value	52		472		50		587	
<b>Real estate assets and investments in real estate companies</b>	8	6.1	409	26.6	8	6.1	434	27.5
- of which level-1 fair value	-		-		-		-	
<b>Insurance business</b>	-	-	-	-	-	-	-	-
- of which level-1 fair value	-		-		-		-	
<b>Other assets</b>	4	3.1	103	6.7	4	3.0	89	5.7
- of which level-1 fair value	-		-		-		-	
<b>TOTAL ASSETS</b>	<b>131</b>	<b>100.0</b>	<b>1,536</b>	<b>100.0</b>	<b>132</b>	<b>100.0</b>	<b>1,577</b>	<b>100.0</b>

(millions of euro)

Plan assets: additional information	31.12.2020				31.12.2019			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
<b>Equities</b>	67	51.1	267	17.4	70	53.0	243	15.4
- of which financial companies	67		59		70		59	
- of which non financial companies	-		208		-		184	
<b>Mutual funds</b>	-	-	279	18.2	-	-	224	14.2
<b>Debt securities</b>	52	39.7	478	31.1	50	37.9	587	37.2
<b>Government bonds</b>	52		252		50		367	
- of which investment grade	52		248		50		367	
- of which speculative grade	-		4		-		-	
Financial companies	-		105		-		115	
- of which investment grade	-		75		-		84	
- of which speculative grade	-		30		-		31	
Non Financial companies	-		121		-		105	
- of which investment grade	-		87		-		79	
- of which speculative grade	-		34		-		26	
<b>Real estate assets and investments in real estate companies</b>	8	6.1	409	26.6	8	6.1	434	27.5
<b>Insurance business</b>	-	-	-	-	-	-	-	-
<b>Other assets</b>	4	3.1	103	6.7	4	3.0	89	5.7
<b>TOTAL ASSETS</b>	<b>131</b>	<b>100.0</b>	<b>1,536</b>	<b>100.0</b>	<b>132</b>	<b>100.0</b>	<b>1,577</b>	<b>100.0</b>

The difference between net defined benefit liabilities (see the previous disclosure, Table 10.5, point 2) and the plan assets (see the previous disclosure, Table 10.5, point 3) is recognised under the post-employment plans and, in some cases, under other allowances for risks and charges.

#### 4. Description of the main actuarial assumptions

The table below indicates the actuarial assumptions and interest rates used by the various funds.

Actuarial assumptions	31.12.2020				31.12.2019			
	Discount rates	Expected rate of return	Expected rates of wage rises	Annual inflation rate	Discount rates	Expected rate of return	Expected rates of wage rises	Annual inflation rate
<b>EMPLOYEE TERMINATION INDEMNITIES</b>	0.0%	X	0.0%	-	from 0.42% to 1.72%	X	from 2.44% to 2.85%	-
<b>INTERNAL PLANS</b>								
- of which Italy	from -0.0% to 0.1%	-	2.0%	1.1%	-	-	-	-
- of which Egypt	14.5%	-	6.7%	6.7%	13.8%	-	6.5%	6.5%
- of which England	1.5%	-	2.7%	2.7%	2.0%	-	1.9%	1.9%
- of which Serbia	3.0%	-	4.5%	-	3.5%	-	4.0%	-
<b>EXTERNAL PLANS</b>								
- of which Italy	from -0.1% to 0.3%	from -0% to 3.5%	from 2% to 2.5%	from 0.7% to 1.2%	from 0.4% to 0.8%	4.0%	from 2.6% to 2.7%	from 0.7% to 1.5%
- of which USA	2.3%	2.3%	-	-	3.0%	3.0%	-	-
- of which Switzerland	0.2%	-	0.0%	0.5%	0.3%	-	-	0.5%

Starting from 2013, the Intesa Sanpaolo Group primarily uses the EUR Composite AA rate as its discounting rate, weighted by the ratio of payments and advances referring to each maturity, and the total amount of payments and advances to be made for the final fulfilment of the entire obligation. In the case of defined-benefit plans in particular, the rate used is the average rate that reflects the market parameters covered by the plan. The EUR Composite AA curve is obtained daily from the Bloomberg's information provider and refers to a basket of securities issued by investment-grade corporate issuers included in the AA rating class, residing in the Eurozone and belonging to various sectors.

#### 5. Information on amount, timing and uncertainty of cash flows

Sensitivity analysis	31.12.2020					
	EMPLOYEE TERMINATION INDEMNITIES		INTERNAL PLANS		EXTERNAL PLANS	
	+50 bps	-50 bps	+50 bps	-50 bps	+50 bps	-50 bps
Discount rate	1,147	1,255	334	356	1,600	1,795
Rate of wage rises	1,200	1,200	348	342	1,717	1,669
Inflation rate	1,242	1,159	353	337	1,756	1,632

The sensitivity analysis is not conducted on the expected rate of return as it has no effect on the calculation of the liabilities.

The sensitivity analysis was carried out on the net defined benefit liabilities (pursuant to the previous disclosure, 10.5, point 2.) The absolute values of the data presented indicate the possible amount of net defined benefit liabilities in the event of a change in rate of +/-50 bps.

The average duration of the defined benefit obligation is 12.48 years for pension funds and 8.48 years for employee termination indemnities.

Any outflows to be made over the next year (settlement of the technical imbalance envisaged by the Articles of Association of the Intesa Sanpaolo Group Defined-Benefit Fund "Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo") shall be determined upon preparation of the financial statements of said Fund, which will take place in the upcoming months of May/June.

#### 6. Multi-employer plans

The Group has the following defined benefit plans regarding more than one employer:

- Pension Fund for the employees of the former Crediop hired before 30 September 1989, which on 1 January 2016 was transferred to Section A of the Supplementary Pension Fund for the Employees of Banco di Napoli (now the Intesa Sanpaolo Group Defined-Benefit Fund "Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo").

The commitments of Crediop S.p.A. (now Dexia-Crediop) and the former Sanpaolo IMI (now Intesa Sanpaolo) with regard to the Fund are governed by the agreement entered into between the parties on 28/05/1999. Its transfer into

- the Intesa Sanpaolo Group Defined-Benefit Fund “Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo” did not modify the guarantees and commitments undertaken by the parties in the past;
- Retirement Fund for former employees of Banca Ca.Ri.Ma., transferred to Se.Ri.Ma. (now Equitalia Servizi di Riscossione Spa), whose tax-collection services were transferred on 1 January 1990 to the former Equitalia Marche S.p.A. (currently Agenzia delle Entrate - Riscossione). The trade union agreement and agreements between subscribers of the operation sanctioned that the then-parent company Ca.Ri.Ma. (then Banca Marche S.p.A., then Nuova Banca Marche S.p.A. and subsequently Banca Adriatica S.p.A, then merged into UBI Banca) would continue to allocate in its financial statements the mathematical reserves pertaining to personnel hired before the operation was finalised;
  - Pension Fund for the Personnel of the former Banca Popolare di Ancona, which, as previously stated, provides a guarantee of settlement of the respective shares of the subscribers by UBI Banca, Credito Valtellinese and Agenzia Entrate Riscossioni.

#### 7. Defined benefit plans that share risks among entities under joint control

The Intesa Sanpaolo Group Defined-Benefit Fund “Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo” and the Pension fund of Cassa di Risparmio di Firenze are defined benefit plans that share the risks among the various Group Companies. These Companies issue a joint guarantee for their registered employees and pensioners with respect to the subject pension entities.

The liabilities of each jointly responsible Company are determined by an Independent Actuary through the “projected unit credit method” and are recorded in the financial statements net of the plan assets. Similarly, the current service cost, which represents the average present value at the measurement date of the benefits accrued by workers in service during the year, is calculated for each Company by said Actuary.

#### 10.6 Allowances for risks and charges – Other allowances

The allowances for legal and tax disputes mainly refer to provisions for tax disputes and provisions for anatocism, investment services, criminal proceedings and operational violations, credit recovery disputes, labour disputes, and other civil and administrative disputes.

The allowance for personnel charges includes charges for voluntary incentive-driven exit plans, including the portion from the integration of the UBI Group, and charges for seniority bonuses to employees and other charges.

Other allowances mainly relate to operational risks, private bankers indemnities, and other litigation, in addition to the allowances for charges for integration of the UBI Group.

Captions/Components	(millions of euro)	
	31.12.2020	31.12.2019
<b>Other allowances</b>		
1. legal disputes	965	770
2. personnel charges	2,601	1,632
<i>incentive-driven exit plans</i>	1,904	1,006
<i>employee seniority bonuses</i>	210	210
<i>other personnel expenses</i>	487	416
3. other risks and charges	1,448	881
<i>other indemnities due to agents of the distribution network</i>	338	290
<i>other</i>	1,110	591
<b>Total</b>	<b>5,014</b>	<b>3,283</b>

Where the time value is significant, provisions are discounted using current market rates.

More specifically, the discount rate used by the Group, for the preparation of the periodic financial reporting, is the rate corresponding to the zero-coupon IRS curve or the current rate of government securities of the country of reference if the specific risk is already considered in the calculation of expected payments.

**SECTION 11 – TECHNICAL RESERVES – CAPTION 110****11.1 Technical reserves: breakdown**

This caption corresponds to caption C of the insurance company balance sheet liabilities.

Captions	Direct work	Indirect work	(millions of euro)	
			31.12.2020	31.12.2019
<b>A. Non-life business</b>	<b>1,213</b>	-	<b>1,213</b>	<b>967</b>
A.1 premiums reserves	780	-	780	711
A2. claims reserves	424	-	424	251
A3. other reserves	9	-	9	5
<b>B. Life business</b>	<b>88,786</b>	-	<b>88,786</b>	<b>81,209</b>
B1. mathematical reserves	78,755	-	78,755	74,406
B2. reserves for amounts to be disbursed	1,136	-	1,136	686
B3. other reserves	8,895	-	8,895	6,117
<b>C. Technical reserves for investment risks to be borne by the insured</b>	<b>6,812</b>	-	<b>6,812</b>	<b>6,960</b>
C1. reserves for contracts with disbursements connected with investment funds and market indices	664	-	664	750
C2. reserves from pension fund management	6,148	-	6,148	6,210
<b>D. Total technical reserves</b>	<b>96,811</b>	-	<b>96,811</b>	<b>89,136</b>

**11.2 Technical reserves: annual changes**

Items	(millions of euro)	
	31.12.2020	31.12.2019
<b>A. Non-life insurance</b>	<b>1,213</b>	<b>967</b>
Initial amount	967	789
Business combinations	137	-
Changes in the reserve (+/-)	109	178
<b>B. Life business and other technical reserves</b>	<b>95,598</b>	<b>88,169</b>
Initial amount	88,169	80,008
Business combinations	2,045	-
Change in premiums	9,950	9,495
Change in payments	-9,003	-6,745
Changes due to income and other bonuses recognised to insured parties (+/-)	1,220	1,649
Changes due to exchange differences (+/-)	-	-
Changes in other technical reserves (+/-)	3,217	3,762
<b>C. Total technical reserves</b>	<b>96,811</b>	<b>89,136</b>

**SECTION 12 – REDEEMABLE SHARES – CAPTION 130**

Not applicable to the Group.



**SECTION 13 – GROUP SHAREHOLDERS' EQUITY – CAPTIONS 120, 130, 140, 150, 160, 170 AND 180****13.1 Share capital and Treasury shares: breakdown**

For information on this section, see point 13.3 below.

**13.2 Share capital – Parent Company's number of shares: annual changes**

	<b>Ordinary</b>
<b>A. Initial number of shares</b>	<b>17,509,728,425</b>
- fully paid-in	17,509,728,425
- not fully paid-in	-
<b>A.1 Treasury shares (-)</b>	<b>-26,380,005</b>
<b>A.2 Shares outstanding: initial number</b>	<b>17,483,348,420</b>
<b>B. Increases</b>	<b>1,927,436,679</b>
B.1 New issues	1,920,734,880
- for consideration	1,920,734,880
<i>business combinations</i>	-
<i>conversion of bonds</i>	-
<i>exercise of warrants</i>	-
<i>other (UBI public purchase and exchange offer)</i>	1,920,734,880
- for free	-
<i>in favour of employees</i>	-
<i>in favour of directors</i>	-
<i>other</i>	-
B.2 Sale of treasury shares	99,992
B.3 Other	6,601,807
<b>C. Decreases</b>	<b>-22,449,795</b>
C.1 Annulment	-
C.2 Purchase of treasury shares	-15,891,692
C.3 Disposal of companies	-
C.4 Other	-6,558,103
<b>D. Shares outstanding: final number</b>	<b>19,388,335,304</b>
D.1 Treasury shares (+)	42,128,001
D.2 Final number of shares	19,430,463,305
- fully paid-in	19,430,463,305
- not paid-in	-

**13.3 Share capital: other information**

The share capital of the Bank as at 31 December 2020 amounted to 10,084 million euro, divided into 19,430,463,305 ordinary shares, with no par value. Each ordinary share gives the right to one vote in the Shareholders' Meeting. At the date of this document, the share capital was fully paid-in. As at 31 December 2020, the Group held treasury shares for a total of 130 million euro.

**13.4 Reserves from retained earnings: other information**

Group reserves amounted to 17,461 million euro and included the legal reserve, extraordinary reserve, concentration reserves (Law 218 of 30 July 1990, art. 7, par. 3 and Law 218 of 30 July 1990, art. 7) and other reserves, as well as the consolidation reserve.

The legal reserve, set up as provided for by law, must be at least one fifth of share capital; in the past it was set up by allocating each year at least one twentieth of net income for the year. Should the reserve decrease, it must be reintegrated by allocating at least one twentieth of net income for the year.

Concentration reserves under Law 218 of 30 July 1990 were set up at the time of reorganisations or concentrations carried out pursuant to the aforementioned law.

Other reserves included reserves pertaining to international branches and other reserves set up in the past following specific legal provisions.

Consolidation reserves were generated following the elimination of the book value of equity investments against the corresponding portion of the shareholders' equity of each investment.

The valuation reserves amounted to a positive figure of 294 million euro and included valuation reserves for assets measured at fair value through other comprehensive income of 87 million euro, valuation reserves pertaining to insurance companies of 809 million euro, reserves for cash flow hedges of -781 million euro, exchange rate valuation reserves (relating to fully consolidated equity investments) of -1,184 million euro, reserves for revaluations of property and equipment and legally-required revaluation reserves of 1,878 million euro, valuation reserves relating to financial liabilities designated at fair value through profit or loss (changes in the Group's own credit rating) of -104 million euro, as well as the negative reserve on actuarial profits (losses) from defined benefit pension plans of -422 million euro, in addition to approximately 11 million euro of valuation reserves connected to minority equity investments.

**13.5 Equity instruments: breakdowns and annual changes**

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Original amount in currency	Book value (millions of euro)
Intesa Sanpaolo	6.25% fixed rate	NO	16-May-2017	perpetual	16-May-2024	Eur	750,000,000	745
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	19-Jan-2016	perpetual	19-Jan-2021	Eur	1,250,000,000	1,243
Intesa Sanpaolo	7.75% fixed rate (up to the first call date)	NO	11-Jan-2017	perpetual	11-Jan-2027	Eur	1,250,000,000	1,245
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	17-Sep-2015	perpetual	17-Sep-2025	Usd	1,000,000,000	878
Intesa Sanpaolo	3,75% fixed rate	NO	26-Feb-2020	perpetual	27-Feb-2025	Eur	750,000,000	723
Intesa Sanpaolo	4,125% fixed rate	NO	26-Feb-2020	perpetual	27-Feb-2030	Eur	750,000,000	732
Intesa Sanpaolo	5.875% fixed rate payable semi-annually	NO	01-Sep-2020	perpetual	01-Sep-2031	Eur	750,000,000	744
Intesa Sanpaolo	5.5% fixed rate payable semi-annually	NO	01-Sep-2020	perpetual	01-Mar-2028	Eur	750,000,000	743
Ubi Banca	5.875% fixed rate payable semi-annually	NO	20-Jan-2020	perpetual	20-Jan-2025	Eur	400,000,000	388
<b>Total</b>								<b>7,441</b>

**13.6 Other information**

There is no other information to report.

**SECTION 14 - MINORITY INTERESTS – CAPTION 190**

For details regarding the breakdown of minority interests, see section F, “Part B.1. Consolidated shareholders’ equity: breakdown by type of company”.

**14.1 Breakdown of caption 190 Minority interests**

(millions of euro)

Companies	31.12.2020
<b>Investments in consolidated companies with significant minority interests</b>	<b>386</b>
1 Bank of Alexandria	137
2 Pramerica SGR S.p.A.	93
3 Risanamento S.p.A.	66
4 Vseobecna Uverova Banka A.S.	50
5 Privredna Banka Zagreb DD	40
<b>Other investments</b>	<b>64</b>
<b>TOTAL 2020</b>	<b>450</b>
<b>TOTAL 2019</b>	<b>247</b>

**14.2 Equity instruments: breakdown and annual changes**

There were no equity instruments pertaining to minority interests.

## OTHER INFORMATION

## 1. Commitments and financial guarantees given – Excluding insurance companies

	Commitments and financial guarantees given - nominal amount			(millions of euro)	
				31.12.2020	31.12.2019
	Stage 1	Stage 2	Stage 3		
<b>1. Commitments to disburse funds</b>	<b>191,818</b>	<b>45,905</b>	<b>1,592</b>	<b>239,315</b>	<b>193,247</b>
a) Central Banks	1,728	34	-	1,762	1,573
b) Public administration	9,123	1,378	6	10,507	7,840
c) Banks	28,978	1,410	7	30,395	30,901
d) Other financial companies	20,132	5,219	22	25,373	17,329
e) Non-financial companies	118,711	35,706	1,496	155,913	124,835
f) Households	13,146	2,158	61	15,365	10,769
<b>2. Financial guarantees given</b>	<b>35,320</b>	<b>8,436</b>	<b>923</b>	<b>44,679</b>	<b>38,693</b>
a) Central Banks	120	-	-	120	1
b) Public administration	451	29	-	480	532
c) Banks	2,791	144	1	2,936	3,291
d) Other financial companies	914	654	4	1,572	1,185
e) Non-financial companies	30,470	7,399	908	38,777	33,223
f) Households	574	210	10	794	461

In this table - in accordance with the instructions of Circular 262 - the "commitments to disburse funds" include the commitments that can give rise to credit risk subject to the rules for determining the expected loss in accordance with IFRS 9, including revocable margins available on credit lines granted to customers and banks (for a total amount of 163,010 million euro in 2020).

## 1.Bis Commitments and financial guarantees given – Insurance companies

As at 31 December 2020 there were no exposures of this type.

## 2. Other commitments and other financial guarantees given – Excluding insurance companies

As at 31 December 2020 there were no exposures of this type.

## 3. Assets pledged as collateral of liabilities and commitments

Portfolios	(millions of euro)	
	31.12.2020	31.12.2019
1. Financial assets measured at fair value through profit or loss	1,967	8,195
2. Financial assets measured at fair value through other comprehensive income	9,107	35,316
3. Financial assets measured at amortised cost	198,061	152,316
4. Property and equipment	-	-
<i>of which: property and equipment that constitute inventories</i>	-	-

Intragroup deposits of 989 million euro, established to serve securities lending with subjects outside the Group, were netted.

**4. Breakdown of investments related to unit-linked and index-linked policies**

	(millions of euro)		
	Disbursements connected with pension funds and market indices	Disbursements in connection with pension fund management	31.12.2020
Assets in the balance sheet	80,816	6,169	86,985
Intra-group assets	266	-	266
<b>Total Assets</b>	<b>81,082</b>	<b>6,169</b>	<b>87,251</b>
Financial liabilities in the balance sheet	77,134	2,076	79,210
Technical reserves in the balance sheet	3,615	4,093	7,708
Intra-group liabilities	325	-	325
<b>Total Liabilities</b>	<b>81,074</b>	<b>6,169</b>	<b>87,243</b>

**5. Management and dealing on behalf of third parties**

Type of service	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Trading on behalf of customers</b>		
a) Purchases	655,950	617,113
1. <i>settled</i>	643,520	603,029
2. <i>to be settled</i>	12,430	14,084
b) Sales	654,024	576,949
1. <i>settled</i>	653,911	576,858
2. <i>to be settled</i>	113	91
<b>2. Portfolio management</b>		
a) individual	66,701	56,484
b) collective	175,797	133,325
<b>3. Custody and administration of securities</b>		
a) third party securities held in deposit: related to depositary bank activities (excluding portfolio management)	37,844	40,817
1. <i>securities issued by companies included in the consolidation area</i>	-	-
2. <i>other securities</i>	37,844	40,817
b) third-party securities held in deposit (excluding portfolio management): other	505,343	420,034
1. <i>securities issued by companies included in the consolidation area</i>	16,492	3,831
2. <i>other securities</i>	488,851	416,203
c) third party securities deposited with third parties	500,385	415,836
d) portfolio securities deposited with third parties	147,891	142,665
<b>4. Other</b>	<b>532,520</b>	<b>581,284</b>

**Note regarding contractual clauses of financial payables**

In relation to point 3: "IFRS 7 – Contractual clauses of financial payables", of Bank of Italy/Consob/Isvap document no. 4 of March 2010, the following is specified:

- there were no cases of non-compliance by Intesa Sanpaolo Group companies with the relative contractual clauses set forth in bond issues, medium-/long-term loans received from financial entities and other debt contracts, which involved or which could involve the application of acceleration clauses;
- bond issues, medium-/long-term loans received from Supranational Organisations and other debt contracts of Intesa Sanpaolo Group companies may contain standard negative pledges and covenants based on current practice.

Due to the nature of commitments undertaken, in line with market practices, and the remote probability of default, these clauses may be considered as immaterial.

**6. Financial assets subject to offsetting in the financial statements or subject to master netting arrangements or similar agreements**

Types	Gross amount of financial assets (a)	Amount of financial liabilities offset in the balance sheet (b)	Net amount of financial assets presented in the balance sheet (c = a-b)	Related amounts not subject to offsetting in the balance sheet		Net amount 31.12.2020 (f=c-d-e)	(millions of euro)	
				Financial instruments (d)	Cash collateral (e)		Net amount 31.12.2019	
1. Derivatives	76,804	54,645	22,159	18,083	2,535	1,541	569	
2. Repurchase agreements	24,243	-	24,243	24,159	17	67	34	
3. Securities lending	-	-	-	-	-	-	-	
4. Other	-	-	-	-	-	-	-	
<b>TOTAL</b>	<b>31.12.2020</b>	<b>101,047</b>	<b>54,645</b>	<b>46,402</b>	<b>42,242</b>	<b>2,552</b>	<b>1,608</b>	<b>X</b>
<b>TOTAL</b>	<b>31.12.2019</b>	<b>96,235</b>	<b>37,566</b>	<b>58,669</b>	<b>54,399</b>	<b>3,667</b>	<b>X</b>	<b>603</b>

**7. Financial liabilities subject to offsetting in the financial statements or subject to master netting arrangements or similar agreements**

Types	Gross amount of financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheet (c=a-b)	Related amounts not subject to offsetting in the balance sheet		Net amount 31.12.2020 (f=c-d-e)	(millions of euro)	
				Financial instruments (d)	Cash deposits pledged as collateral (e)		Ammontare netto 31.12.2019	
1. Derivatives	91,240	54,645	36,595	17,205	17,416	1,974	327	
2. Repurchase agreements	12,059	-	12,059	11,966	38	55	519	
3. Securities lending	-	-	-	-	-	-	-	
4. Other	-	-	-	-	-	-	-	
<b>TOTAL</b>	<b>31.12.2020</b>	<b>103,299</b>	<b>54,645</b>	<b>48,654</b>	<b>29,171</b>	<b>17,454</b>	<b>2,029</b>	<b>X</b>
<b>TOTAL</b>	<b>31.12.2019</b>	<b>93,582</b>	<b>37,566</b>	<b>56,016</b>	<b>39,115</b>	<b>16,055</b>	<b>X</b>	<b>846</b>

IFRS 7, amended in 2013, requires specific disclosure for financial instruments that have been offset in the Balance Sheet pursuant to IAS 32 or that may be potentially offset, upon occurrence of specific conditions, but are recognised in the Balance Sheet without any netting since they are regulated by "master netting arrangements or similar agreements" that do not respect all of the criteria set forth by IAS 32, paragraph 42.

In this respect, the Intesa Sanpaolo Group has netting arrangements in force that meet the requirements envisaged by IAS 32, paragraph 42, for netting in the financial statements. That netting was carried out for a total fair value of 54,645 million euro, and refers to the transactions in OTC derivatives with the legal clearing agent LCH Ltd.

In terms of instruments that may be potentially offset upon occurrence of such events and to be presented in Tables 5 and 6, it is noted that Intesa Sanpaolo uses bilateral netting arrangements that allow, in the event of counterparty default, the netting of claims and obligations in relation to financial and credit derivatives, as well as securities financing transactions (SFTs). In particular, there are ISDA agreements (for transactions in derivatives) and GMRA (for repurchase agreements).

With regard to securities lending transactions, only those transactions that require the payment of a cash guarantee fully available to the lender must be reported in tables 6 and 7, as this is the only type of transaction recognised in the Balance Sheet. Intesa Sanpaolo did not have any such transactions as at 31 December 2020.

For the purposes of preparing the tables and in compliance with the provisions of IFRS 7 and the new provisions that govern the financial statements of banks, the following are noted:

- the effects of the potential offsetting of the balance sheet values of financial assets and liabilities are indicated under column (d) "Financial instruments", together with the fair value of financial collateral consisting of securities;
- the effects of the potential offsetting of the exposure with the relative cash collateral are included under column (e) "Cash deposits received/pledged as collateral";
- repurchase agreement transactions are recognised in the tables based on the amortised cost measurement criterion, while the relative collateral is measured at fair value;
- derivatives transactions are recognised at fair value.

These effects are calculated for each individual counterparty included in a master netting arrangement, to the extent of the exposure indicated in column (c).

Based on the preparation methods indicated above, the netting arrangements between financial instruments and the relative collateral permit a significant reduction in credit/debt exposure to the counterparty, as indicated under column (f) "Net amount". These effects are calculated for each individual counterparty included in a master netting arrangement, to the extent of the exposure indicated in column (c).

Based on the preparation methods indicated above, the netting arrangements between financial instruments and the relative collateral permit a significant reduction in credit/debt exposure to the counterparty, as indicated under column (f) "Net amount".

#### **8. Securities lending transactions**

The securities lending accessory banking service, offered mainly by Intesa Sanpaolo Private Banking (ISPB) to its customers (natural persons, legal entities and commercial entities), is worth mentioning. The contract involves transfer of the ownership of a certain quantity of securities of a specific type, with the obligation for ISPB to return them, paying a consideration amount as remuneration for their availability. The transaction involves government securities that ISPB in turn transfers to the Parent Company Intesa Sanpaolo for non-speculative purposes.

As at 31 December 2020, the collateral of transactions mainly referring to ISPB amounted to 989 million euro.

#### **9. Disclosure on joint-control assets**

These are not present in the Intesa Sanpaolo Group.



# Part C – Information on the consolidated income statement

## SECTION 1 – INTEREST – CAPTIONS 10 AND 20

### 1.1. Interest and similar income: breakdown

Captions	(millions of euro)				
	Debt securities	Loans	Other transactions	2020	2019
<b>1. Financial assets measured at fair value through profit or loss</b>	<b>63</b>	<b>22</b>	<b>-</b>	<b>85</b>	<b>144</b>
1.1 Financial assets held for trading	40	-	-	40	86
1.2 Financial assets designated at fair value	2	-	-	2	4
1.3 Other financial assets mandatorily measured at fair value	21	22	-	43	54
<b>2. Financial assets measured at fair value through other comprehensive income</b>	<b>753</b>	<b>4</b>	<b>X</b>	<b>757</b>	<b>871</b>
<b>3. Financial assets measured at amortised cost</b>	<b>571</b>	<b>8,948</b>	<b>X</b>	<b>9,519</b>	<b>9,695</b>
3.1 Due from banks	24	305	X	329	630
3.2 Loans to customers	547	8,643	X	9,190	9,065
<b>4. Hedging derivatives</b>	<b>X</b>	<b>X</b>	<b>-1,008</b>	<b>-1,008</b>	<b>-1,024</b>
<b>5. Other assets</b>	<b>X</b>	<b>X</b>	<b>12</b>	<b>12</b>	<b>21</b>
<b>6. Financial liabilities</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>818</b>	<b>486</b>
<b>Total</b>	<b>1,387</b>	<b>8,974</b>	<b>-996</b>	<b>10,183</b>	<b>10,193</b>
<i>of which: interest income on impaired financial assets</i>	<i>2</i>	<i>825</i>	<i>-</i>	<i>827</i>	<i>900</i>
<i>of which: interest income on financial lease</i>	<i>-</i>	<i>325</i>	<i>-</i>	<i>325</i>	<i>291</i>

Interest and similar income also includes interest income on securities relating to repurchase agreements.

Interest on impaired financial assets also include interest due to the passing of time, equal to 464 million euro (time value) which came to 466 million euro in 2019.

The caption "Hedging derivatives" includes the differentials on hedging transactions, adjusting interest income recognised on hedged financial instruments.

"Financial liabilities" include interest on funding transactions with negative rates. In that context, interest income was recognised on other TLTROs in the total amount of 544 million euro in 2020 and 243 million in 2019. The amount recognised in 2020 includes 484 million euro of interest accrued on TLTRO III operations, in addition to the UBI Group's contribution (with effect from the acquisition date of 4 August). As described in further detail in Part A – Accounting policies of these Notes, in the paragraph "TLTRO III", the interest was recognised on the assumption that the relevant benchmarks would be achieved, as reliably estimated on the basis of reports on estimated loan performance monitored on predefined dates approved by the management at an appropriate level. In the event of changes to the forecasts on the achievement of those targets, the IFRS 9 provisions on the revision of cash flow estimates will apply.

### 1.2. Interest and similar income: other information

#### 1.2.1 Interest income on foreign currency financial assets

The balance as at 31 December 2020 includes 1,986 million euro relating to financial assets in foreign currency.

**1.3 Interest and similar expense: breakdown**

Captions/Types	Debts	Securities	Other transactions	(millions of euro)	
				2020	2019
<b>1. Financial liabilities measured at amortised cost</b>	<b>688</b>	<b>1,645</b>	X	<b>2,333</b>	<b>3,111</b>
1.1 Due to Central Banks	37	X	X	37	91
1.2 Due to banks	201	X	X	201	417
1.3 Due to customers	450	X	X	450	594
1.4 Securities issued	X	1,645	X	1,645	2,009
<b>2. Financial liabilities held for trading</b>	<b>4</b>	<b>-</b>	<b>2</b>	<b>6</b>	<b>15</b>
<b>3. Financial liabilities designated at fair value</b>	<b>10</b>	<b>1</b>	<b>-</b>	<b>11</b>	<b>34</b>
<b>4. Other liabilities and allowances</b>	<b>X</b>	<b>X</b>	<b>27</b>	<b>27</b>	<b>33</b>
<b>5. Hedging derivatives</b>	<b>X</b>	<b>X</b>	<b>-319</b>	<b>-319</b>	<b>-271</b>
<b>6. Financial assets</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>393</b>	<b>347</b>
<b>Total</b>	<b>702</b>	<b>1,646</b>	<b>-290</b>	<b>2,451</b>	<b>3,269</b>
<i>of which: interest expense on lease liabilities</i>	<i>-27</i>	<i>-</i>	<i>-</i>	<i>-27</i>	<i>-24</i>

“Due to banks” and “Due to customers” also include interest expense on repurchase agreements, even if the transaction referred to securities recorded under assets. Hedging derivatives refer to the interest on liabilities and include the differentials on hedging transactions, adjusting interest expense recognised on hedged financial instruments. “Financial assets” include interest on lending transactions with negative rates.

**1.4. Interest and similar expense: other information***1.4.1 Interest expense on foreign currency financial liabilities*

Interest and similar expense in 2020 includes 804 million euro relative to financial liabilities in foreign currency.

**1.5. Differentials on hedging transactions**

Captions	(millions of euro)	
	2020	2019
A. Positive differentials on hedging transactions	2,496	1,677
B. Negative differentials on hedging transactions	-3,185	-2,430
<b>C. Balance (A-B)</b>	<b>-689</b>	<b>-753</b>

## SECTION 2 – NET FEE AND COMMISSION INCOME - CAPTIONS 40 AND 50

## 2.1 Fee and commission income: breakdown

Type of service/Amounts	(millions of euro)	
	2020	2019
<b>a) guarantees given</b>	<b>379</b>	<b>340</b>
<b>b) credit derivatives</b>	-	-
<b>c) management, dealing and consultancy services</b>	<b>4,652</b>	<b>4,073</b>
1. trading in financial instruments	108	94
2. currency dealing	18	13
3. portfolio management	2,868	2,642
3.1 <i>individual</i>	694	666
3.2 <i>collective</i>	2,174	1,976
4. custody and administration of securities	70	63
5. depositary bank	31	31
6. placement of securities	619	444
7. reception and transmission of orders	149	126
8. consultancy services	189	164
8.1. <i>on investments</i>	176	152
8.2. <i>on financial structure</i>	13	12
9. distribution of third party services	600	496
9.1. <i>portfolio management</i>	406	391
9.1.1. <i>individual</i>	12	10
9.1.2. <i>collective</i>	394	381
9.2. <i>insurance products</i>	147	47
9.3. <i>other products</i>	47	58
<b>d) collection and payment services</b>	<b>649</b>	<b>719</b>
<b>e) servicing related to securitisations</b>	-	-
<b>f) services related to factoring</b>	<b>77</b>	<b>92</b>
<b>g) tax collection services</b>	-	-
<b>h) management of multilateral trading facilities</b>	-	-
<b>i) management of current accounts</b>	<b>1,362</b>	<b>1,218</b>
<b>j) Other services</b>	<b>3,193</b>	<b>3,216</b>
<b>Total</b>	<b>10,312</b>	<b>9,658</b>

“Other services” includes fees on credit and debit cards of 650 million euro, commissions on loans of 645 million euro, as well as fee and commission income collected by the insurance companies for 1,578 million euro.

It should be noted that the contents of sub-caption c) 2. and sub-caption d) from 2019 were restated due to the reclassification of fee and commission income on foreign credit transfers, previously included among foreign exchange trading, to collection and payment services.

**2.2 Fee and commission expense: breakdown**

Services/Amounts	(millions of euro)	
	2020	2019
<b>a) Guarantees received</b>	<b>180</b>	<b>115</b>
<b>b) Credit derivatives</b>	<b>13</b>	<b>10</b>
<b>c) Management, dealing and consultancy services</b>	<b>1,172</b>	<b>1,002</b>
1. trading in financial instruments	45	45
2. currency dealing	3	3
3. portfolio management	91	54
3.1 own portfolio	20	14
3.2 third party portfolio	71	40
4. custody and administration of securities	69	57
5. placement of financial instruments	211	155
6. "out-of-branch" offer of financial instruments, products and services	753	688
<b>d) Collection and payment services</b>	<b>163</b>	<b>213</b>
<b>e) Other services</b>	<b>806</b>	<b>819</b>
<b>Total</b>	<b>2,334</b>	<b>2,159</b>

The sub-caption "e) - Other services" includes 312 million euro fees on credit and debit cards, 229 million euro on the placement of investment insurance products, 171 million euro on banking services to Italian branches, 59 million euro on banking services to foreign branches and 35 million euro on other minor services.

As required by IFRS 15, paragraph 116 b), it is noted that fee and commission income includes the revenues recognised during the year included in the opening balance of liabilities deriving from contracts with customers.

In line with paragraph 116 c) of IFRS 15, it is specified that revenues deriving from performance obligations satisfied in the previous years are included, amounting to 26 million euro.

**SECTION 3 – DIVIDEND AND SIMILAR INCOME - CAPTION 70****3.1 Dividend and similar income: breakdown**

Captions/Income	(millions of euro)			
	2020		2019	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	23	-	36	-
B. Other financial assets mandatorily measured at fair value	3	22	3	28
C. Financial assets measured at fair value through other comprehensive income	35	3	50	-
D. Investments in associates and companies subject to joint control	-	-	0	-
<b>Total</b>	<b>61</b>	<b>25</b>	<b>89</b>	<b>28</b>

**SECTION 4 – PROFITS (LOSSES) ON TRADING - CAPTION 80****4.1 Profits (Losses) on trading: breakdown**

Transactions/Income components	(millions of euro)				
	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
<b>1. Financial assets held for trading</b>	<b>573</b>	<b>6,053</b>	<b>-404</b>	<b>-5,815</b>	<b>407</b>
1.1 Debt securities	482	4,855	-328	-4,438	571
1.2 Equities	87	1,038	-64	-1,179	-118
1.3 Quotas of UCI	4	16	-11	-28	-19
1.4 Loans	-	-	-1	-	-1
1.5 Other	-	144	-	-170	-26
<b>2. Financial liabilities held for trading</b>	<b>36</b>	<b>26</b>	<b>-211</b>	<b>-104</b>	<b>-253</b>
2.1 Debt securities	-	-	-	-	-
2.2 Payables	12	1	-174	-10	-171
2.3 Other	24	25	-37	-94	-82
<b>3. Financial assets and liabilities: foreign exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>-246</b>
<b>4. Derivatives</b>	<b>36,427</b>	<b>94,911</b>	<b>-31,223</b>	<b>-99,631</b>	<b>720</b>
4.1 Financial derivatives:	35,129	92,947	-29,747	-98,111	454
- on debt securities and interest rates	31,447	82,240	-27,935	-85,634	118
- on equities and stock indexes	3,412	8,902	-1,532	-10,698	84
- on currencies and gold	X	X	X	X	236
- other	270	1,805	-280	-1,779	16
4.2 Credit derivatives	1,298	1,964	-1,476	-1,520	266
<i>of which: natural hedging associated with the fair value option</i>	X	X	X	X	-
<b>Total</b>	<b>37,036</b>	<b>100,990</b>	<b>-31,838</b>	<b>-105,550</b>	<b>628</b>

Profits and losses on “Financial assets held for trading” are shown for each single purchase or sale and include the results of both long and short positions.

“Net result” includes profits, losses, revaluations and write-downs on currency transactions and currency and gold derivatives.

Regarding structured financial products and their impact on the income statement, for detailed information please refer to Part E of these Notes to the consolidated financial statements - Information on risks and relative hedging policies.

**SECTION 5 – FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING - CAPTION 90****5.1 Fair value adjustments in hedge accounting: breakdown**

Income component/Amount	(millions of euro)	
	2020	2019
<b>A. Income from:</b>		
A.1 fair value hedge derivatives	6,286	1,071
A.2 financial assets hedged (fair value)	5,018	3,491
A.3 financial liabilities hedged (fair value)	573	156
A.4 cash flow hedge: derivatives	2	4
A.5 currency assets and liabilities	-	-
<b>Total income from hedging (A)</b>	<b>11,879</b>	<b>4,722</b>
<b>B. Expenses for</b>		
B.1 fair value hedge derivatives	-8,572	-2,949
B.2 financial assets hedged (fair value)	-1,923	-1,068
B.3 financial liabilities hedged (fair value)	-1,306	-750
B.4 cash flow hedge: derivatives	-7	-16
B.5 currency assets and liabilities	-	-
<b>Total expense from hedging (B)</b>	<b>-11,808</b>	<b>-4,783</b>
<b>C. Fair value adjustments in hedge accounting (A - B)</b>	<b>71</b>	<b>-61</b>
<i>of which: fair value adjustments in hedge accounting on net positions</i>	-	-

**SECTION 6 – PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE - CAPTION 100****6.1 Profits (Losses) on disposal or repurchase: breakdown**

Captions/Income components	2020			(millions of euro) 2019		
	Profits	Losses	Net result	Profits	Losses	Net result
<b>Financial assets</b>						
1. Financial assets measured at amortised cost	211	-404	-193	228	-131	97
1.1 Due from banks	2	-2	-	-	-2	-2
1.2 Loans to customers	209	-402	-193	228	-129	99
2. Financial assets measured at fair value through other comprehensive income	1,458	-588	870	1,321	-103	1,218
2.1 Debt securities	1,458	-588	870	1,321	-103	1,218
2.2 Loans	-	-	-	-	-	-
<b>Total assets (A)</b>	<b>1,669</b>	<b>-992</b>	<b>677</b>	<b>1,549</b>	<b>-234</b>	<b>1,315</b>
<b>Financial liabilities valued at amortized cost</b>						
1. Due to banks	17	-14	3	16	-	16
2. Due to customers	5	-2	3	1	-	1
3. Securities issued	214	-264	-50	77	-24	53
<b>Total liabilities (B)</b>	<b>236</b>	<b>-280</b>	<b>-44</b>	<b>94</b>	<b>-24</b>	<b>70</b>

Profits and losses on “Financial assets measured at fair value through other comprehensive income”, represented by debt securities, are shown for each single purchase or sale.

**SECTION 7 – PROFITS (LOSSES) ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 110****7.1 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value**

Transactions/Income components	(millions of euro)				
	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
<b>1. Financial assets</b>	-	-	-	-2	-2
1.1 Debt securities	-	-	-	-2	-2
1.2 Loans	-	-	-	-	-
<b>2. Financial liabilities</b>	<b>82</b>	<b>1</b>	<b>-27</b>	<b>-1</b>	<b>55</b>
2.1 Securities issued	78	1	-27	-1	51
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	4	-	-	-	4
<b>3. Foreign currency financial assets and liabilities: foreign exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>4</b>
<b>Total</b>	<b>82</b>	<b>1</b>	<b>-27</b>	<b>-3</b>	<b>57</b>

For information on the methods used to determine credit spread, reference should be made to Part A.4 - Information on fair value of the Notes to the consolidated financial statements.



## 7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income components	(millions of euro)				
	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
<b>1. Financial assets</b>	<b>197</b>	<b>42</b>	<b>-276</b>	<b>-19</b>	<b>-56</b>
1.1 Debt securities	24	20	-159	-6	-121
1.2 Equities	23	1	-8	-1	15
1.3 Quotas of UCI	74	3	-63	-6	8
1.4 Loans	76	18	-46	-6	42
<b>2. Financial assets: exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>-10</b>
<b>Total</b>	<b>197</b>	<b>42</b>	<b>-276</b>	<b>-19</b>	<b>-66</b>

## SECTION 7 BIS – PROFITS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES PERTAINING TO INSURANCE COMPANIES PURSUANT TO IAS 39 - CAPTION 115

The breakdown of the IAS 39 captions included in caption 115 of the Income Statement referring to insurance companies is shown below.

In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by the Bank of Italy Circular no. 262, "Caption 115 Net profit (loss) on financial assets and liabilities pertaining to insurance companies in accordance with IAS 39" was created, which comprises the components set out in the table below:

Breakdown of Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39 - Caption 115	(millions of euro)	
	2020	2019
10. Interest and similar income	1,594	1,707
20. Interest and similar expense	-54	-41
70. Dividend and similar income	262	256
80. Profits (Losses) on trading	-112	-86
90. Fair value adjustments in hedge accounting (*)	-	-
100. Profits (Losses) on disposal or repurchase of:	129	226
a) loans	-	-
b) financial assets available for sale	129	226
c) investments held to maturity	-	-
d) financial liabilities	-	-
110. Profits (Losses) on financial assets and liabilities designated at fair value	1,644	1,929
<b>TOTAL - Caption 115</b>	<b>3,463</b>	<b>3,991</b>

(\*) There are no hedges in hedge accounting

## 7.1 Bis. Interest and similar income: breakdown

	(millions of euro)				
	Debt securities	Loans	Other transactions	2020	2019
1. Financial assets held for trading	7	-	-	7	6
2. Financial assets designated at fair value	1	-	-	1	20
3. Financial assets available for sale	1,581	-	-	1,581	1,679
4. Investments held to maturity	-	-	-	-	-
5. Due from banks	1	1	-	2	2
6. Loans to customers	-	-	-	-	-
7. Hedging derivatives	X	X	3	3	-
8. Other assets	X	X	-	-	-
<b>Total</b>	<b>1,590</b>	<b>1</b>	<b>3</b>	<b>1,594</b>	<b>1,707</b>

**7.2 Bis. Interest and similar income: differentials on hedging transactions**

Differentials on hedging transactions amounted to 3 million euro.

**7.3 Bis. Interest and similar income: other information***7.3.1 Bis Interest income on foreign currency financial assets*

There were no amounts pertaining to insurance companies.

**7.4 Bis. Interest and similar expense: breakdown**

Captions/Types	Debts	Securities	Other transactions	(millions of euro)	
				2020	2019
1. Due to Central Banks	-	X	-	-	-
2. Due to banks	7	X	10	17	5
3. Due to customers	-	X	-	-	-
4. Securities issued	X	37	-	37	36
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities designated at fair value	-	-	-	-	-
7. Other liabilities and allowances	X	X	-	-	-
8. Hedging derivatives	X	X	-	-	-
<b>Total</b>	<b>7</b>	<b>37</b>	<b>10</b>	<b>54</b>	<b>41</b>

**7.5. Bis. Interest and similar expense: differentials on hedging transactions**

There were no amounts pertaining to insurance companies.

**7.6. Bis. Interest and similar expense: other information***7.6.1 Bis Interest expense on foreign currency financial liabilities*

There were no amounts pertaining to insurance companies.

**7.7 Bis. Dividend and similar income: breakdown**

Captions/Income	2020		2019	
	Dividends	Income from quotas of UCI	Dividends	Income from quotas of UCI
A. Financial assets held for trading	-	-	-	-
B. Financial assets available for sale	41	177	42	160
C. Financial assets designated at fair value	44	-	50	4
D. Investments in associates and companies subject to joint control	-	X	-	X
<b>Total</b>	<b>85</b>	<b>177</b>	<b>92</b>	<b>164</b>

## 7.8 Bis. Profits (Losses) on trading: breakdown

Transactions/Income components	(millions of euro)				
	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
<b>1. Financial assets held for trading</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>
1.1 Debt securities	2	-	-	-	2
1.2 Equities	-	-	-	-	-
1.3 Quotas of UCI	2	-	-	-	2
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
<b>2. Financial liabilities held for trading</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
<b>3. Financial assets and liabilities: foreign exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>-116</b>
<b>4. Derivatives</b>	<b>25</b>	<b>113</b>	<b>-60</b>	<b>-78</b>	<b>-</b>
4.1 Financial derivatives:	25	113	-60	-78	-
- on debt securities and interest rates	-	-	-	-3	-3
- on equities and stock indexes	25	113	-60	-75	3
- on currencies and gold	X	X	X	X	-
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
<b>Total</b>	<b>29</b>	<b>113</b>	<b>-60</b>	<b>-78</b>	<b>-112</b>

## 7.9 Bis. Fair value adjustments in hedge accounting: breakdown

There were no fair value adjustments in hedge accounting pertaining to insurance companies.

## 7.10 Bis. Profits (Losses) on disposal or repurchase: breakdown

Captions/Income components	(millions of euro)					
	2020			2019		
	Profits	Losses	Net result	Profits	Losses	Net result
<b>Financial assets</b>						
1. Due from banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	252	-123	129	326	-100	226
3.1 Debt securities	160	-43	117	210	-28	182
3.2 Equities	64	-54	10	40	-2	38
3.3 Quotas of UCI	28	-26	2	76	-70	6
3.4 Loans	-	-	-	-	-	-
4. Investments held to maturity	-	-	-	-	-	-
<b>Total assets</b>	<b>252</b>	<b>-123</b>	<b>129</b>	<b>326</b>	<b>-100</b>	<b>226</b>
<b>Financial liabilities</b>						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 7.11 Bis. Profits (losses) on financial assets/liabilities designated at fair value:

Transactions/Income components	(millions of euro)				
	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
<b>1. Financial assets</b>	<b>4,125</b>	<b>1,787</b>	<b>-1,281</b>	<b>-1,866</b>	<b>2,765</b>
1.1 Debt securities	70	147	-44	-76	97
1.2 Equities	340	106	-233	-134	79
1.3 Quotas of UCI	3,669	1,530	-979	-1,648	2,572
1.4 Loans	46	4	-25	-8	17
<b>2. Financial liabilities</b>	<b>7</b>	<b>-</b>	<b>-460</b>	<b>-669</b>	<b>-1,122</b>
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-10	-10
2.3 Due to customers	7	-	-460	-659	-1,112
<b>3. Foreign currency financial assets and liabilities: foreign exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>-2</b>
<b>4. Credit and financial derivatives</b>	<b>18</b>	<b>147</b>	<b>-22</b>	<b>-140</b>	<b>3</b>
<b>Total</b>	<b>4,150</b>	<b>1,934</b>	<b>-1,763</b>	<b>-2,675</b>	<b>1,644</b>

## SECTION 8 – NET LOSSES/RECOVERIES FOR CREDIT RISK – CAPTION 130

## 8.1 Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown

Transactions/Income					(millions of euro)		
	IMPAIRMENT LOSSES		RECOVERIES		2020	2019	
	Stage 1 and 2	Stage 3	Stage 1 and 2	Stage 3			
		Write-off	Other				
<b>A. Due from banks</b>	<b>-42</b>	<b>-</b>	<b>-1</b>	<b>45</b>	<b>1</b>	<b>3</b>	<b>-2</b>
- Loans	-30	-	-1	34	1	4	-2
- Debt securities	-12	-	-	11	-	-1	-
<i>of which: purchased or originated credit-impaired</i>	-	-	-	-	-	-	-
<b>B. Loans to customers</b>	<b>-1,875</b>	<b>-273</b>	<b>-4,235</b>	<b>693</b>	<b>1,331</b>	<b>-4,359</b>	<b>-2,173</b>
- Loans	-1,826	-273	-4,235	645	1,329	-4,360	-2,117
- Debt securities	-49	-	-	48	2	1	-56
<i>of which: purchased or originated credit-impaired</i>	-1	-1	-113	1	17	-97	-25
<b>C. Total</b>	<b>-1,917</b>	<b>-273</b>	<b>-4,236</b>	<b>738</b>	<b>1,332</b>	<b>-4,356</b>	<b>-2,175</b>

As also stated in the Report on operations, impairment losses on Loans (Stage 1 and 2) include 428 million euro, gross of the tax effect, due to the write-back of the ECL on performing loans of the UBI Group following the adjustment of the loan portfolio to fair value.

**8.1a Net adjustments for credit risk associated with loans measured amortised cost subject to Covid-19 support measures: breakdown**

(millions of euro)

Transactions/Income components	Net Adjustments			Total 2020
	Stage 1 and 2	Stage 3		
		Write-off	Others	
1. EBA-compliant moratoria loans	-307	-	-66	-373
2. Other loans with COVID-19-related forbearance measures	-3	-	-4	-7
3. Newly originated loans	-60	-	-6	-66
<b>Total</b>	<b>-370</b>	<b>-</b>	<b>-76</b>	<b>-446</b>

Adjustments to forbore positions have mainly been determined using measurement approaches adopted as a result of COVID-19, outlined in Part A - Section 5 Other Aspects and described in more detail in Part E - Section 1 Credit Risks of these Notes to the consolidated financial statements.

The row “EBA-compliant moratoria loans” shows the information relating to financial assets subject to moratoria that fall within the scope of application of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis”, published by the EBA (EBA/GL/2020/02), as amended.

**8.2 Net adjustments for credit risk associated with financial assets measured at fair value through other comprehensive income: breakdown**

(millions of euro)

Transactions/Income components	IMPAIRMENT LOSSES			RECOVERIES		2020	2019
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
<b>A. Debt securities</b>	<b>-25</b>	<b>-</b>	<b>-</b>	<b>23</b>	<b>-</b>	<b>-2</b>	<b>-26</b>
<b>B. Loans</b>	<b>-2</b>	<b>-</b>	<b>-4</b>	<b>-</b>	<b>-</b>	<b>-6</b>	<b>-</b>
- to customers	-2	-	-4	-	-	-6	-
- to banks	-	-	-	-	-	-	-
<i>of which: purchased or originated credit-impaired financial assets</i>	-	-	-	-	-	-	-
<b>C. Total</b>	<b>-27</b>	<b>-</b>	<b>-4</b>	<b>23</b>	<b>-</b>	<b>-8</b>	<b>-26</b>

**8.2a Net adjustments for credit risk associated with loans measured fair value through other comprehensive income subject to Covid-19 support measures: breakdown**

This case was not present.

**SECTION 8 BIS – NET LOSSES/RECOVERIES PERTAINING TO INSURANCE COMPANIES PURSUANT TO IAS 39 – CAPTION 135****8.1 Bis. Net impairment losses on loans: breakdown**

There were no amounts pertaining to insurance companies.

**8.2 Bis. Net impairment losses on financial assets available for sale: breakdown**

	IMPAIRMENT LOSSES		RECOVERIES		(millions of euro)	
	Individual write-offs	other	Individual of interest	other	2020	2019
A. Debt securities	-	-	-	-	-	-
B. Equities	-	-80	X	X	-80	-8
C. Quotas of UCI	-	-1	-	-	-1	-1
D. Due from banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
<b>F. Total</b>	<b>-</b>	<b>-81</b>	<b>-</b>	<b>-</b>	<b>-81</b>	<b>-9</b>

**8.3 Bis. Net impairment losses on investments held to maturity: breakdown**

There were no amounts pertaining to insurance companies.

**8.4 Bis. Net impairment losses on other financial activities: breakdown**

There were no amounts pertaining to insurance companies.

**SECTION 9 – PROFITS/LOSSES FROM CHANGES IN CONTRACTS WITHOUT DERECOGNITION – CAPTION 140****9.1 Profits (Losses) from changes in contracts: breakdown**

As part of profits (losses) from changes in contracts without derecognition, losses of 29 million euro were recognised.

**SECTION 10 - NET INSURANCE PREMIUMS - CAPTION 160****10.1 Net insurance premiums: breakdown**

Premiums deriving from insurance business	Direct work	Indirect work	(millions of euro)	
			2020	2019
<b>A. Life business</b>				
A.1 Gross accounted premiums (+)	10,057	-	10,057	9,624
A.2 Premiums ceded for reinsurance (-)	-1	X	-1	-1
A.3 Total	10,056	-	10,056	9,623
<b>B. Non-life business</b>				
B.1 Gross accounted premiums (+)	980	-	980	672
B.2 Premiums ceded for reinsurance (-)	-156	X	-156	-33
B.3 Changes in the gross amount of premium reserve (+/-)	-46	-	-46	-121
B.4 Changes in premium reserves reassured with third parties (-/+)	8	-	8	6
B.5 Total	786	-	786	524
<b>C. Total net premiums</b>	<b>10,842</b>	<b>-</b>	<b>10,842</b>	<b>10,147</b>



**SECTION 11 - OTHER NET INSURANCE INCOME (EXPENSE) - CAPTION 170****11.1 Other net insurance income (expense): breakdown**

Captions	(millions of euro)	
	2020	2019
1. Net change in technical reserves	-1,917	-4,446
2. Claims accrued during the year	-9,295	-6,719
3. Other income/expenses arising from insurance business	-1,590	-1,508
<b>Total</b>	<b>-12,802</b>	<b>-12,673</b>

**11.2 Breakdown of Net change in technical reserves**

Net change in technical reserves	(millions of euro)	
	2020	2019
<b>1. Life business</b>		
<b>A. Mathematical reserves</b>	<b>-458</b>	<b>-2,548</b>
A.1 Gross annual amount	-458	-2,548
A.2 Amount reinsured with third parties (-)	-	-
<b>B. Other technical reserves</b>	<b>-1,658</b>	<b>-1,076</b>
B.1 Gross annual amount	-1,658	-1,076
B.2 Amount reinsured with third parties (-)	-	-
<b>C. Technical reserves for investment risks to be borne by the insured</b>	<b>203</b>	<b>-820</b>
C.1 Gross annual amount	203	-820
C.2 Amount reinsured with third parties (-)	-	-
<b>Total "life business reserves"</b>	<b>-1,913</b>	<b>-4,444</b>
<b>2. Non-life business</b>		
Changes in other technical reserves of non-life business other than the claims fund, net of ceded reinsurance	-4	-2

## 11.3 Breakdown of Claims accrued and paid during the year

	(millions of euro)	
Charges associated to claims	2020	2019
<b>LIFE BUSINESS: CHARGES ASSOCIATED TO CLAIMS, NET OF REINSURANCE CEDED</b>		
<b>A. Amounts paid</b>	<b>-8,540</b>	<b>-6,649</b>
A.1 Gross annual amount	-8,541	-6,650
A.2 Amount reinsured with third parties (-)	1	1
<b>B. Change in funds for amounts to be disbursed</b>	<b>-439</b>	<b>105</b>
B.1 Gross annual amount	-439	105
B.2 Amount reinsured with third parties (-)	-	-
<b>Total life business claims</b>	<b>-8,979</b>	<b>-6,544</b>
<b>NON-LIFE BUSINESS: CHARGES ASSOCIATED TO CLAIMS, NET OF RECOVERIES AND REINSURANCE CEDED</b>		
<b>C. Amounts paid</b>	<b>-300</b>	<b>-122</b>
C.1 Gross annual amount	-351	-129
C.2 Amount reinsured with third parties (-)	51	7
<b>D. Change in recoveries net of quotas borne by reinsurers</b>	<b>-</b>	<b>1</b>
<b>E. Change in the claims reserve</b>	<b>-16</b>	<b>-54</b>
E.1 Gross annual amount	-59	-56
E.2 Amount reinsured with third parties (-)	43	2
<b>Total non-life business claims</b>	<b>-316</b>	<b>-175</b>

## 11.4 Breakdown of Other income/expenses arising from insurance business

	(millions of euro)	
	2020	2019
<b>Other income</b>	<b>141</b>	<b>118</b>
Life business	94	89
Non-life business	47	29
<b>Other expenses</b>	<b>-1,731</b>	<b>-1,626</b>
Life business	-1,640	-1,539
Non-life business	-91	-87

**SECTION 12 - ADMINISTRATIVE EXPENSES - CAPTION 190****12.1 Personnel expenses: breakdown**

Type of expense	(millions of euro)	
	2020	2019
<b>1) Employees</b>	<b>7,530</b>	<b>5,794</b>
a) wages and salaries	4,274	3,961
b) social security charges	1,104	1,012
c) termination indemnities	59	41
d) supplementary benefits	4	4
e) provisions for termination indemnities	9	16
f) provisions for post employment benefits	8	11
- <i>defined contribution plans</i>	-	-
- <i>defined benefit plans</i>	8	11
g) payments to external pension funds	319	311
- <i>defined contribution plans</i>	317	309
- <i>defined benefit plans</i>	2	2
h) costs from share based payments	199	194
i) other benefits in favour of employees	1,554	244
<b>2) Other non-retired personnel</b>	<b>11</b>	<b>13</b>
<b>3) Directors and statutory auditors</b>	<b>21</b>	<b>18</b>
<b>4) Early retirement costs</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>7,562</b>	<b>5,825</b>

It should be specified that sub-caption 3) "Directors and statutory auditors" includes remuneration to members of the Board of Directors of the Parent Company and members of the Board of Directors and the Board of Statutory Auditors of the various Group companies.

**12.2 Average number of employees by categories**

	2020	2019
<b>Personnel employed</b>	<b>100,049</b>	<b>84,617</b>
a) managers	1,901	1,569
b) total officers	39,211	32,421
c) other employees	58,937	50,627
<b>Other personnel</b>	<b>123</b>	<b>157</b>
<b>TOTAL</b>	<b>100,172</b>	<b>84,774</b>

In 2020, the average number of employees (with part-time employees calculated, per standard practice, at 0.5) increased on 2019 mainly due to the inclusion in the scope of consolidation of the UBI Group companies.

**12.3 Post employment defined benefit plans: costs and revenues**

(millions of euro)

	2020			2019		
	Employee Termination Indemnities	Internal plans	External plans	Employee Termination Indemnities	Internal plans	External plans
Current service cost	-4	-3	-8	-3	-3	-7
Interest expense	-5	-14	-10	-13	-15	-21
Interest income	-	2	9	-	3	19
Reimbursement from third parties	-	-	-	-	-	-
Past service cost	-	-	-	-	-	-
Curtailment of the fund	X	-	-	X	-	-
Settlement of the fund	X	-	-	X	-	-

This table illustrates the economic components referred to “Employee termination indemnities” – caption 90 of Balance sheet liabilities and “Allowances for risks and charges - post employment benefits” – caption 100b of Balance sheet liabilities.

**12.4 Other benefits in favour of employees**

The balance of the caption as at 31 December 2020 amounted to 1,554 million euro and referred to exit incentives for personnel (mainly due to the integration with UBI) and contributions for health assistance, lunch vouchers, premiums of insurance policies stipulated in favour of employees and provisions for seniority bonuses.

## 12.5 Other administrative expenses: breakdown

Type of expense/Amount	(millions of euro)	
	2020	2019
Expenses for maintenance of information technology and electronic equipment	852	628
Telephonic, teletransmission and transmission expenses	80	64
<b>Information technology expenses</b>	<b>932</b>	<b>692</b>
Rentals and service charges - real estate	40	51
Security services	47	42
Cleaning of premises	55	44
Expenses for maintenance of real estate assets furniture and equipment	89	73
Energy costs	102	104
Property costs	10	10
<b>Management of real estate assets expenses</b>	<b>343</b>	<b>324</b>
Printing, stationery and consumables expenses	52	36
Transport and related services expenses (including counting of valuables)	71	92
Information expenses	198	184
Postal and telegraphic expenses	54	59
<b>General structure costs</b>	<b>375</b>	<b>371</b>
Expenses for consultancy fees	230	170
Legal and judiciary expenses	158	143
Insurance premiums - banks and customers	54	44
<b>Professional and legal expenses</b>	<b>442</b>	<b>357</b>
<b>Advertising and promotional expenses</b>	<b>142</b>	<b>126</b>
<b>Services rendered by third parties</b>	<b>437</b>	<b>362</b>
<b>Indirect personnel costs</b>	<b>45</b>	<b>82</b>
<b>Other costs</b>	<b>913</b>	<b>708</b>
<b>Taxes and duties</b>	<b>1,021</b>	<b>895</b>
<b>Recovery of taxes and duties</b>	<b>-3</b>	<b>-5</b>
<b>Recovery of other expenses</b>	<b>-49</b>	<b>-45</b>
<b>Total</b>	<b>4,598</b>	<b>3,867</b>

Other costs include 659 million euro concerning contributions to the Single Resolution Fund for Banking Crisis and the Deposit Guarantee Fund. In 2019 the same expenses amounted to 473 million euro.

The various types of expenses within the caption include the costs of the integration of the UBI Group.

In addition, in 2020 the costs incurred by the Intesa Sanpaolo Group for measures related to the pandemic amounted to around 71 million euro.

**SECTION 13 - NET PROVISIONS FOR RISKS AND CHARGES - CAPTION 200****13.1 Net provisions for credit risk associated with loan commitments and financial guarantees given: breakdown**

Captions	Provision	Reallocations	(millions of euro)
			Net provision
Stage 1	-101	80	-21
Stage 2	-86	27	-59
Stage 3	-69	153	84
<b>Total</b>	<b>-256</b>	<b>260</b>	<b>4</b>

**13.2 Net provisions associated with commitments and other guarantees given: breakdown**

With regard to net provisions associated with commitments and other guarantees given, there were no amounts as at 31 December 2020.

**13.3 Net provisions for other risks and charges: breakdown**

	Provisions	Reallocations	(millions of euro)
			Net provision
Net provisions for legal disputes	-184	51	-133
Net provisions for other personnel charges	-	-	-
Net provisions for risks and charges	-716	52	-664
<b>Total</b>	<b>-900</b>	<b>103</b>	<b>-797</b>

"Net provisions for risks and charges", which amounted to negative 797 million euro, includes the provisions that mainly regarded litigation concerning anatocism, criminal proceedings, operating irregularities and other disputes.

The sub-caption "Other net provisions for risks and charges" mainly includes the provisions recognised in relation to the charges for integration of the UBI Group totalling 434 million euro.

**SECTION 14 – NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT - CAPTION 210****14.1 Net adjustments to property and equipment: breakdown**

Assets/Income component	Depreciation	Impairment losses	Recoveries	(millions of euro)
				Net result
<b>A. Property and equipment</b>				
A.1 Used in operations	-572	-4	2	-574
- Owned	-330	-4	2	-332
- Licenses acquired through lease	-242	-	-	-242
A.2 Investment property	-	-1	1	-
- Owned	-	-1	1	-
- Licenses acquired through lease	-	-	-	-
A.3 Inventories	X	-14	10	-4
<b>B. Non-current assets held for sale</b>	X	-	-	-
<b>Total</b>	<b>-572</b>	<b>-19</b>	<b>13</b>	<b>-578</b>



**SECTION 15 – NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS - CAPTION 220****15.1 Net adjustments to intangible assets: breakdown**

Assets/Income component	Amortisation	Impairment losses	Recoveries	(millions of euro)
				Net result
<b>A. Intangible assets</b>				
A.1 Owned	-818	-	-	-818
- internally generated	-561	-	-	-561
- Others	-257	-	-	-257
A.2 Rights of use acquired through the lease	-	-	-	-
<b>B. Non-current assets held for sale</b>				
	X	-	-	-
<b>Total</b>	<b>-818</b>	<b>-</b>	<b>-</b>	<b>-818</b>

With regard to the method of the impairment testing for intangible assets and related impairment recognised to the income statement, see Part B – Section 10 – Intangible Assets in these Notes to the consolidated financial statements.

**SECTION 16 – OTHER OPERATING EXPENSES (INCOME) - CAPTION 230****16.1 Other operating expenses: breakdown**

Type of expense/Amount		(millions of euro)
Other expenses for consumer credit and leasing transactions		24
Amortisation of leasehold improvements		28
Other		314
<b>Total</b>	<b>2020</b>	<b>366</b>
<b>Total</b>	<b>2019</b>	<b>296</b>

“Other” includes losses and write-downs on precious metals and gold (60 million euro).

**16.2 Other operating income: breakdown**

Type of expense/Amount		(millions of euro)
Recovery of expenses		872
Rentals and recovery of expenses on real estate		27
Income related to consumer credit and leasing		51
Reimbursements for services rendered to third parties		26
Negative Goodwill		2,505
Other		232
<b>Total</b>	<b>2020</b>	<b>3,713</b>
<b>Total</b>	<b>2019</b>	<b>1,070</b>

As required by paragraph 116 c) of IFRS 15, it is specified that revenues deriving from performance obligations satisfied in the previous years are included, amounting to 23 million euro.

“Negative goodwill” relates to the UBI Group acquisition.

For further details of the accounting treatment of the acquisition, refer to the description in Part G of these Notes and the Report on operations accompanying these Financial Statements.

“Other” includes profits and revaluations on precious metals and gold (70 million euro) and income from motorway concessions (56 million euro).

**SECTION 17 – PROFITS (LOSSES) ON INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL - CAPTION 250****17.1 Profits (Losses) on investments in associates and companies subject to joint control: breakdown**

Income components/Sectors	(millions of euro)	
	2020	2019
<b>1) Companies subject to joint control</b>		
A. Revenues	6	9
1. Revaluations	5	6
2. Profits on disposal	1	-
3. Recoveries	-	-
4. Other	-	3
B. Charges	-5	-2
1. Write-downs	-1	-
2. Impairment losses	-4	-2
3. Losses on disposal	-	-
4. Other	-	-
<b>Net result</b>	<b>1</b>	<b>7</b>
<b>2) Investments in associates</b>		
A. Revenues	74	72
1. Revaluations	69	67
2. Profits on disposal	5	5
3. Recoveries	-	-
4. Other	-	-
B. Charges	-91	-26
1. Write-downs	-73	-12
2. Impairment losses	-17	-13
3. Losses on disposal	-1	-1
4. Other	-	-
<b>Net result</b>	<b>-17</b>	<b>46</b>
<b>Total</b>	<b>-16</b>	<b>53</b>

For companies subject to joint control and significant influence, revenues from recognition at equity of the equity stakes is included under Revaluations, while the charges from the recognition at equity of the equity stakes is recorded under Write-downs.

**SECTION 18 - VALUATION DIFFERENCES ON PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS MEASURED AT FAIR VALUE – CAPTION 260****18.1 Valuation differences on property, equipment and intangible assets measured at fair value or estimated realisable value: breakdown**

Assets/Income component	Revaluations	Write-downs	Foreign exchange differences		Net result
			(millions of euro)		
			Positive	Negative	
<b>A. Property and equipment</b>	<b>6</b>	<b>-48</b>	-	-	<b>-42</b>
A.1 Used in operations:	5	-29	-	-	-24
- Owned	5	-29	-	-	-24
- Licenses acquired through lease	-	-	-	-	-
A.2 Investment:	1	-19	-	-	-18
- Owned	1	-19	-	-	-18
- Licenses acquired through lease	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
<b>B. Intangible assets</b>	-	-	-	-	-
B.1 Owned:	-	-	-	-	-
B.1.1 Internally generated	-	-	-	-	-
B.1.2 Other	-	-	-	-	-
B.2 Licenses acquired through lease	-	-	-	-	-
<b>Total</b>	<b>6</b>	<b>-48</b>	-	-	<b>-42</b>

**SECTION 19 – GOODWILL IMPAIRMENT - CAPTION 270****19.1 Goodwill impairment: breakdown**

The outcome of impairment testing on goodwill recorded in the financial statements resulted in the need to recognise adjustments of 981 million euro in 2020. See Part A – Accounting policies for details on the means of determination of goodwill impairment.

For a description of the impairment testing methods for goodwill and the related results, reference should be made to Part B – Section 10 – Intangible Assets in these Notes to the consolidated financial statements.

**SECTION 20 – PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS - CAPTION 280****20.1 Profits (Losses) on disposal of investments: breakdown**

Income component/Amount	(millions of euro)	
	2020	2019
<b>A. Real estate assets</b>	<b>7</b>	<b>-7</b>
- profits on disposal	17	14
- losses on disposal	-10	-21
<b>B. Other assets (a)</b>	<b>94</b>	<b>103</b>
- profits on disposal	95	103
- losses on disposal	-1	-
<b>Net result</b>	<b>101</b>	<b>96</b>

(a) Included profits and losses on disposal of subsidiaries.

The profits on disposal in sub-caption B. Other assets refer to the sale of the pledge lending business line (Monte Pegni) and the sale of the subsidiary Gruppo Autostrade Lombarde.

**SECTION 21 - TAXES ON INCOME FROM CONTINUING OPERATIONS - CAPTION 300****21.1 Taxes on income from continuing operations: breakdown**

Income component/Amount	(millions of euro)	
	2020	2019
1. Current taxes (-)	-633	-1,827
2. Changes in current taxes of previous years (+/-)	94	62
3. Reduction in current taxes of the year (+)	110	38
3. bis Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	-	3
4. Changes in deferred tax assets (+/-)	203	-133
5. Changes in deferred tax liabilities (+/-)	167	293
<b>6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)</b>	<b>-59</b>	<b>-1,564</b>

In 2020, total tax benefits of 90 million euro were recognised under the “Patent Box” tax relief scheme for the Intesa Sanpaolo trademark and other trademarks of strategic importance to the Group with respect to tax periods 2015-2019. The benefit is obtained through reductions of the IRES and IRAP taxable amounts of 30% of the economic contribution of the trademarks for which an application was filed in 2015, 40% in 2016 and 50% in subsequent tax periods.

**21.2 Reconciliation of theoretical tax charge to total income tax expense for the period**

	(millions of euro)	
	2020	
Income before tax from continuing operations		2,208
Income before tax from discontinued operations		1,164
<b>Theoretical taxable income</b>		<b>3,372</b>
	<b>Taxes</b>	<b>Impact % on theoretical taxable income</b>
<b>Income taxes - theoretical tax charge</b>	<b>1,114</b>	<b>33.1</b>
<b>Increase of taxes</b>	<b>732</b>	<b>21.7</b>
Non-deductible interest expense	717	21.3
Other	15	0.4
<b>Decrease of taxes</b>	<b>-1,759</b>	<b>-52.2</b>
Effects of the participation exemption	-379	-11.2
Effects of international companies lower rates	-269	-8.0
Other	-1,111	-33.0
<b>Total changes in taxes</b>	<b>-1,027</b>	<b>-30.5</b>
<b>Total income tax expense for the period</b>	<b>87</b>	<b>2.6</b>
<b>of which: - total income tax expense from continuing operations</b>	<b>59</b>	<b>1.8</b>
<b>- total income tax expense from discontinued operations</b>	<b>28</b>	<b>0.8</b>

**SECTION 22 – INCOME (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS - CAPTION 320****Income (Loss) after tax from discontinued operations: breakdown**

Income component/Amount	(millions of euro)	
	2020	2019
1. Income	180	426
2. Charges	-126	-338
3. Valuation differences on discontinued operations and related liabilities	-	-
4. Profits (losses) on disposal	1,110	-
5. Taxes and duties	-28	-24
<b>Income (Loss)</b>	<b>1,136</b>	<b>64</b>

Income (Loss) from discontinued operations reflected the income effects and result of the sale of the payment systems acquiring business line, transferred to Nexi in 2020 under the agreement signed in 2019.

**22.2 Breakdown of taxes on income from discontinued operations**

Captions	(millions of euro)	
	2020	2019
1. Current taxes (-)	-28	-24
2. Changes in deferred tax assets (+/-)	1	-
3. Changes in deferred tax liabilities (-/+)	-1	-
<b>4. Taxes on income (-1+/-2+/-3)</b>	<b>-28</b>	<b>-24</b>

**SECTION 23 – MINORITY INTERESTS - CAPTION 340****23.1 Breakdown of caption 340 Minority interests**

	(millions of euro)	
	31.12.2020	
<b>Investments in consolidated companies with significant minority interests</b>		
1 Bank of Alexandria S.A.E.		-25
2 Pramerica SGR S.p.A.		-17
3 Intesa Sanpaolo RBM Salute S.p.A.		-4
4 Privredna Banka Zagreb d.d.		-2
5 Ubi Sistemi e Servizi S.c.p.a.		-2
6 Vseobecna Uverova Banka a.s.		-2
7 Autostrade Lombarde S.p.A.		29
8 Risanamento S.p.A.		13
9 Compagnia Italiana Finanziaria S.r.l.		1
10 Intesa Sanpaolo Private Bank (Suisse) Morval S.A.		1
<b>TOTAL 2020</b>		<b>-8</b>
<b>TOTAL 2019</b>		<b>10</b>

**SECTION 24 – OTHER INFORMATION**

There is no information further to that already provided in the previous sections.

**SECTION 25 – EARNINGS PER SHARE****Earnings per share**

	Ordinary shares	
	31.12.2020	31.12.2019
Weighted average number of shares	18,240,491,151	17,474,056,021
Income attributable to the various categories of shares (millions of euro)	3,277	4,182
Basic EPS (euro)	0.18	0.24
Diluted EPS (euro)	0.18	0.24

**25.1 Average number of ordinary shares (fully diluted)**

For further information on this section, see the chapters “Shareholder base” and “Stock price performance” in the Report on operations.

**25.2 Other information**

There is no other information to be provided.



## Part D – Consolidated comprehensive income

(millions of euro)

Statement of comprehensive income	2020	2019
<b>10. Net income (loss)</b>	<b>3,285</b>	<b>4,172</b>
<b>Other comprehensive income that may not be reclassified to the income statement</b>	<b>-354</b>	<b>227</b>
20. Equity instruments measured at fair value through other comprehensive income	-301	-16
<i>a) fair value changes</i>	-266	-7
<i>b) transfer to other components of shareholders' equity</i>	-35	-9
30. Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-143	-
<i>a) fair value changes</i>	-143	-
<i>b) transfer to other components of shareholders' equity</i>	-	-
40. Hedging of equity instruments measured at fair value through other comprehensive income	-	-
<i>a) fair value changes (hedged instrument)</i>	-	-
<i>b) fair value changes (hedging instrument)</i>	-	-
50. Property and equipment	54	297
60. Intangible assets	-	-
70. Defined benefit plans	-15	-60
80. Non-current assets held for sale and discontinued operations	-	-
90. Share of valuation reserves connected with investments carried at equity	-	-
100. Income taxes associated with other comprehensive income that may not be reclassified to the income statement	51	6
<b>Other comprehensive income that may be reclassified to the income statement:</b>	<b>340</b>	<b>997</b>
110. Hedges of foreign investments:	-	-
<i>a) fair value changes</i>	-	-
<i>b) reclassification to the income statement</i>	-	-
<i>c) other changes</i>	-	-
120. Foreign exchange differences:	-239	64
<i>a) value change</i>	-	-
<i>b) reclassification to the income statement</i>	-	-
<i>c) other changes</i>	-239	64
130. Cash flow hedges:	225	-128
<i>a) fair value changes</i>	367	98
<i>b) reclassification to the income statement</i>	-227	-235
<i>c) other changes</i>	85	9
<i>of which: gains (losses) on net positions</i>	-	-
140. Hedging instruments (not designated elements)	-	-
<i>a) value change</i>	-	-
<i>b) reclassification to the income statement</i>	-	-
<i>c) other changes</i>	-	-
145. Financial assets measured at fair value through other comprehensive income, pertaining to insurance companies	392	979
<i>a) value change</i>	476	1,020
<i>b) reclassification to the income statement</i>	-76	-37
<i>c) other changes</i>	-8	-4
150. Financial assets (other than equities) measured at fair value through other comprehensive income	210	781
<i>a) fair value changes</i>	508	837
<i>b) reclassification to the income statement</i>	-289	-106
- <i>adjustments for credit risk</i>	41	34
- <i>gains/losses on disposals</i>	-330	-140
<i>c) other changes</i>	-9	50
160. Non-current assets held for sale and discontinued operations	-	-
<i>a) fair value changes</i>	-	-
<i>b) reclassification to the income statement</i>	-	-
<i>c) other changes</i>	-	-
170. Share of valuation reserves connected with investments carried at equity:	-16	2
<i>a) fair value changes</i>	-	-
<i>b) reclassification to the income statement</i>	-	-
- <i>impairment losses</i>	-	-
- <i>gains/losses on disposals</i>	-	-
<i>c) other changes</i>	-16	2
180. Income taxes associated with other comprehensive income that may be reclassified to the income statement	-232	-701
<b>190. Total other comprehensive income</b>	<b>-14</b>	<b>1,224</b>
<b>200. Comprehensive income (Captions 10+190)</b>	<b>3,271</b>	<b>5,396</b>
<b>210. Total consolidated comprehensive income pertaining to minority interests</b>	<b>46</b>	<b>-35</b>
<b>220. Total consolidated comprehensive income pertaining to the Parent Company</b>	<b>3,225</b>	<b>5,431</b>

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# Part E – Information on risks and relative hedging policies

## INTRODUCTION

In this Part E, the qualitative and quantitative disclosure is presented according to the order established by Bank of Italy Circular 262, which specifically regulates not only the format of the tables but also the sequence of the various topics, except for the section relating to market risks in relation to the application of internal models.

In drawing up this Part, we considered the requirements set out in the Bank of Italy communication of 15 December 2020, which supplemented the provisions of Circular no. 262 as regards the disclosure of the impacts of COVID-19. To complete the qualitative and quantitative disclosure provided in this Part E, in line with the provisions of the above-mentioned communication of 15 December of the Bank of Italy, see also the qualitative information published in Part A – Accounting policies of these Consolidated financial statements (Other aspects Section) and the quantitative information on the loans subject to COVID-19 support measures and the related net adjustments for credit risk (published, respectively, in Part B – Information on the consolidated balance sheet – Assets and Part C – Information on the consolidated income statement of these Consolidated financial statements).

## Basic principles

The Intesa Sanpaolo Group attaches great importance to risk management and control, as condition to ensure a reliable and sustainable value creation in a context of controlled risk.

The risk management strategy aims to achieve a complete and consistent overview of risks, considering both the macroeconomic scenario and the Group's risk profile, stimulating the growth of the risk culture and enhancing a transparent and accurate representation of the riskiness of the Group's portfolios.

The Risk-taking strategies are summarised in the Group's Risk Appetite Framework (RAF), approved by the Board of Directors. The RAF is established to ensure that risk-taking activities remain in line with shareholders' expectations, taking into account the Group's risk position and the economic situation. The framework defines both the general risk appetite principles and the control of the overall risk profile and the main specific risks.

The general principles that govern the Group's risk-taking strategy may be summarised as follows:

- Intesa Sanpaolo is a Banking Group focused on a commercial business model where domestic retail activities remain the Group's structural strength;
- the Group's goal is not to eliminate risks, but to understand and manage them in such a way as to guarantee an adequate returns on the risks taken and guarantee soundness and business continuity over the long term;
- Intesa Sanpaolo has a low risk profile in which capital adequacy, profits stability, a sound liquidity position and a strong reputation are the key strengths for maintaining its current and prospective profitability;
- Intesa Sanpaolo aims for a capitalisation level in line with its main European peers;
- Intesa Sanpaolo intends to maintain strict control over the main specific risks (not necessarily related to macroeconomic shocks) that the Group may be exposed;
- Intesa Sanpaolo recognises the strategic importance of ESG (Environmental Social and Governance) factors and the urgency of curbing climate change. The Group is committed to including the impact of these aspects in strategic decision-making processes and to fully integrate them into its risk management framework with the goal of maintaining a low risk profile. This includes controlling how ESG risks and those connected with climate change impact existing risks (credit, operational, reputational, market and liquidity risk) and implementing high ethical and environmental standards in internal processes, products and services offered to customers and in the selection of counterparties and suppliers;
- Intesa Sanpaolo attributes particular emphasis to the monitoring and controlling Non-Financial Risks, to guarantee the sustainability of its operating model over the long term, also by limiting operational losses and avoiding reputational damages. This is achieved through:
  - for operational risks (including IT, cyber, business continuity, legal and third party risks), the Group defines specific controls and dedicated limits and indicators to reduce financial damages and preserve business continuity;
  - for compliance risk, the Group aims for formal and substantive compliance with rules in order to avoid sanctions and maintain a solid relationship of trust with all of its stakeholders;
  - for reputational risk, the Group strives to actively manage its image and aims to prevent and contain any negative effects on said image.

The general principles are applicable at Group level as well as at business unit or legal entity level. In the event of external growth, these general principles shall be applied taking into consideration the specific characteristics of the business in which the target is involved and its competitive environment.

The Risk Appetite Framework thus represents the overall framework within which the management of corporate risks is developed, with the establishment of general risk appetite principles and the resulting structuring of the control of:

- the overall risk profile; and
- the Group's main specific risks.

The control of the overall risk profile derives from the definition of general principles and is structured in the form of a framework of limits aimed at ensuring that the Group, even under severe stress conditions, complies with minimum requirements of capital adequacy, liquidity, stability of profit, own funds and eligible liabilities for the Minimum Requirement for Own Funds and Eligible Liabilities, and also contains the non-financial risks within appropriate limits.

In detail, the control of the overall risk profile is aimed at maintaining adequate levels of:

- capitalisation, also in conditions of severe macroeconomic stress, in relation to both Pillar 1 and Pillar 2, by monitoring the Common Equity Ratio, the Total Capital Ratio, the Leverage Ratio and the Risk Bearing Capacity;
- liquidity, sufficient to face periods of tension, including extended ones, on the various funding markets, with regard to both the short-term and the structural situation, by monitoring the internal limits of the Liquidity Coverage Ratio, Net Stable Funding Ratio, Loan/Deposit Ratio, Asset Encumbrance and Survival Period in an adverse scenario;
- stability of profits, by monitoring the net profit adjusted and the adjusted operational cost on income, which represent the main potential causes for their instability;
- own funds and eligible liabilities for the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), to be able to absorb any losses and restore the Group's capital position, continuing to perform its critical economic functions during and after a crisis;
- non-financial risks, in order to minimise the potential impact of negative events that jeopardise the Group's economic stability and image.

In compliance with the EBA guidelines (EBA/GL/2015/02) concerning the "Minimum list of quantitative and qualitative recovery plan indicators", the Group includes early warning thresholds for asset quality, market-based and macroeconomic indicators, to ensure consistency with its Recovery Plan.

The control of the main specific risks is implemented by establishing specific limits and mitigation actions to be taken in order to limit the impact of particularly severe future scenarios on the Group. These limits and actions regard the most significant risk concentrations such as, for example, concentration on single counterparties, sovereign risk and the public sector risk, as well as other types of operations deemed worth of specific attention by the Corporate Bodies (e.g. transactions exposed to valuation risk).

Within the monitoring of the specific risks, the Credit Risk Appetite (CRA) Framework, a specific RAF for credit risk introduced in 2015, identifies areas of growth for loans and areas to be monitored, using an approach based on ratings and other predictive statistical indicators, to guide lending growth by optimising the management of risk.

The CRA limits are approved within the RAF and are continuously monitored by the Credit Risk Management Head Office Department. These contributed to improving the risk profile of the loan portfolio in terms of expected loss and the distribution of loans by risk class.

The limits set in the RAF are divided into two categories, Hard Limits and Soft Limits, which differ in the escalation process triggered by their breach. In particular, with regard to the Group limits, whose governance is established in detail in the Guidelines on the Group Risk Appetite Framework, the responsibility for approving the remediation plan is assigned:

- to the Board of Directors for Hard Limits, typically set for the main metrics used to control overall risk profile (e.g. Common Equity Tier 1 ratio, Liquidity Coverage ratio, etc.);
- to the Managing Director and CEO for Soft Limits, set on the metrics used to control the main specific risks (e.g. single name concentration, concentration towards the Italian public sector, etc.).

The limits themselves may be accompanied by the Early Warning thresholds, the exceeding of which is promptly discussed in the competent managerial committee<sup>36</sup>.

Defining the Risk Appetite Framework is an articulated process headed by the Chief Risk Officer, which involves close interaction with the Chief Financial Officer and the Heads of the various Business Units, is developed in line with the ICAAP, ILAAP and Recovery Plan processes, and represents the risk framework in which the Budget and Business Plan are developed. This ensures consistency between the strategy and the risk-taking policy and the Plan and Budget process.

Within the annual RAF update process, it is possible to identify the following phases:

- Risk Identification: this is performed continuously in the Group to maintain ongoing alignment with the changing internal and external context and to guarantee the adequacy of the controls and limits implemented to safeguard the Group "Long term viability". The following are analysed in detail: the regulatory contexts, the reference market situation, the Group's position and the nature of the potential threats, also with the support of specific stress tests;
- Risk Assessment: this phase assesses the risk actually assumed (Risk Profile) with respect to the maximum risk that can be taken on (Risk Capacity) and the risk appetite, investigating the main types of risk of the Group, including prospective ones, using both quantitative and qualitative techniques. In particular, in accordance with the principles of proportionality and materiality, the elements already considered in the previous phase are analysed in-depth;
- Reconciliation between the RAF, Business Plan and Budget: consistency between the RAF and the Business Plan/Budget is sought in all phases of the related preparation procedures through a process of mutual consultation and dialogue that lasts for several months, involving not only the structures of the Chief Risk Officer Governance Area and the Chief Financial Officer Governance Area but also the Business Divisions/Structures;
- Approval of the RAF: in line with the provisions of the applicable regulations, the Board of Directors defines and approves the risk objectives, the tolerance threshold (where identified) and the risk governance policies.

The RAF is updated every year, in view of the preparation of the Annual Budget and/or the Business Plan. During the year, when significant events occur, such as exceptional changes in the market context in which the Group operates, significant changes in the configuration of the Group and/or its strategy or based on direct instructions from the Board of Directors, also through the Risks Committee, the CRO Governance Area assesses whether the RAF is still adequate and, if necessary, proposes partial or full revisions to the framework.

The spread of the COVID-19 pandemic which hit Italy in the first quarter of 2020, the tensions on the financial markets and the uncertainty generated by the health emergency spreading throughout the world made it necessary to carefully analyse the Risk Appetite Framework, regarding both the key dimensions of the Group's overall risk profile and an accurate assessment of all specific risk factors. The results of this analysis identified significant focus points, in line with which numerous limits and risk strategy actions were modified in the second quarter of 2020.

Subsequently, in the third quarter, the acquisition of the UBI Group required a verification of the soundness of the limits on the

<sup>36</sup> The competent Managerial Committee varies according to the RAF metrics considered:

- for capital adequacy, credit risk and stability of profit metrics, the responsibility lies with the Steering Committee;
- for liquidity and financial risk metrics, the responsibility lies with the Group Financial Risk Committee;
- for non-financial risks metrics, the responsibility lies with the Group Control Coordination, Operational and Reputational Risk Committee.

new and wider scope of the Group, to guarantee the maintenance of the adequate risk control. The underlying principle that guided these activities was the continuity of the post-acquisition Group's risk appetite. In particular, to ensure homogeneous treatment of customers, guarantee current operations and consistent oversight of Group risks, it was necessary to extend to the scope of UBI Banca and IW Bank the framework and regulations inherent in the Credit Risk Appetite (CRA), as well as the governance for managing breaches of the limits in line with that established at Intesa Sanpaolo, and specific limits were defined dedicated to the operations of UBI Banca and IW Bank.

The definition of the Risk Appetite Framework and the consequent operational limits for the main specific risks, the use of risk measurement instruments in credit management and operational risk control processes, the use of capital-at-risk measures for corporate performance reporting and assessment of the internal capital adequacy of the Group represent fundamental milestones in the operational application of the risk strategy defined by the Board of Directors along the Group's entire decision-making chain, down to the single operational units and to the single desks.

The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas, in a comprehensive framework of limits and procedures for governance and control.

The assessment of the comprehensive Group risk profile is conducted annually with the ICAAP, which represents the capital adequacy self-assessment process according to the Group's internal rules, the results of which are then also discussed and analysed by the Supervisor.

In accordance with the ECB requirements, the ICAAP process incorporates two complementary perspectives, both of which are analysed from an actual perspective and, on a prospective basis, in a baseline scenario and an adverse scenario:

- Regulatory perspective, in which the regulatory metrics for the Pillar 1 risks over the medium term (three years) are represented for both these scenarios;
- Financial and operating perspective, in which the management measures and metrics covering all the risks, including the Pillar 2 risks, are presented, with a time horizon of one year in the adverse scenario, which is extended to three years for the baseline scenario.

Specifically for 2020, considering the particular context linked to the pandemic, a specific analysis was conducted of a COVID-19 scenario, on which an additional stress test was also conducted.

The scope of analysis also includes the insurance segment to better capture the specific characteristics of the Group's business model (financial conglomerate).

The quantitative reconciliation between regulatory requirements and management estimates of capital adequacy is set out in a specific document attached to the ICAAP, which reports the differences in scope and definition of risks considered in both areas, as well as the differences, where appreciable, between what is considered in the two perspectives in terms of the main parameters (e.g. confidence interval and holding period) and assumptions (such as those relating to the diversification of effects).

The Group is required to provide a Recovery Plan according to indications received by Supervisory Authorities. The process that oversees the preparation of that plan is an integral part of the regulatory response to cross-border resolution for "too-big-to-fail" banks and financial institutions. The Recovery Plan (introduced by the Bank Recovery and Resolution Directive, transposed into Italian law by Legislative Decree 180 of 16 November 2015) establishes the methods and measures to be used when an institution comes under severe stress and in an early intervention phase, in order to restore financial strength and long-term viability.

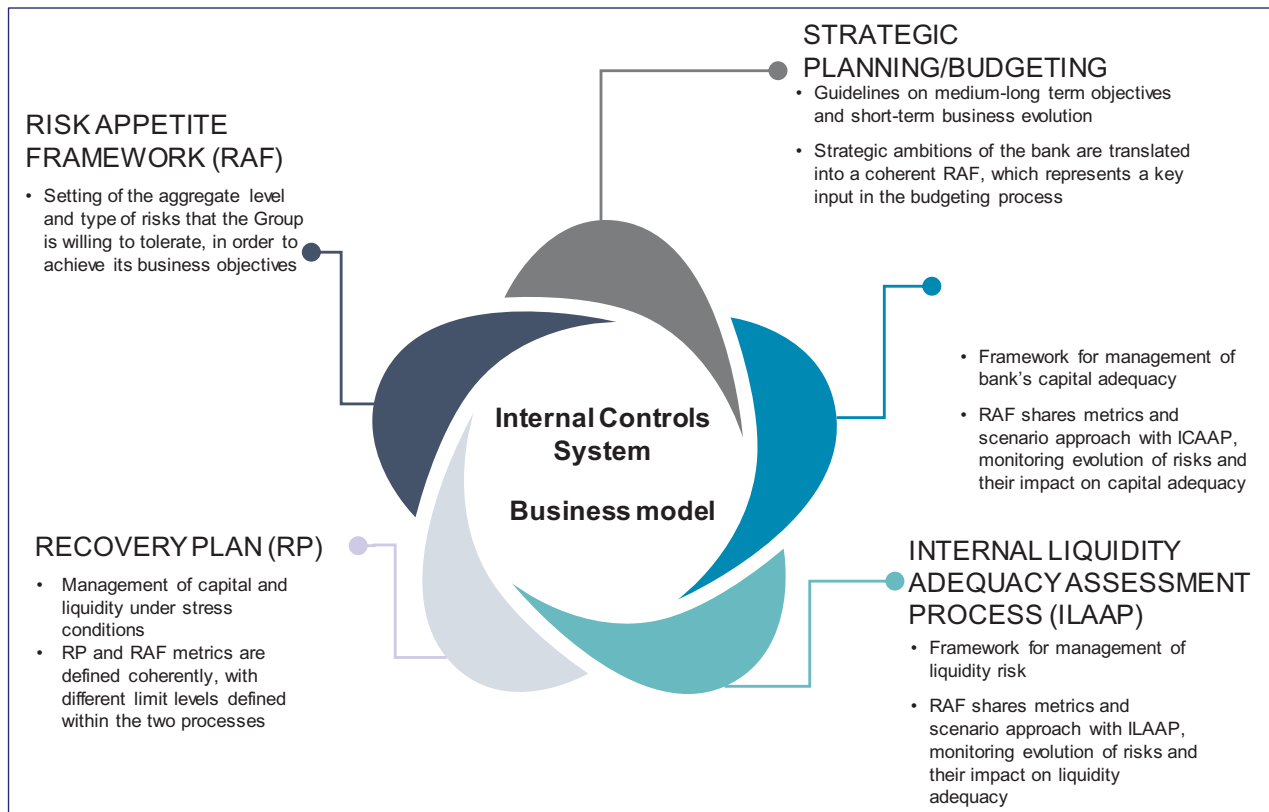
Within the annual preparation process for the Recovery Plan, the Chief Risk Officer Governance Area identifies the stress scenarios suitable of highlighting the main vulnerabilities of the Group and its business model (e.g. significant exposure to the domestic market), as well as measuring their potential impacts on the Group's risk profile. In light of the particular economic and financial context, influenced by the pandemic related to COVID-19, for the 2020 Recovery Plan, the ECB granted the Intesa Sanpaolo Group specific Operational Reliefs, in line with the measures envisaged in this context by the EBA ("EBA Statement on Additional Supervisory Measures in the COVID-19 Pandemic" – 22 April 2020). In that context, considering the specific nature of the year, in 2020 banks were permitted to assume the breach of at least one capital or liquidity indicator with only one fast COVID-19-based scenario.

Following the publication of the European Banking Authority's Final Report on Recommendation on the coverage of entities in a group recovery plan (EBA/Rec/2017/02), dated 1 November 2017, Intesa Sanpaolo has adopted specific criteria for the classification of Group companies among:

- Group-relevant;
- Locally relevant;
- Not relevant.

The application of these criteria to the Group scope has led to the Parent Company as well as Fideuram, the VUB Group, Banka Intesa Sanpaolo d.d., Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, CIB Group, the Privredna Banka Zagreb Group, Banca Intesa Beograd and Intesa Sanpaolo Romania, being classified among the Group-relevant entities. The remaining companies are included in the category of not relevant entities. The above breakdown is consistent with the scope covered by the 2019 Recovery Plan.

The Intesa Sanpaolo Group ensures full consistency of the business model and internal control system with the Business Plan, the Budget, the RAF, the Recovery Plan, the ICAAP and the ILAAP, as illustrated in the diagram below.



## Stress Tests

Stress tests are a fundamental risk management tool that enable banks to adopt a forward-looking perspective in their risk management, strategic planning and capital planning activities. As a fundamental element of company decision-making processes, the stress testing must be duly formalised and must have a suitable data infrastructure.

The conduct of the stress tests consists of three basic steps:

- selection and approval of scenarios;
- execution of stress tests;
- approval of results.

Intesa Sanpaolo distinguishes between the following types of stress tests:

- multi-risk exercise, based on scenario analysis, which enables the forward-looking assessment of the simultaneous impact on the Group of multiple risk factors, also taking into account the interrelationships between them and, where applicable, the top management's reaction capacity. This type of exercise, which requires the full revaluation of the impacts, is also used in the Risk Appetite Framework (RAF), Internal Capital Adequacy Assessment Process (ICAAP) / Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan processes;
- regulatory multi-risk exercise, ordered and coordinated by the supervisor/regulator which defines its general assumptions and scenarios, and requires the full revaluation of the impacts;
- situational exercise, ordered by the top management or by the supervisor/regulator in order to assess the impact of particular events (relating to the geopolitical, financial, economic, competitive environment, etc.) from a forward-looking perspective. Its scope may vary from case to case;
- a single or specific risk exercise to assess the impact of scenarios (or single or more specific risk factors) on specific risk areas.

With specific regard to the regulatory multi-risk exercises, on 19 March 2020 the EBA officially communicated the postponement of EU Wide Stress Test from 2020 to 2021. Up to that time, the Intesa Sanpaolo Group had sent the Advance Data Collection (9 March 2020), i.e. the advance data represented since the end of 2019. For 2021, the Group is taking part in the 2021 EU-Wide Stress Test, the exercise conducted by the European Banking Authority (EBA), in collaboration with the Bank of Italy, the European Central Bank (ECB) and the European Systemic Risk Board (ESRB) on the financial statements of European banks as at 31 December 2020.



## Risk culture

Over the last few years, the Bank has increasingly focused on the dissemination of Risk Culture, understood as, firstly, the set of values and resulting behaviours aimed at transversely strengthening aspects of cooperation, information and the assumption of responsibility in relation to the risk inherent in the banking business. The goal is to promote an approach to work focused on innovation, ethical sustainability and the search for pro-active solutions. Particular attention is paid to widespread full awareness of the guiding principles, also by systematically and carefully updating the reference documents on risk (e.g. *Tableau de Bord*, ICAAP, Risk Appetite Framework) and the information set for the exercise of operational activities. During 2020 several workshops/webinars were promoted on emerging issues with potentially significant impacts on risk (Financial Market Transparency, Crypto Assets, uncertainty in the COVID-19 era, evolution of business and operating models post-COVID-19, information and the post-truth era); several articles were published in the internal magazine *Mosaico*; and a pilot coaching project was implemented, involving various areas of the bank, focused on cooperation. A new version of the Risk Culture Assessment was also designed, which should be carried out in the two-year period 2021-2022, with a specific focus in the first year on the central functions and on several strategic areas of the network.

Moreover, during 2020, as part of the project of development of the model risk management framework, several training initiatives were implemented to promote and disseminate model risk awareness and gradually extend and implement the framework within the Group. In particular, a lot of internal workshops were held (targeted to the corporate functions involved in the life cycle of the model) and some learning objects carried out within the internal platform (*Apprendo*).

## Risk governance organisation

The policies relating to risk taking and the processes for the management of the risks to which the Group is or could be exposed are approved by the Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Risks Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework.

The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies.

The Corporate Bodies also benefit from the action of some Management Committees on risk management. These Committees operate in compliance with the primary responsibilities of the Corporate Bodies regarding internal control system and the prerogatives of Corporate control functions, and specifically the risk control function. In particular:

- the Steering Committee, chaired by the Managing Director and CEO, is a Group body with a decision-making, consulting and reporting role, which, within the Group Risk Analysis Session, seeks to ensure the control and management of risks and safeguard business value at Group level, including the internal control system, in implementation of the strategic guidelines and management policies established by the Board of Directors. Its various tasks include examining the RAF proposal for the Group, in preparation for the presentation to the Board of Directors, the analysis of the ICAAP and ILAAP Group packages and of the Risks *Tableau de Bord*;
- the Group Financial Risk Committee is a technical body with decision-making, reporting and consulting powers, focused both on the banking business (proprietary financial risks for banking and trading books, as well as Active Value Management) and the life and non-life insurance business (result exposure to the trend in market variables and technical variables). The functions of said Committee are set out in two sessions:
  - the Risk Analysis and Valuation session, chaired by the Chief Risk Officer, responsible for evaluating, *inter alia*, in advance of approval by the Board of Directors, the guidelines on undertaking and measuring financial risks and the liquidity risk of the Group, and proposals for operational limits for financial operations referring to interest rate risk of the banking book, the trading book and valuation risk defining, within the scope of the powers received, the distribution thereof amongst the Group's major units;
  - the Management Guidelines and Operational Choices Session, chaired by the Chief Financial Officer, provides operational guidelines in implementation of the strategic guidelines and risk management policies laid down by the Board of Directors, in respect of management of the banking book, liquidity, interest rate and exchange risk and periodically analyses the overall financial risk profile and exposure to liquidity risk and interest rate risk of the Group and the single Group banks and companies, verifying any limits breach and monitoring the approved come back procedures;
- the Credit Risk and Pillar 2 Internal Models Committee is a technical body with a decision-making, reporting and advisory role. In particular, with regard to the internal risk measurement systems, the Committee acts as the competent Management Committee for:
  - the internal models for the measurement and management of credit risk;
  - the internal models for Pillar 2 risks<sup>37</sup>;
- the Group Control Coordination, Reputational and Operational Risk Committee is divided into specific and distinct sessions:
  - the Integrated Internal Control System Session, with a reporting and advisory role, whose objective is to reinforce coordination and the interdepartmental cooperation mechanisms within the Group internal control system, thus promoting the integration of the risk management process;
  - the Operational and Reputational Risk session, with a decision-making, reporting and advisory role, which has the task of supervising the implementation of operational and reputational risk management guidelines and policies in

<sup>37</sup> The scope does not include the Pillar 2 models for the measurement and quantification of financial risks in the banking book, which already come under the scope of the Group Financial Risk Committee and the Pillar 2 models for the measurement and quantification of operational and reputational risks, which, instead, come under the scope of the Operational and Reputational Risk Controls Coordination Committee. However, it does include the models used for stress testing and forward-looking income statement valuations.



accordance with indications formulated by the Board of Directors and periodically reviewing the overall operational risk profile, monitoring the implementation of the mitigation actions identified in accordance with indications formulated by the Corporate Bodies and/or the Steering Committee.

The sessions of the Committee are attended by, among others, the Heads of Corporate control functions, as well as the Manager responsible for preparing the Company's financial reports as a permanent member. This contributes to fulfilling the assigned legal obligations and the responsibilities established in the Company Regulations on the supervision of the financial reporting process. It also enables the promotion of the inter-functional coordination and integration of control activities, within its area of responsibility;

- the Group Credit Committee is a technical body with a decision-making and advisory role that has the task of ensuring the coordinated management of issues relating to credit risk, and is organised in two separate sessions (Performing Loans Session and Non-Performing Loans Session). Among other duties, the Committee resolves on the granting, renewal and confirmation of loans within the scope of the powers assigned to it;
- lastly, the Hold To Collect and Sell (HTCS) Sign-Off Committee is tasked with proposing the assumption of market risks put forward by the business structures of the Parent Company or the subsidiaries, on the HTCS shares required for Originate to Share ("OtS") transactions; These transactions consist of syndicated loans originated with the intention of being distributed to third-party operators on the primary or post primary market and which provide for a holding period less than or equal to 12 months at the time of their origination.

The Chief Risk Officer Governance Area – located directly reporting to the Managing Director and CEO – in which the risk management functions are concentrated, including the controls on the risk management and internal validation process, represents a relevant component of the "second line of defence" of the internal control system that is separate and independent from the business supporting functions.

This Area is responsible for governing the macro process of definition, approval, control and implementation of the Group's Risk Appetite Framework with the support of the other corporate functions involved, as well as assisting the Corporate Bodies in setting the Group's risk management guidelines and policies, in accordance with the company's strategies and objectives, and coordinates and verifies their implementation by the responsible units of the Group, also within the various corporate areas, in addition to ensuring the management of the Group's overall risk profile, including the profile related to the model risk, by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the Corporate Bodies. It also carries out the II level controls on credit and other risks, and ensures the validation of internal risk measurement systems.

To that end, the Chief Risk Officer Governance Area is broken down into the following Organisational Units:

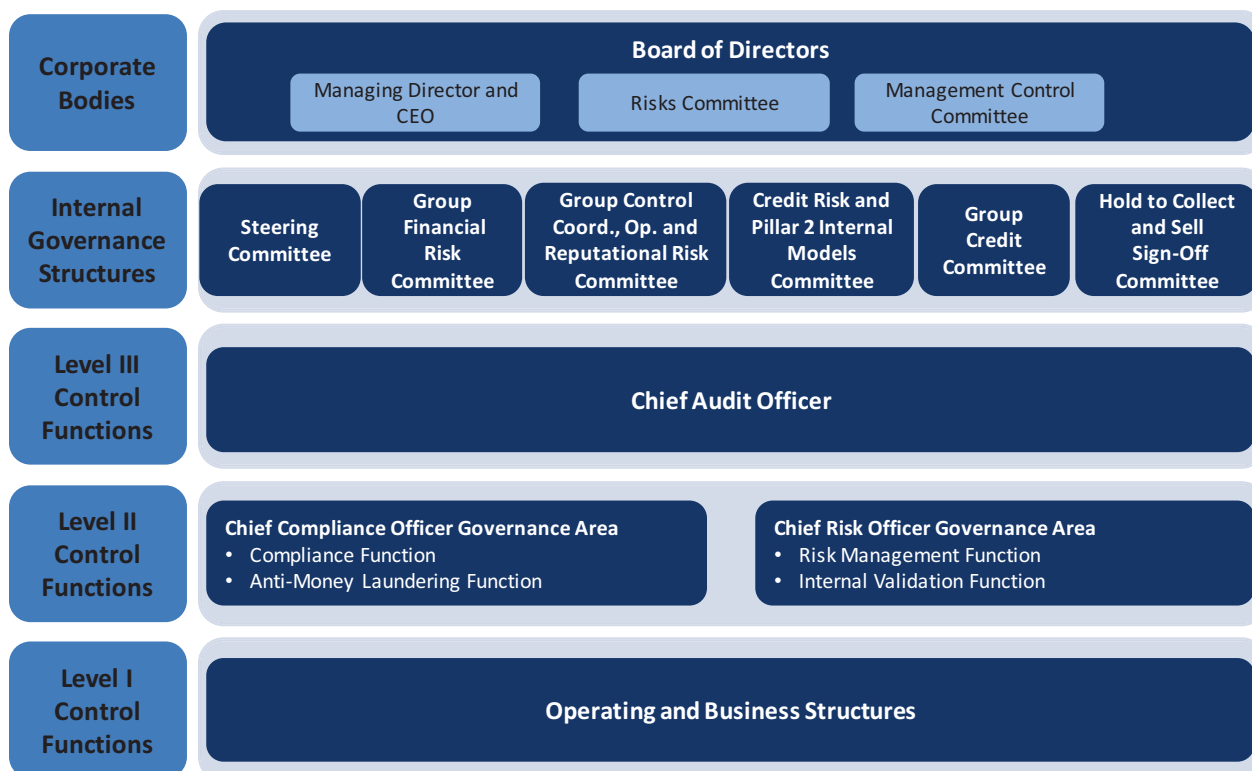
- Credit Risk Management Head Office Department;
- Financial and Market Risks Head Office Department;
- Enterprise Risk Management Head Office Department;
- Internal Validation and Controls Head Office Department;
- Foreign Banks Risk Governance;
- Coordination of Risk Management Initiatives.

The Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines along the Bank's entire decision-making chain, down to individual operational units. The risk control functions of subsidiaries with a decentralised management model and the representatives of the Parent Company's risk control function at subsidiaries with a centralised management model report to it.

The Chief Compliance Officer Governance Area, which reports directly to the Managing Director and CEO, in a position that is independent from operating departments and separate from internal auditing, ensures the monitoring of the Group regulatory compliance risk, including conduct risk. Within the Risk Appetite Framework, the Chief Compliance Officer Governance Area (i) proposes the statements and limits set for compliance risk and (ii) collaborates with the Chief Risk Officer Governance Area in the monitoring and control of non-financial risks for compliance purposes and, if the set limits are exceeded, in the identification/analysis of events attributable to non-compliance with regulations and in the identification of appropriate corrective measures.

The Chief Compliance Officer Governance Area is broken down into the following Organisational Units:

- Regulatory Compliance Retail and Private Banking Office Department;
- Regulatory Compliance Corporate and Investment Banking Head Office Department;
- Compliance Governance and Controls Head Office Department;
- Anti Financial Crime Head Office Department, which is tasked, *inter alia*, with the duties and responsibilities of the anti-money laundering function;
- Compliance Digital & Data Transformation.



The Parent Company performs a guidance and coordination role<sup>38</sup> with respect to the Group companies, aimed at ensuring effective and efficient risk management at Group level, exercising responsibility in setting the guidelines and methodological rules for the risk management process, and pursuing, in particular, integrated information at Group level to the Corporate Bodies of the Parent Company, with regard to the completeness, adequacy, functioning and reliability of internal control system. For the corporate control functions in particular, there are two different types of models within the Group: (i) the centralised management model based on the centralisation of the activities at the Parent Company and (ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the direction and coordination of the same corporate control functions of the Parent Company, to which they report in functional terms.

Irrespective of the control model adopted within their company, the corporate bodies of the Group companies are aware of the choices made by the Parent Company and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the Group controls.

With regard to the UBI Group, to translate the Parent Company's mentioned steering and coordination duties into practice, pending full integration, a decentralised management model has been applied, given the presence of local company functions with standing and resources that can guarantee sound and prudent management of the subsidiary's risk. In particular, the corporate control functions of the Parent Company and the subsidiary are expediting their sharing of approaches and tools to complete the integration of those frameworks, in order to best take advantage of possible synergies.

<sup>38</sup> In this regard, it is specified that Intesa Sanpaolo does not exercise management and coordination over Risanamento S.p.A. or its subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.

## The internal control system

To ensure a sound and prudent management, Intesa Sanpaolo combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.

Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Corporate Governance Code for Listed Companies, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.

Intesa Sanpaolo's internal control system is built around a set of rules, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with sound and prudent management, the achievement of the following objectives:

- the verification of the implementation of Company strategies and policies;
- the containment of risk within the limits indicated in the reference framework for determining the Bank's risk appetite (Risk Appetite Framework – RAF);
- the safeguarding of asset value and protection from losses;
- effectiveness and efficiency of the Company processes;
- reliability and security of Company information and IT procedures;
- prevention of the risk that the Bank may be involved, including involuntarily involved, in illegal activities (with special regard to those relating to money-laundering, usury and financing of terrorism);
- the compliance of business continuity with the law and supervisory regulations, as well as internal policies, procedures and regulations.

The internal control system plays a crucial role and involves the entire corporate organisation (bodies, units, hierarchical levels, all personnel). In compliance with the provisions of Bank of Italy Circular 285/2013 (First Part, Title IV, Chapter 3) the "Integrated Internal Control System Regulation" was finalised. This aims to define the guidelines of Intesa Sanpaolo's internal control system, in its capacity as Bank and Parent Company of the Banking Group, through the adaptation of the reference principles and the definition of the responsibilities of the Bodies and of the functions with control duties, which contribute, in various ways, to the proper operation of the internal control system, as well as the identification of coordination arrangements and information flows supporting system integration.

The internal control system is made up of a documentation infrastructure (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls present in the Company, which incorporate all the company policies and the instructions of the Supervisory Authorities, as well as the provisions of law, including the principles laid down in Legislative Decree 231/2001.

The regulatory framework consists of "Governance Documents", adopted from time to time, that oversee the operation of the Bank (Articles of Association, Code of Ethics, Group Internal Code of Conduct, Group Regulations, Group Committees Regulation, Regulation on Related Party Transactions, Integrated Internal Control System Regulation, Authorities and powers, Guidelines, Function charts of the Organisational Structures, etc.) and more strictly operational regulations that govern business processes, individual operations and the associated controls (Rules, Process Guidelines, Control Sheets, etc.).

More specifically, the corporate rules set out organisational solutions that:

- ensure sufficient separation between the operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
- are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
- enable the recording of every operational event and, in particular, of each transaction, with an adequate level of detail, ensuring their correct allocation over time;
- guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the control functions;
- ensure the prompt notification to the appropriate levels within the business and the swift handling of any anomalies found by the business units, the internal audit department and the other control functions;
- ensure adequate levels of business continuity.

The Company's organisational solutions also include controls at each operational level that enable the uniform and formalised identification of responsibilities, particularly in relation to the tasks of controlling and correcting the irregularities found.

In terms of Corporate Governance, Intesa Sanpaolo adopted the one-tier corporate governance system, pursuant to Articles 2409-sexiesdecies and following of the Italian Civil Code. It therefore conducts its operations through a Board of Directors, certain members of which are also members of the Management Control Committee.

Based on this system:

- the Board of Directors is the body responsible for strategic supervision and performs all the tasks assigned to it by the Articles of Association, the applicable regulations and the Bank's governance documents;
- the Managing Director and CEO performs the tasks assigned by the supervisory regulations to the body responsible for management, as set out in the Bank's governance documents, approved by the Board of Directors, except for the responsibilities assigned to the Board;
- the Management Control Committee performs the control function.

The Board of Directors elects a Managing Director from its members, other than the Chairman of the Board, the members of the Management Control Committee or the minimum number of Independent Directors.

The Intesa Sanpaolo Group adopts an internal control system based on three levels, in line with the legal and regulatory provisions in force.

Such a model provides for the following types of control:

- Level I: line controls which are aimed at ensuring proper performance of operations (for example, hierarchical, systematic and sample-based controls) and which, to the extent possible, are incorporated in the IT procedures. These are conducted by the same operating and business structures, also through a unit dedicated exclusively to control duties or carried out by the back office;
- Level II: risk and compliance controls for the purpose of ensuring, inter alia:

- correct implementation of the risk management process;
- compliance with the operating limits assigned to the various functions;
- compliance of company operations with the rules, including self-governance rules.

The functions assigned to such controls are separate from the ones in charge of production and contribute to the definition of the risk governance policies and the risk management process. In the Intesa Sanpaolo Group, Level II includes the following Parent Company structures and the equivalent local units of the Group companies, where established:

- Chief Compliance Officer Governance Area, which is assigned the duties and responsibilities of the “Compliance Function”, as defined in the reference regulations. The Chief Compliance Officer’s Governance Area also includes the Anti Financial Crime Head Office Department, which is tasked with the duties and responsibilities of the “Anti-Money Laundering Function”, as defined by the reference regulations;
  - Chief Risk Officer Governance Area, which is assigned the role of the risk management function, as defined by the applicable regulations. The Chief Risk Officer Governance Area also includes the Internal Validation and Controls Head Office Department, which is tasked, among other things, with the duties and responsibilities of the “validation function”, as defined by the applicable regulations.
- Level III: internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the internal control system and the IT system at Group level, at scheduled deadlines in relation to the nature and intensity of the risks. In the Intesa Sanpaolo Group, internal auditing is carried out by the Chief Audit Officer of the Parent Company and the equivalent local units of Group companies, where established.

The internal control system is periodically reviewed and adapted in relation to business development and the reference context.

Intesa Sanpaolo has an internal control structure consistent with the indications provided by the Supervisory Authorities.

### The Risk Management and Internal Validation Function

The Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines for risk along the Bank’s entire decision-making chain, down to individual operational units. The tasks and functions are discussed in detail in the subsequent chapters of Part E.

Through the Internal Validation and Controls Head Office Department, the Chief Risk Officer Governance Area carries out Level II controls on credit and other risks.

The purpose of the credit controls is to verify the proper classification and provisioning and the adequacy of the recovery process for individual exposures (so-called single names).

In general, the control activities development includes the credit processes assessment also to verify that suitable I Level controls are in place, including proper execution and traceability. The potential areas of investigation to be examined through Single Name controls therefore also consider the results of the monitoring carried out by the Level I Control Functions within the different credit clusters.

The control on other risks is aimed at verifying that I Level controls are properly set in terms of completeness, efficiency, detection and traceability, identifying areas to be strengthened and, where necessary, requesting corrective measures.

In accordance with recent regulatory developments, the Internal Validation and Controls Head Office Department is also responsible for the development, maintenance and oversight of the framework for the model risk governance, aimed at ensuring the identification, assessment, monitoring and mitigation of the risk for all Internal Systems, including the Pillar 1 and 2 risk measurement systems and the systems that are used for accounting purposes. To that end, the Department mainly carries out the following activities, in concert with the Functions concerned: a) defining, developing and upgrading the methodological framework to guarantee a homogeneous approach at Group level to identify models, assign the related priorities and assess and mitigate model risk, including the methodology for quantifying the economic capital buffer for model risk; b) defining, developing, managing and upgrading the Group Model Management platform (Model Inventory) with the goal of guaranteeing a complete, updated inventory of the models and tracking of the processes connected to the various phases of their life cycles; c) ensuring the periodic identification and assessment of model risk; d) overseeing the process for assigning priorities to models (tiers) in order to efficiently steer their governance, with specific reference to the levels of detail, analysis and frequency of validation and development activities; and e) providing periodic disclosure on the Model Risk Management Framework and on the results of the model risk assessments to the Head of the CRO Area, the competent managerial committees and the Corporate Bodies.

Moreover, the Internal Validation and Controls Head Office Department is assigned the validation function, which is in charge of the ongoing assessment, in accordance with the supervisory regulations for banks<sup>39</sup>, of the compliance of internal risk measurement and management systems for the determination of the capital requirements with regulatory provisions, company needs and changes in the reference market. On top of that, internal validation assesses the business and accounting models in application of IFRS 9. The validation function is assigned to the Internal Validation and Controls Head Office Department, which is responsible for the activity at the Group level in accordance with the requirements of supervisory regulations requesting a uniform management of the control process on internal risk measurement systems, in line with the independence requirements established by the applicable regulations.

A validation plan is to be drawn up, updated at least every six months, and submitted to the Board of Directors for approval.

With respect to Pillar 1 risks, validation is a prerequisite for use of the internal systems for regulatory purposes. The validation function assesses<sup>40</sup> the management and measurement systems in terms of models, processes, information technology infrastructure and their compliance over time with regulatory provisions, company needs and changes in the market of reference. The level of involvement of the structure depends on the different types of validation (development/adoption of

<sup>39</sup> Regulation (EU) 575/2013 (CRR), EBA Guidelines, EU Directive 2013/36 (CRD IV), Bank of Italy Circular 285/2013.

<sup>40</sup> The validation function is also responsible for calculating the default rates for the development/recalibration of the models and of the ECAF monitoring process.

internal systems, extension of the internal systems/request for model change, ex ante notification and ongoing validation). Both during the initial application phase and on an ongoing basis (at least annually), the results of the activities are presented to the competent functions, transmitted to the Chief Audit Officer for its related internal auditing work, as well as to the competent Managerial Committees and Governance Bodies for approval of the compliance of internal systems with regulatory requirements, and forwarded to the Supervisory Authorities.

With respect to Pillar 2 risks, the validation function carries out analyses on methodologies, verifying in particular that the measurement metrics adopted in quantifying significant risks are economically and statistically consistent, assessing that the methodologies adopted and the estimates produced to measure significant risks are robust and comparing alternative methodologies for measuring and aggregating individual risks. The analyses are conducted both ex-ante, when adopting/modifying the internal systems used for Pillar 2 purposes, and ex-post as part of the prudential control process. The latter are summarised in the ICAAP/ILAAP report and in the Annual report on the management models while, for substantial or significant modifications of internal systems, the validation function produces a report to be submitted to the competent Managerial Committees and the Governance Bodies<sup>41</sup>.

The function also manages the internal validation process at Group level, interacting with the Supervisory Authorities, the relevant Corporate Bodies and the functions responsible for the Level III controls required by the regulations. It adopts a decentralised approach for companies with local validation functions<sup>42</sup> (several international companies), coordinating and supervising the activities of those companies, and adopting a centralised approach for the others. The adopted methodologies were developed in implementation of the principles that inspire the Supervisory regulations for banks, EU directives and regulations, general guidelines of international committees and best practices in the area and take the form of documentary, empirical and operating practice analyses.

## Compliance

The governance of compliance risk is of strategic importance to the Intesa Sanpaolo Group as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.

The responsibilities and duties of the compliance function are assigned to the Chief Compliance Officer, who is independent and autonomous in relation to the operating structures, reports directly to the Corporate Bodies and has access to all activities within the Bank, as well as any significant information for the performance of his/her duties.

The Group's Compliance Model is set out in the Guidelines approved by Intesa Sanpaolo's Corporate Bodies, which indicate the responsibilities of the various company structures and macro processes to mitigate compliance risk:

- identifying and assessing compliance risk;
- proposing the functional and organisational measures for mitigation of this risk;
- conducting pre-assessments of the compliance of innovative projects, operations and new products and services;
- providing advice and assistance to the governing bodies and the business units in all areas with significant compliance risk;
- monitoring of ongoing compliance, both through control of compliance with regulations by company structures, and through the use of information provided by the other control functions;
- disseminating a corporate culture founded on the principles of honesty, fairness and respect for the spirit and the letter of the rules.

The regulatory scope and the procedures for monitoring regulatory areas that present significant risks of non-compliance for the Group are defined in the aforementioned guidelines. The Chief Compliance Officer submits periodic reports to the Corporate Bodies on the adequacy of compliance control, with regard to all regulatory aspects applicable to the Group which show compliance risks. On an annual basis, these reports include an identification and assessment of the primary compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a half-yearly basis they include a description of the activities performed, critical issues noted, and remedies identified. A specific notice is also given when events of particular significance occur.

The Compliance Guidelines call for the adoption of two distinct models in relation to guidance, coordination and control of the Group. These models are organised in such a way as to account for the Group's structure in operational and territorial terms.

In particular:

- for specifically identified Italian Banks and Companies, whose operations are highly integrated with the Parent Company, the compliance supervision is centralised at the Parent Company;
- for the other Companies, that have a legal obligation or have been specifically identified based on the business conducted, as well as the International Branches, an internal compliance function is established and a local Compliance Officer is appointed, which are assigned compliance responsibilities. The local Compliance Officers of the subsidiaries functionally report to the Chief Compliance Officer structures, while those of the International Branches, except where not permitted by local regulations, hierarchically report to the Chief Compliance Officer structures.

## Anti-Money Laundering

The duties and responsibilities of the Anti-money laundering Function are assigned, as required by the regulations, to the Anti Financial Crime Head Office Department, which reports to the Chief Compliance Officer, and is therefore independent and autonomous in relation to the operating structures, reporting directly to the Corporate Bodies, and has access to all activities within the Bank, as well as to any significant information for the performance of its duties.

Specifically, the Anti Financial crime Head Office Department ensures monitoring of compliance risk in the area of money laundering, terrorist financing and breach of embargoes and weapons (Financial Crime), by:

<sup>41</sup> In the event of substantial/significant modifications, the approval process requires that the Risk Management Head Office Department submit updates to the Internal Management System, accompanied by the impact analysis on the risk metrics and the report of the validation function, to the competent Managerial Committee for approval. Subsequently, reporting is provided on those modifications to the Board of Directors.

<sup>42</sup> Note that the functional reporting of local validation units to the Internal Validation and Controls Head Office Department has been formalised.



- laying down the general principles to be adopted within the Group for the management of compliance risk;
- identifying and assessing compliance risk;
- conducting ongoing monitoring, with the support of the competent functions, of developments in the national and international context of reference, verifying the adequacy of company processes and procedures with respect to applicable regulations and proposing appropriate organisational and procedural changes;
- providing advice to the corporate functions, as well as establishing adequate training plans;
- preparing appropriate periodic reporting for corporate bodies and top management;
- discharging the required specific obligations including, in particular, enhanced customer reviews, controls of proper management of the data storage Archive and the assessment and monthly submission to the Financial Intelligence Unit of data relating to aggregated anti-money laundering reports, and the assessment reports of suspicious transactions received from operating structures for the submission to the Financial Intelligence Unit of reports deemed accurate.

The Anti Financial Crime Head Office Department also oversees compliance risk on corruption and the administrative liability of entities (Legislative Decree 231/2001).

The Anti Financial Crime Head Office Department performs its role of guidance, coordination and control of the Group according to a model similar to the one described for the Compliance function.

## Internal Auditing

Internal auditing activities are assigned to the Chief Audit Officer, who reports directly to the Board of Directors (and, on its behalf, to its Chairman), functionally reporting to the Management Control Committee, without prejudice to the appropriate sharing of information with the Managing Director and CEO. The Chief Audit Officer does not have any direct responsibilities for the operational areas.

This function has a structure and a control model which is organised according to the evolution of the organisational structure of Intesa Sanpaolo and of the Group.

The Internal Auditing structures of the Group's Italian and international companies report to the Chief Audit Officer in terms of functions.

The Internal Auditing Department performs overall level 3 assessment of the internal control system, reporting possible improvements to the corporate bodies, with specific regard to the Risk Appetite Framework (RAF), the risk management process and risk measurement and control instruments.

In particular, the Department assesses the completeness, adequacy, functionality and reliability of the components of the internal control system, the risk management process and the corporate processes, also with regard to their ability to identify and prevent errors and irregularities. In this context, amongst others, it audits the risk control and regulatory compliance corporate functions, also through participation in projects, so as to generate added value and improve the effectiveness of the control and corporate governance processes.

The audit action directly concerns Intesa Sanpaolo and the Group companies.

The Internal Auditing Department is also responsible for assessing the effectiveness of the corporate RAF definition process, the internal consistency of the overall framework and compliance of Bank operations with the RAF.

The Head of the Internal Auditing Department enjoys due autonomy and independence from the operating structures. The Department has access to all the activities conducted at both the head office departments and the local structures. In the event whereby third parties are assigned activities inherent to the operation of the internal control system (e.g. data processing), the Internal Auditing must have access also to the activities carried out by said entities.

The department uses personnel with the appropriate professional skills and expertise and ensures that its activities are performed in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors (IIA).

As required by the international standards, the department is subject to an external Quality Assurance Review every five years. The most recent review was carried out at the end of 2018 on the request of the Management Control Committee and concluded in the first quarter of 2019, confirming the highest assessment envisaged ("Generally Compliant").

In performing its duties, the function uses structured risk assessment methods to identify existing situations of greatest interest and the main new risk factors. Based on the assessments emerging from risk assessment and the resulting priorities, as well as on any specific requests for further enquiry expressed by top management and Corporate Bodies, it prepares and submits an Annual Intervention Plan for prior examination by the Management Control Committee, and subsequent approval by the Board of Directors, on the basis of which it conducts its activities during the year, in addition to a Long-Term Plan.

The Chief Audit Officer ensures the proper conduct of the internal process for managing whistleblowing reports.

The Chief Audit Officer coordinates the "Integrated Internal Control System" session of the Group Control Coordination, Reputational and Operational Risk Committee.

During the year, auditing was performed directly for the Parent Company as well as for other subsidiaries under an outsourcing contract. For the other Group companies having their own internal audit departments, steering and practical coordination of the local departments was performed to guarantee control consistency and adequate attention to the different types of risks, also verifying the effectiveness and efficiency levels under both structural and operational profiles. Direct auditing and review activities, in the capacity of Parent Company, were also performed for those companies, as mentioned above.

Any weaknesses detected during control activities have been systematically notified to the corporate functions involved for prompt improvement actions, which are monitored by follow-up activities to verify their effectiveness.

Summary internal control system assessments from the checks have been periodically submitted to the Management Control Committee and the Board of Directors. The findings of the audits completed with a negative opinion or with the identification of major shortcomings were sent in full to the Board of Directors, the Managing Director and CEO and the Management Control Committee, as well as the Boards of Directors and Boards of Statutory Auditors of the subsidiaries concerned.

The main weaknesses detected and their development over time have been included in the Audit Tableau de Bord (TdB), with details of the mitigation actions underway, together with the related responsibilities and deadlines envisaged, so they can be systematically monitored. Lastly, the Chief Audit Officer ensured constant assessment of its own effectiveness and efficiency



in line with the internal “quality assurance and improvement” plan drafted in accordance with the recommendations of International Standards for the Professional Practice of Internal Auditing. In this context, during 2020, the function evolution plan called Future Audit Solutions and Transformation (FAST) continued, also in line with the strategies of the 2018-2021 Business Plan.

## Manager responsible for preparing the Company’s financial reports

Supervision on the reliability of the Company financial reports and on the financial reporting process is carried out by Intesa Sanpaolo’s Manager responsible for preparing the Company’s financial reports, in compliance with the provisions of Article 154-bis of the Consolidated Law on Finance and the related implementing provisions. This control is also ensured over the subsidiaries governed by the laws of non-EU countries, in accordance with the supervisory rules on management and accounting systems set by Article 15 of Consob Market Regulation 20249/2017 (as subsequently amended and supplemented).

In order to comply with the aforesaid provisions, the Manager responsible for preparing the Company’s financial reports:

- performs a steering and coordination role in Group companies with regard to administrative matters and in the monitoring of the internal control system functional to financial reporting;
- supervises the implementation of legal requirements according to a shared approach at Group level, set out in specific internal regulations.

In particular, the Manager responsible for preparing the Company’s financial reports:

- issues the instructions for the correct and uniform application of the accounting standards and measurement criteria, formalised as part of the Group Accounting Policies, which are subject to regular periodic updates;
- prepares appropriate administrative and accounting procedures for the preparation of the separate and the consolidated financial statements, and updates them to ensure compliance with the corporate disclosure requirements in force;
- verifies the adequacy of the administrative and accounting procedures and the effectiveness of the control system on the financial reporting process;
- oversees the correspondence between the corporate reporting to the market with the accounting records; to this end, it has the right to promptly obtain any information deemed necessary for the performance of his/her duties and coordinates the exchange of information with the independent auditors.

With specific regard to the financial reporting processes, the Manager responsible for preparing the Company’s financial reports:

- maintains a system of contact and information flows with the function of the Parent Company and of the Group Companies, in order to ensure the adequacy of balance sheet, income statement and financial positions and the descriptions of the main types of risks and uncertainties to which the Group may be exposed, monitoring the reliability of the acquisition of relevant data and information;
- oversees the internal control system on the financial reporting process:
  - providing a prior opinion of suitability regarding the changes to the existing organisational structure (new internal regulations) that have an impact on the adequacy of the procedures for financial reporting;
  - preparing audit plans aimed at ensuring the adequacy and effective application of administrative and accounting procedures over the period, also by subsidiaries subject to the laws of non-European Union countries in accordance with Art. 15 of the CONSOB Market Regulation;
- acquires, in relation to the impact on the financial reporting process and the reliability of the corporate information, the results of the activities carried out by the Corporate control functions and, in particular, by the Chief Audit Officer, who is responsible for the overall assurance for the internal control system in accordance with the “Integrated Internal Control System Regulation”;
- acquires any recommendations formulated by the independent auditors at the end of the process of auditing the separate financial statements of the Parent Company and the consolidated financial statements, as well as the related feedback in terms of measures to improve the procedures that have an impact on accounting data, monitoring their implementation and effectiveness;
- periodically reports on the scope and results of the assurance activities performed, to the Risks Committee, the Management Control Committee and the Board of Directors;
- submits to the Surveillance Body established pursuant to Legislative Decree 231/01 the findings of the audit plan carried out in implementation of the monitoring of the financial reporting process, focusing on preventing the criminal and administrative offences described in the “Organisational, Management and Control Model pursuant to Legislative Decree 231 of 8 June 2001”.

The Manager responsible for preparing the Company’s financial reports contributes to supervising the independence of the independent auditors, in accordance with the procedures governed by specific Company Regulations, in line with the provisions of law (Legislative Decree 39/2010 amended by Legislative Decree 135/2016, which transposed Directive 2014/56/EU into the Italian legal framework, and EU Regulation 537/2014). The above-mentioned Company Regulations assign to the Manager responsible for preparing the Company’s financial reports the role of supervising, overseeing and monitoring the accounting audit engagements and other services entrusted by the Parent Company departments and the Group companies to independent auditors, their networks and their affiliates, in addition to the task of regularly informing the Management Control Committee in this regard.

The Manager responsible for preparing the Company’s financial reports also ensures periodic reporting to the Board of Directors regarding the legal and regulatory obligations assigned to the Board for the monitoring of the adequacy of powers and means granted to the Manager responsible for preparing the Company’s financial reports and of the effective observance of administrative and accounting procedures. This reporting is discussed beforehand with the Management Control Committee and the other Board Committees, for the aspects under their responsibility.

### Attestations as required by Art. 154-bis of the Consolidated Law on Finance

In relation to the supervisory and monitoring functions assigned, the Manager responsible for preparing the Company's financial reports:

- signs, jointly with the Managing Director and CEO, the attestations of the separate and consolidated financial statements required by the Article 154-bis, paragraph 5, of the Consolidated Law on Finance on the adequacy and actual application of administrative and accounting procedures, the compliance with the international accounting standards, the agreement of the financial statements with the supporting documentation, accounting books and records and their suitability to give a true and fair view of the financial and economic position of the Group, as well as a reliable analysis of the performance, operating result and the main risks to which the Group is exposed;
- certifies the correspondence of the documents and announcements disclosed to the market with the records, books and accounting entries, pursuant to Article 154-bis, paragraph 2, of the Consolidated Law on Finance.

The monitoring of the accounting and financial reporting process is based on the review of:

- completeness and consistency of the information provided to the market through a structured reporting system originated from the functions of the Parent Company and the Companies concerning the events deemed significant for accounting/financial disclosure purposes, especially with regard to the main risks and uncertainties to which they are exposed;
- suitability and effective implementation of organisational and IT processes and procedures used for the preparation of accounting documents and other communication of a financial nature deemed relevant pursuant to Art. 154-bis of the Consolidated Law on Finance.

Special attention is paid to monitoring the adequacy of the auditing approach and the proper conduct of the activities required for the financial reporting process; the focus of the controls is represented by the work stages which, within the various business processes, entail the recording, processing, evaluation and presentation of data and information used as input for financial reporting and the related internal control system.

The IT processes and developments implemented on the reporting systems play a particularly important role in the oversight of the IT architectures and applications used to manage this information.

The organisational model for the supervision of the adequacy of the administration, accounting and financial reporting procedures and the related internal control system is governed by the Company "Administrative and Financial Governance Guidelines". In particular, the model prescribes assessment methodologies differentiated according to, on one hand, the risk of the processes deemed significant for accounting and financial reporting purposes and, on the other, the need to realise synergies with the control activities carried out by the Internal Audit Department and the other Corporate Control Functions.

To this end, the procedures may be verified by means of in-depth analyses, conducted according to specific methodologies used to verify the correctness of the accounting and financial information, carried out by the structures that support the Manager responsible for preparing the Company's financial reports (analytical approach) and, if present, of the information collected by the Corporate control functions or by external entities such as Independent Auditors, Supervisory Authorities, etc. (synthetic approach).

For the assessment of the adequacy of the relevant processes for the financial reporting, the Manager responsible for preparing the Company's financial reports uses the results of the controls carried out by the structures reporting directly to him, by the Internal Audit Department and the other Corporate control functions. To this end, within the scope of the Controls Coordination Committee and Operational Risk Committee provided for by the Integrated Internal Control System, the Corporate Control Functions and the Manager responsible for preparing the Company's financial reports share annual check plans and the related outcomes. The critical issues arising from inspections conducted by external bodies (Independent Auditors, Supervisory Authorities) are also collected and assessed from the perspective of financial reporting risk.

To conclude the preparation of the Company's financial reports according to the rules and criteria set out in Part A of the Notes to the financial statements, and the supervisory activities conducted on the financial reporting processes, according to the guidelines described herein, the Managing Director and CEO and the Manager responsible for preparing the Company's financial reports sign the attestations required by Art. 154 bis, paragraph 5, of the Consolidated Law on Finance.

These attestations are included in the reporting packages for the separate financial statements of the Parent Company and the consolidated financial statements, and are provided to the public according to the model established by the Consob Regulation.

### Report pursuant to article 15 of Consob Market Regulation 20249/2017, as subsequently amended and supplemented

With regard to the protection of savings and the regulation of financial markets, the Italian Securities and Exchange Commission (Consob) has set certain conditions for the listing of parent companies incorporated and subject to the laws of non-EU member states (Article 15 of the Market Regulation cited). As a result, Intesa Sanpaolo has set up an action plan to ensure the existence of the conditions required for subsidiaries that are of material significance, identified in compliance with the criteria established in the rules of the cited Article 15:

- ensuring the public disclosure of the accounting positions of subsidiaries prepared for the purposes of drafting the consolidated financial statements;
- obtaining details from its subsidiaries of their articles of association, membership and powers of the corporate bodies;
- determining that the subsidiaries: i) provide the independent auditor of the parent company with the information necessary to perform annual and interim audits of the parent company; and ii) enjoy access to an administrative and accounting system appropriate for regular reporting to the management and independent auditor of the parent company of the income statement, balance sheet and cash flow data necessary for the preparation of the consolidated financial statements.

On conclusion of the activities performed and the verifications conducted, compliance is confirmed with the conditions required by Article 15 of Consob Market Regulation 20249/2017 (as subsequently amended and supplemented).

The Management Control Committee and Board of Directors have been informed of compliance with those regulatory provisions governing companies incorporated in and subject to the laws of non-EU Member States, in the aforementioned

“Report on the internal control system for the financial reporting process” drafted in order to illustrate the overall governance and control activities performed in accordance with the various provisions of laws and Group regulations governing the supervision of financial reporting, organically coordinated by the Manager responsible for preparing the Company’s financial reports.

## The scope of risks

The risks identified, covered and incorporated within the Economic Capital are as follows:

- credit and counterparty risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
- market risk (trading book), including position, settlement and concentration risk on the trading book;
- financial risk of the banking book, mostly represented by interest rate and foreign exchange rate risk;
- operational risks;
- insurance risk;
- strategic risk;
- risk on real estate assets owned for whichever purpose;
- risk on equity investments not subject to line-by-line consolidation;
- risks relating to defined-benefit pension funds;
- model risk.

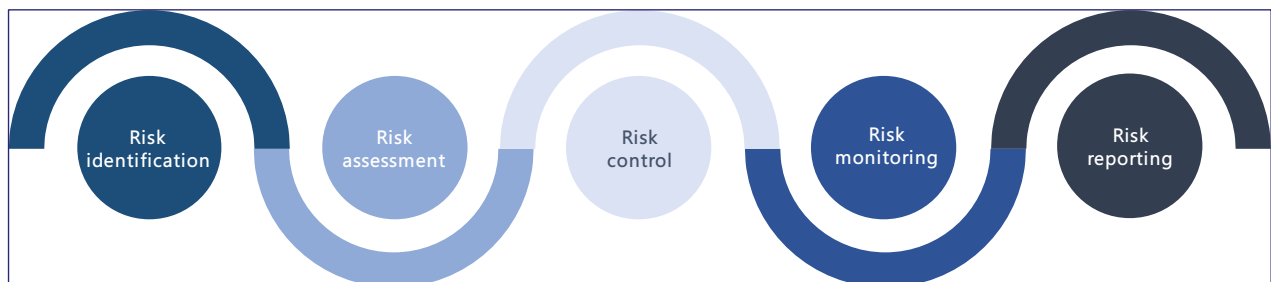
Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures, including stress tests.

Special attention is dedicated to managing the short-term and structural liquidity position by following specific policies and procedures to ensure full compliance with the limits set at the Group level and operating sub-areas in accordance with international regulations and the risk appetite approved at the Group level.

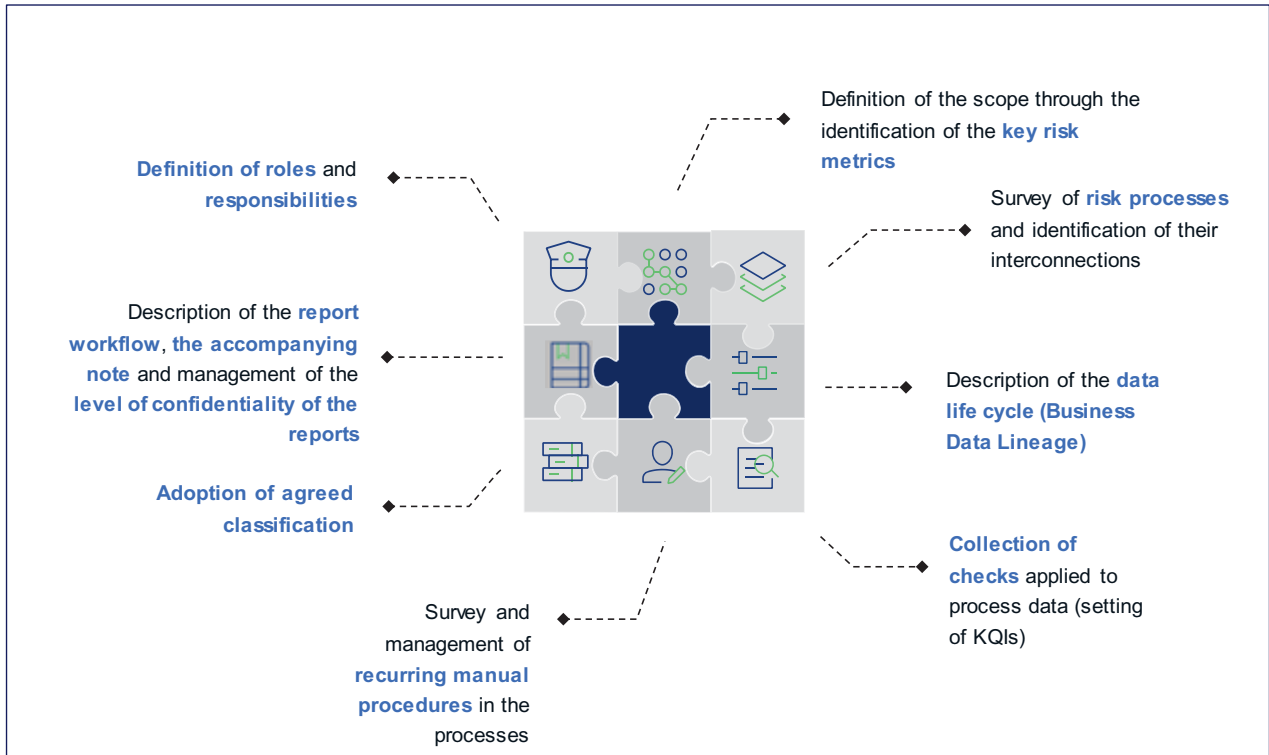
The Group also attaches great importance to the management of reputational risk, which it pursues not only through organisational units with specific duties of promotion and protection of the company image, but also through dedicated processes for the identification and assessment of reputational risk and the creation of specific reporting flows. In addition, starting in 2018, a specific add-on for economic capital has been introduced for operational risk, determined on the basis of operational losses, to strengthen the protection against possible reputational repercussions.

Lastly, particular attention is also given to the control of environmental, social and governance (ESG) risks associated with the activities of its corporate customers and the economic activities the Group is involved in.

Over the years, the Group has developed and implemented the necessary structural and operational improvements for integrated risk reporting that is as complete, accurate and regular as possible, in order to support senior management.



The risk monitoring processes have undergone a progressive strengthening of the Data & Reporting Governance controls, also in compliance with the applicable regulations (“Principles for effective risk data aggregation and risk reporting - BCBS239”). The Chief Risk Officer Governance Area has planned actions in specific areas, including the adoption of agreed classifications and uniform practices for the description of the life cycle of the data within the main risk monitoring processes. In 2020, a process was also initiated for the convergence towards the Group’s target framework developed and regulated by the Data Office Department, taking into account the Area’s specific characteristics. More generally, the strengthening of Data & Reporting Governance has involved the aspects detailed in the diagram below.



The Group has also strengthened its focus on data quality control, defining processes, roles and responsibilities, reference classifications (quality dimensions) and identifying the related support instruments.

The scope of Data & Reporting Governance includes: credit risk, market and counterparty risk, interest rate risk of the banking book, liquidity risk, operational risks and the risk integration process.

Assessments of each single type of risk for the Group are integrated in a summary amount – the Economic Capital – defined as the maximum “unexpected” loss the Group might incur over a year. This is a key measure for determining the Group’s financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario. The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the Risk Committee and the Board of Directors, as part of the Group’s Risks Tableau de Bord.

In addition to managing the risks described above, Intesa Sanpaolo pays close attention to the identification and monitoring of specific areas of emerging risk, which, in the medium term, could compromise the achievement of the Group’s strategic objectives or significantly influence its financial position and results.

For the purposes described above, the Intesa Sanpaolo Group uses a wide-ranging set of tools and techniques for risk assessment and management, detailed in this Part E of the Notes to the consolidated financial statements, with regard to the types of risk indicated below and in accordance with the procedures established for the qualitative disclosure in Bank of Italy Circular 262.

The table below shows the mapping of risk disclosure regarding the financial statements and Pillar 3.

	FINANCIAL STATEMENTS		PILLAR 3
	Section/Chapter	Paragraph	Section
<b>RISKS OF THE BANKING GROUP</b>	PART E - SECTION 2		
- Credit risk	Chapter 1.1		Sections 6-7-8-9-10
- <i>Securitisations</i>	Chapter 1.1	<i>Paragraph C</i>	Section 12
- Market risk	Chapter 1.2		Section 13
- <i>Regulatory trading book</i>		<i>Paragraph 1.2.1</i>	
- <i>Banking book</i>		<i>Paragraph 1.2.2</i>	
- Counterparty risk	Chapter 1.3		Section 11
- <i>Financial derivatives</i>		<i>Paragraph 1.3.1</i>	
- <i>Credit derivatives</i>		<i>Paragraph 1.3.1</i>	
- <i>Accounting hedges</i>		<i>Paragraph 1.3.2</i>	
- Liquidity risk	Chapter 1.4		Section 5
- Operational risks	Chapter 1.5		Section 14
<b>RISKS OF INSURANCE COMPANIES</b>	PART E - SECTION 3		
- Insurance Risks	Chapter 3.1		
- Financial Risks	Chapter 3.2		
<b>RISKS OF OTHER COMPANIES</b>	PART E - SECTION 4		

The information provided in this part of the document is based on internal management data and may not necessarily coincide with that contained in Parts B and C of the Notes to the consolidated financial statements.

In addition to credit, market trading book, banking book financial, liquidity, operational and insurance risks, discussed in detail in the following paragraphs, the Group has identified and monitors the following other risks.

#### Strategic risk

The Intesa Sanpaolo Group defines current or prospective strategic risk as risk associated with a potential decline in profits or capital due to changes in the operating context, misguided Company decisions, inadequate implementation of decisions, or an inability to react sufficiently to changes in the competitive scenario.

The Group's response to strategic risk is represented first and foremost by policies and procedures that call for the most important decisions to be deferred to the Board of Directors, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions ensures that strategic risk is mitigated.

An analysis of the definition of strategic risk leads to the observation that this risk is associated with two distinct fundamental components:

- a component associated with the possible impact of misguided Company decisions and an inability to react sufficiently to changes in the competitive scenario: this component does not require capital, but is one of the risks mitigated by the ways in which strategic decisions are reached and by their centralisation with top management, where all significant decisions are always supported by specific activities aimed at identifying and measuring the risks implicit in the initiative;
- the second component is more directly related to business risk; in other words, it is associated with the risk of a potential decline in profits as a result of the inadequate implementation of decisions, changes in the operating context and changes in the cost of funding. This component is handled not only by using systems for regulating Company management, but also via specific internal capital, determined according to a margin volatility simulation approach, which expresses the risk arising from the business mix of the Group and its Business Units.

Strategic risk is also assessed as part of stress tests based on a multiple-factor model that describes the relations between changes in the economic scenario and the business mix resulting from planning hypotheses, with analyses to assess the impacts on both interest income and margins from the performance of net fees and commissions.

#### Reputational risk

The Intesa Sanpaolo Group attaches great importance to reputational risk, namely the current and prospective risk of a decrease in profits or capital due to a negative perception of the Bank's image by customers, counterparties, shareholders, investors and Supervisory Authorities.

The Intesa Sanpaolo Group actively manages its image in the eyes of all stakeholders, by engaging all its Organisational Units and seeking robust, sustainable growth capable of creating value for all stakeholders. In addition, the Group seeks to minimise possible negative effects on its reputation through rigorous and comprehensive governance, proactive risk management and guidance and control of its activities.

The overall management of reputational risk is pursued primarily:

- through compliance with standards of ethics and conduct and self-governance policies. The Code of Ethics adopted by the Group contains the core values that Intesa Sanpaolo intends to commit itself to and sets out the voluntary principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with even broader objectives than those required by current legislation. The Group has also issued voluntary conduct policies (human rights policy, environmental policy and arms industry policy) and adopted international principles (UN Global Compact, UNEP FI, Equator Principles) aimed at pursuing respect for the



- environment and human rights;
- systematically and independently by the company structures tasked with safeguarding the company reputation, which maintain relations with stakeholders, within their respective areas of responsibility;
- across the various corporate functions, through the Reputational Risk Management processes governed by the Chief Risk Officer Governance Area;
- through an integrated monitoring system for primary risks, to limit exposure to those risks, and to comply with the related limits contained in the Risk Appetite Framework.

The Group aims to achieve constant improvement of reputational risk governance also through an integrated compliance risk management system, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature are founded on trust.

In order to safeguard customers' interests and the Group's reputation, specific attention is also devoted to establishing and managing customers' risk appetite, pursued through the identification of the subjective and objective traits of each customer. The assessments of adequacy during the process of structuring products and rendering advisory services are supported by objective information, that considers the true nature of the risks borne by customers when they undertake derivative transactions or make financial investments.

More specifically, the sale of financial products is also governed by specific preventive risk assessment from the standpoint of both the Bank (along with risks, such as credit, financial and operational risks, that directly affect the owner) and the customer (portfolio risk, complexity and frequency of transactions, concentration on issuers or on foreign currency, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered).

The abovementioned Reputational Risk Management (RRM) processes are coordinated by the Chief Risk Officer Governance Area and involve control, specialist and business functions, for various purposes. These processes include:

- Reputational Risk Assessment, which seeks to identify the most significant reputational risk scenarios that the Intesa Sanpaolo Group is exposed to. This process is implemented annually and is aimed at gathering the opinion of Top Management regarding the potential impact of these scenarios on the Group's image, in order to identify appropriate communication strategies and specific mitigation actions, where necessary;
- ESG & Reputational Risk Clearing, which is aimed at the ex-ante identification and assessment of the potential reputational risks associated with the most significant business operations, the main capital budget projects and the selection of the Group's suppliers/partners;
- Reputational Risk Monitoring, aimed at monitoring the evolution of Intesa Sanpaolo's reputational positioning (on the web, for example) also with the aid of external analyses.

#### **ESG (Environmental, Social and Governance) risks**

ESG risk stems from the potential negative impacts of a company or activity on the environment, people and communities and also includes risks related to corporate governance. ESG risk may therefore affect profits, reputational profile, and credit quality and may lead to legal consequences.

The Intesa Sanpaolo Group is aware of the influence that a banking group can have in terms of sustainability in both the short and long term and pays particular attention to environmental, social and governance risks associated with the activities of its corporate customers and inherent in the sectors considered sensitive, i.e. with a significant ESG risk profile.

Intesa Sanpaolo's ESG risk management model consists of:

- a reference regulatory framework, based on the Group's general values and principles, set out in particular in the "Code of Ethics" and the "Principles of Human Rights", which defines the general criteria for limiting and excluding lending for the business sectors considered most sensitive to ESG risks. This is accompanied by self-governance policies that introduce specific criteria for operations in certain sensitive sectors ("Rules for lending operations in the coal sector" and "Rules for operations in the armaments sector");
- a process for assessing the ESG risks associated with the Group's operations, in particular with regard to the financing of corporate customers, which is included in the associated decision-making processes. In this context, particular attention is paid to loans subject to the Equator Principles, an association that the Group has been a member of since 2007, and to transactions classified as Most Significant Transactions.

One of the most important ESG risks is climate change risk, in relation to which projects are underway for its integration into the overall risk management framework, in response to regulatory developments. To this end, a number of scenario analyses were conducted within the international initiatives in 2020 (see the Emerging Risks paragraph in this section for more details).

#### **Risk on owned real-estate assets**

The risk on owned real-estate assets may be defined as risk associated with the possibility of suffering financial losses due to an unfavourable change in the value of such assets and it is thus included in the category of banking book financial risks. Real-estate management is highly centralised and represents an investment that is largely intended for use in company operations. The degree of risk in the portfolio of owned properties is represented by calculating an economic capital based on the volatility observed in the past in indexes of mainly Italian real estate prices, the main type of exposure associated with the Group's real-estate portfolio, with a degree of granularity of geographical location and intended use appropriate to the real estate portfolio at the reporting date.

#### **Risk on equity investments not subject to line-by-line consolidation**

The risk in the equity investment portfolio is related to the possibility of incurring economic losses due to the adverse changes in values of investments not subject to line-by-line consolidation.

The scope considered consists of the equity instruments held in financial and non-financial companies, and includes financial investment instruments, commitments to purchase, and derivatives with underlying equity instruments and equity funds.

The model used to estimate the Economic Capital is based on a PD/LGD approach similar to the credit risk portfolio model and it is used for the stand-alone equity investment portfolio. The applicable LGD is the regulatory LGD, whereas the model's other parameters are the same as those used in the portfolio model for credit risk.



### Risk related to defined-benefit pension funds

The risk related to defined-benefit pension funds is attributable to the possibility of having to increase the reserve that the Parent Company Intesa Sanpaolo maintains to guarantee the benefits of those pension funds, based on an adverse change in the value of the assets and/or liabilities of the pension funds concerned. This risk is fully considered within the assessment of capital adequacy, measured and controlled both with respect to Economic Capital, using an econometric model for the main macroeconomic variables, as well as to prospective baseline and stress scenarios.

### Model risk

Model risk is defined as the potential loss an institution may sustain, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models. In continuity with previous years, within 2020 ICAAP Report, the Internal Validation and Controls Head Office Department updated the model risk assessment (expressed synthetically through a score) of the methodologies supporting the measurement of Pillar 1 and Pillar 2 risks that also contribute to the calculation of the Economic Capital and provided the Enterprise Risk Management Head Office Department with the parameters for the quantification of the model risk economic capital buffer.

### Emerging risks

The strengthening of the overall risk management system also involves the identification, understanding and monitoring of so-called emerging risks, i.e. risks characterised by components that are little-known or rapidly evolving, potentially significant in the medium term to the Group's financial position and business model, even though their effects are not easy to assess and cannot yet be fully integrated into the most consolidated risk management frameworks.

The identification of these types of risks derives primarily from the continuous analysis of the external environment and the main findings gathered by the risk management function during the identification and assessment processes, but also involves comparison with peers and with market best practices, as well as with the Bank's other control/business functions.

In this context, Intesa Sanpaolo attributes particular importance to risks associated with the process of digital revolution, third parties, climate change and geopolitical and geo-economic tensions.

- The COVID-19 pandemic has been an exceptional accelerator in the digitalisation process, leading to a significant increase in the use of internet banking and app-based services. This trajectory will continue in the medium- to long-term, towards a consolidation of the operational resilience of financial institutions through a coordinated process of investment in digitalisation and expenditure to strengthen the security and reliability of technological infrastructure. In this scenario, there has also been an increase in cybercrimes against customers, who are increasingly victims of fraudulent activities outside the bank's responsibility (e.g. phishing campaigns, illegal use of the bank's telephone numbers and text messages, dissemination of malware, etc.), aimed at stealing their money and assets. The Intesa Sanpaolo Group seeks to limit this problem through: ongoing customer awareness raising campaigns concerning cyber-fraud; advocacy with the Authorities (AGCOM, ABF, Bank of Italy) and Telco operators to combat the new techniques (e.g. Swap SIM, Spoofing, Swap ALIAS) used by fraudsters to increase the effectiveness of the scams; closer cooperation with institutions, trade associations and various units of the Police Force; and continuous updating of the rules and anti-fraud systems for combating the new techniques.
- As a result of COVID-19, the Intesa Sanpaolo Group was also required to ensure the continuity of its business and safeguard the health of its employees by making significant changes to its processes. In this regard, the Group will be called upon to renew its medium- to long-term priorities to adapt them to the new normal. It is therefore reasonable to assume that further areas of risk may emerge from this process, related to further changes in working methods (e.g. remote working and web collaboration, and adaptation of physical spaces), the launch of new products and services, and the establishment collaboration or competition relationships with new market players (e.g. FinTech). Outsourcers and suppliers may also be exposed to such risks, with potential repercussions for the banks they serve. In the medium-/long-term, potential concentration risks arising from the use of best-of-breed players (e.g. cloud service providers), for the services required to achieve digitalisation objectives, will also need to be assessed.
- The Intesa Sanpaolo Group is aware that it has a direct impact on the environment (due, for example, to its consumption of resources) and an indirect impact (through its business activities) and has long been attentive to climate change risk, i.e. all the risks associated with climate change caused by the accumulation of greenhouse gases in the atmosphere. For example, following the signing of the Paris agreement, it is likely that reducing greenhouse gases (GHG) could have significant financial implications on certain sectors (e.g. reduction/abandonment of fossil fuels) and therefore on companies operating in these sectors, with which the Group has business relations. The Group therefore intends to actively monitor the effects of climate change, and in 2018 it decided to support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), committing itself to the dissemination of transparent reporting on risks and opportunities related to this change. In 2019, Intesa Sanpaolo added a qualitative statement to the RAF, undertaking to develop its integration into the existing risk management framework. In 2019, Intesa Sanpaolo also began to participate in the international working group "TCFD Pilot Banking Group Phase II" coordinated by UNEP FI, tasked with developing and testing shared methods for assessing climate change risk for bank portfolios. The exercise, which was completed in 2020, considered both transition risk, i.e. the financial risk that might arise from the process of transitioning to the low-carbon economy, and the physical risk associated with the environmental impacts of climate change (e.g., higher sea levels due to an increased average temperature or extreme climate events such as floods and droughts). The programme involved approximately 40 banks on five continents, which are working to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The scenario analysis conducted involved a part of the Corporate loan portfolio relating to the Oil & Gas and Power & Utilities sectors and was performed using a top-down approach with the addition of bottom-up components determined at individual borrower level. The results of this exercise contributed to the preparation of the document published by the UNEP FI "From Disclosure to Action" and "Charting a New Climate". In addition, a first application of the EU Green Taxonomy was implemented in 2020, as part of the EBA pilot sensitivity exercise on climate risk for the loan portfolio which includes corporate counterparties domiciled in the EU. The exercise involved 29 banks on a voluntary basis and also allowed the EBA to conduct an initial sensitivity analysis of climate change risk (transition risk). As a result of the skills acquired in the course of these exercises, the Group has been able

to lay the foundations for the development of a structured methodological approach to the scenario analysis, to be applied to its scope of operations. With regard to the direct environmental risks for Intesa Sanpaolo, and in particular to hydrogeological risk (floods and landslides), which also relates to climate change and the possible occurrence of crisis scenarios in Italy which could have repercussions on Intesa Sanpaolo's properties, a series of structures is to be activated. In order to ensure business continuity in the areas most affected by the inclement weather, the crisis delegates of local and central structures are activated for timely reporting of critical situations, with particular regard to delays in the transport of valuables and correspondence, difficulties for personnel in reaching their workplaces, operational issues and problems with branch physical plant. In parallel, the Critical Events Management structure is activated from the first weather alert, along with, in very serious disaster situations, the Emergency Management Operations Centre of the Business Continuity Management Department, which monitors the situation and assesses whether to close facilities temporarily and to take any additional action.

- The outlook for global economic growth shows significant vulnerabilities and downside risks, primarily relating to the uncertainty of the recovery of trade and global manufacturing and geopolitical tensions, which remain high. In addition, the spread of the COVID-19 disease, with its implications for public health, economic activity and commerce, is an element capable of exerting a significant negative effect on global growth.

## Absorption of Economic Capital by type of risk and Business Unit

The following is an illustration of the breakdown of the Group's Economic Capital by type of risk and Business Unit.



The absorption of Economic Capital by Business Unit reflects the distribution of the Group's various activities and the specialisations of the business areas.

The majority of risk is concentrated in the "IMI Corporate & Investment Banking" Business Unit (30.8% of the total Economic Capital): this is attributable to the type of customers served (Corporate and Financial Institutions) and Capital Market activities. This Business Unit is assigned a significant share of credit risk and trading book risk.

The "Banca dei Territori" Business Unit (15.8% of the total Economic Capital) is a significant source of absorption of Internal Capital, in line with its role as core business of the Group, serving Retail, Private and Small/Middle Corporate customers. It is assigned a sizeable portion of credit risk and operational risk. Most of the insurance risk is assigned to the "Insurance" Business Unit (12.0% of the total Economic Capital). The "International Subsidiary Banks" Business Unit is assigned 8.6% of the total risk, predominantly credit risk. In addition to credit risk, the "Corporate Centre" is attributed with the risks typical of this Business Unit, namely those resulting from investments, the risks pertaining to the exposures in default, the Banking Book interest rate and exchange rate risk, the risks arising from the management of the Parent Company's FVTOCI portfolio (20.2% of the overall Economic Capital). Absorption of Economic Capital by the "Private Banking" and "Asset Management" Business Units is marginal (1.9% and 0.5%, respectively) due to the nature of their business, which is predominantly aimed at asset management activities.

The remaining capital absorption (10.2%) is attributable to the UBI Group.

## The Basel 3 regulations

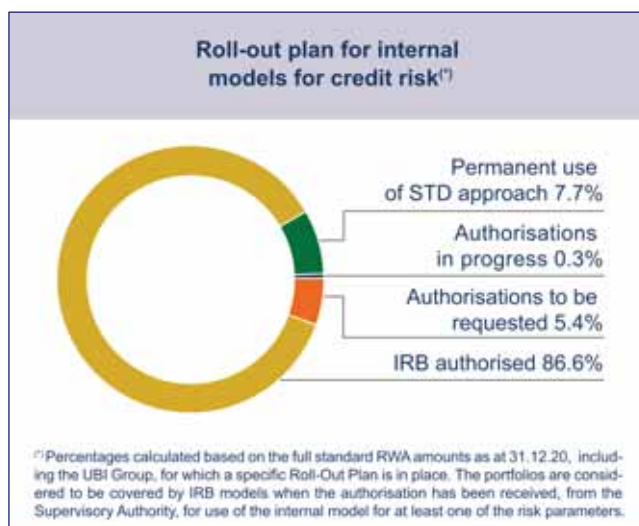
In view of compliance with the reforms of the previous accord by the Basel Committee (“Basel 3”), the Intesa Sanpaolo Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.

With regard to the acquisition of the UBI Group and the impacts on risk management and Pillar 1 internal models for credit, market, counterparty and operational risk, the Group has carried out the necessary analyses and actions, and, with a view to the integration of the former UBI Group into Intesa Sanpaolo, in September 2020 it sent the strategic return to compliance plan to the competent Supervisory Authorities, aimed restoring regulatory compliance by extending the Parent Company’s internal models to the portfolios of UBI Banca and, where appropriate, of its subsidiaries. In this context, the temporary use of the internal models for credit and operational risk (Pillar 1) of the former UBI Banca Group was also requested for supervisory reporting purposes at consolidated level until full integration.

With regard to credit risk, there were no new authorisations relating to the internal models with respect to the situation as at 31 December 2019.

The periodic updating and alignment to changes in regulations governing IRB systems and their extension to international subsidiaries (according to the Group’s roll-out plan) continue in accordance with the Regulatory Roadmap agreed with the Supervisory Authorities.

With regard to the progress of the internal models roll-out plan for the internal models for credit risk, the share of exposures authorised for the IRB system is 86.6% of the loan portfolio. The pending authorisations, concerning the extension of the internal models to the Retail SME portfolio of the former Banca Apulia and the validation of the internal models for the leasing and factoring transactions of the Retail SME portfolio, represent 0.3% of the portfolio, while requests to be made for the remaining portfolios of the Group’s domestic and international banks represent 5.4% of the portfolio. For the remainder, equal to 7.7%, the permanent use of the Standardised approach has been reported to the supervisory authorities.



With regard to counterparty risk, the Banking Group improved the measurement and monitoring of the risk, by refining the instruments required under Basel 3.

For reporting purposes, the Parent Company is authorised to use the internal models approach for the reporting of the requirement with respect to counterparty risk both for derivatives and for SFTs (Securities Financing Transactions, i.e. repos and securities lending). This authorisation was obtained for derivatives from the first quarter of 2014, and for SFTs from the report as at 31 December 2016.

For management purposes, the advanced risk measurement approaches have been implemented for the OTC derivatives of the Parent Company since 2010 and were subsequently extended in 2015 to Securities Financing Transactions.

With regard to operational risk, the Group obtained authorisation to use the Advanced Measurement Approach (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009.

The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available, was approved and sent to the ECB in April 2020.

As part of its adoption of Basel 3, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled “Basel 3 - Pillar 3” or simply “Pillar 3”.

The document is published on the website ([www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com)) each quarter.

## Other risk factors

In addition to the above risks, the Intesa Sanpaolo Group is carefully assessing the following risk factors.

### *Brexit*

On 31 January 2020, the United Kingdom (UK) officially left the European Union (EU) on the basis of the Withdrawal Agreement reached by the UK and EU in October 2019 and ratified by both parties in early 2020. An 11-month transition began on 1 February 2020, which ended on 31 December 2020, during which the EU and the UK negotiated the terms of their future relations. After several rounds of negotiations during the year, on 24 December 2020, the European Commission and the UK Government reached an Agreement on Trade and Cooperation between the EU and the UK (Agreement), which was provisionally applied at the end of the transitional period pending completion of the process for its entry into force. The Agreement only minimally regulates financial services, leaving the burden of the mitigation measures primarily to the parties affected.

The Intesa Sanpaolo Group – present in the UK through its IMI Corporate & Investment Banking, Asset Management and Private Banking Divisions – which through a dedicated interfunctional project had long been prepared, from a prudential perspective, first for the withdrawal of the United Kingdom from the EU without a Withdrawal Agreement (Hard Brexit), and subsequently for the scenario in which, even if the UK and EU had reached an agreement on future relations on 31 December 2020, that agreement did not cover financial services.

In this regard, the project implemented a “Brexit Strategy” to cover the risks arising from Brexit and ensure operating and business continuity by preparing contingency plans, also in the worst-case scenario of a no deal. In particular, it managed the following main risks by planning and overseeing the appropriate mitigation measures:

- a) *Loss of the European financial services passporting regime*  
After obtaining the necessary authorisations from the European supervisor, the Group prepared and submitted a new application in October 2020 to the UK supervisor for authorisation of the single branch in the UK resulting from the merger of ISP and BIMi (effective date of 20 July 2020). While awaiting the formal authorisation from the UK Supervisor, the enrolment in the Temporary Permission Regime (TPR), granted by the UK authorities, allows the Group entities present in the UK to continue to operate in the United Kingdom for a maximum of three years.  
The Group has also prepared a contingency plan to ensure business continuity for operations and assets that, in the absence of passporting, could no longer be managed by branches in the UK, providing for their transfer to Group entities in the EU.
- b) *Limitations on the access to central counterparties (CCPs) located in UK by EU branches*  
The Group has taken measures to extend its membership in European CCPs for Interest Rate Derivatives (IRD), Credit Default Swaps (CDS), Exchange Trade Derivatives (ETD), Bonds and Repos, in order to ensure business continuity.  
In addition, with regard to positions held with UK CCPs, a risk neutralisation strategy has been implemented, resulting in a significant reduction in regulatory capital.
- c) *Contract discontinuity risk*  
The Group is continuing the repapering with counterparties to OTC derivatives contracts not cleared through a CCP and entered into with counterparties based in the United Kingdom, and the redrafting of the contractual terms of other types of agreements (supply, outsourcing, etc.) has been completed. It has also prepared IT and organisational solutions to block operations for any contracts not renegotiated by the end of the transition period. Appropriate safeguards have also been ensured for the transfers of personal data in accordance with Regulation (EU) 2016/679 (GDPR).
- d) *Risk of non-compliance with UK legislation (Senior Managers Regime and Reporting Requirements)*  
The Group has completed the process of achieving compliance with United Kingdom legislation. In particular, the Group has met the requirements of the Senior Managers and Certification Regime (SM&CR), which provides for the appointment, subject to approval by the UK supervisor, of several top management personnel (“Senior Managers”) with precise areas of responsibility for branches operating in the United Kingdom as third-country branches. In addition, the Group has implemented the new reporting requirements to comply with the reporting obligations applicable to third-country branches present in the United Kingdom and established by the European regulations on operations in markets and financial instruments.
- e) *Risk of disruption of operations with market counterparties based in the UK*  
The Group has completed the onboarding process for the main EU-based counterparties/brokers (Organised Trading Facilities included) to which UK-based entities have decided to migrate all or part of their operations in a no-deal scenario.

In the first half of 2021 the Intesa Sanpaolo Group will closely monitor the Brexit post go-live situation, together with any negotiation developments affecting financial services and the management of residual activities.



*Interest Rate Benchmark Reform*

In recent years, the European benchmark rates have been undergoing extensive reform, largely due to the introduction of the European regulation on benchmarks (Benchmarks Regulation, Regulation (EU) 2016/1011), published in 2016 and in effect since January 2018. This regulation, which was partially revised at the end of 2020, establishes precise rules for contributors, users and administrators of benchmarks and also requires that the fixings for those benchmarks be determined, as far as possible, on the basis of actual transactions concluded on the relevant markets, in accordance with the recommendations from the Financial Stability Board and the IOSCO Principles, in view of the central role of the benchmark rates for the proper functioning of the global financial system.

In the specific case of the short-term benchmark rates declared critical by the European authorities, reforms relating to the following were required:

- Euribor: the revision by the EMMI (European Money Market Institute) of the method for determining fixings (“hybrid” method), using transactions concluded on the unsecured money market of up to 12 months by provider banks, where available, came into full effect from November 2019. The reform was managed in full continuity with regard to the measurement of the market of reference, the determination and the use of fixing. As required by the Benchmark regulation, the methodology was revised towards the end of 2020 and some detailed aspects are due to be revised during 2021 to make the hybrid methodology as robust as possible;
- Eonia: with effect from October 2019, the fixings are determined by calculating them using the new risk-free rate published by the European Central Bank (€STR rate), identified based on the overnight transactions concluded by the major European banks and reported according to the rules imposed by the Money Market Statistical Reporting (EU 2014/1333). The Eonia fixing will be published until 3 January 2022 and will then be permanently replaced by €STR plus a fixed spread. The €STR rate also constitutes the basis for the calculation of the Euribor fallback rate, to be indicated in the contracts and to be used in the event of any future permanent cessation of publication of the Euribor (curve types and convention are under discussion and the guidance will only become clearer in 2021).

Outside the Eurozone, the UK authorities had already announced some time ago that the publication of the Libor would be discontinued at the end of 2021 and there are already alternative risk-free rates available in the individual nations, which will gradually replace the Libor. Given the complexity of the transition, with potentially different rules in the individual jurisdictions, an assessment will be made, on the basis of the outcome of a public consultation launched in late 2020, as to whether, solely for the purpose of enabling the transition for the existing agreements, it would be permissible to envisage an end date of 2023 for the Libor.

In recent years, Intesa Sanpaolo has closely monitored the developments relating to benchmarks, and in 2016 it launched a dedicated project involving the participation of all the corporate functions involved in various capacities.

The project work continued in 2020, focusing on the following aspects in particular:

- discounting switch from Eonia to €STR for transactions subject to clearing, according to the timescales dictated by European and U.S. clearing houses (July and October 2020);
- start of bilateral negotiations with counterparties for the migration of Credit Support Annexes (CSAs) from Eonia to €STR;
- progressive greater use of derivatives in respect of the €STR rate for hedging needs;
- preparation of activities at all levels to ensure the progressive transition from the Libor to the new risk-free rates, including through reinforcement of the governance of the Libor project and the benchmark users project to cover regulatory and business aspects, with support from specialist functions. Participation in the work by the international hub branches as users of foreign currency rate benchmarks was also reinforced;
- continuous reporting to the Subsidiaries, including those based outside Italy, and, from November 2020, alignment with UBI for synergistic management of ongoing activities;
- monitoring of developments in the International Swaps and Derivatives Association (ISDA) for the adoption of new protocols and updating of the contractual terms to include fallback clauses in the agreements;
- collaboration with the Italian authorities in support of the development of the new risk-free rates market;
- participation in public consultations at international level, also providing input to the Italian Banking Association to produce feedback at national level;
- providing feedback on transition readiness for foreign authorities in countries where Group companies are present, and to the ECB Joint Supervisory Team for general aspects related to the Group; delivery of training for colleagues, through the Apprendo platform and remote classrooms.

Intesa Sanpaolo also continued to take part in various initiatives, including working groups at the European level organised by EMMI and the European Central Bank (in collaboration with the EC and ESMA).

In this latter area in particular, Intesa Sanpaolo also acted in 2020 as a voting member and participant in individual project streams in the working group on euro risk free rates, in which it has also held the new role of Ambassador for Italy since 2020. The main activities of this working group included the designation of €STR as the new benchmark for the short-term money market and the publication of recommendations for the transition from Eonia to €STR and the management of relations with the IASB and the EC, and, at the end of 2020, the working group launched two highly important public consultations for the future structure of fallback rates.

As stated in the “Accounting policies” chapter of these Notes to the consolidated financial statements, the Intesa Sanpaolo Group elected to apply Regulation 34/2020 of 15 January 2020 in advance in its 2019 Financial Statements. This regulation adopted the document issued by the IASB on “Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)”, which introduced several amendments regarding hedges (hedge accounting) designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform from resulting in the discontinuation of existing hedges and difficulties in designating new hedging relationships.

## SECTION 1 – RISKS OF THE CONSOLIDATED BOOK

In this Section, information is provided regarding the companies included in the consolidated book.

### QUANTITATIVE INFORMATION

#### A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term “credit exposures” is understood to exclude equities and quotas of UCI.

#### A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

##### A.1.1. Breakdown of financial assets by portfolio classification and credit quality (book values) - Excluding insurance companies

Portfolios/quality	(millions of euro)					
	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	TOTAL
1. Financial assets measured at amortised cost	4,003	6,245	517	4,790	599,705	615,260
2. Financial assets measured at fair value through other comprehensive income	1	-	-	-	54,157	54,158
3. Financial assets designated at fair value	-	-	-	-	3	3
4. Other financial assets mandatorily measured at fair value	-	57	-	2	1,640	1,699
5. Non-current financial assets held for sale	1,015	1,064	8	437	23,616	26,140
<b>Total 31.12.2020</b>	<b>5,019</b>	<b>7,366</b>	<b>525</b>	<b>5,229</b>	<b>679,121</b>	<b>697,260</b>
<b>Total 31.12.2019</b>	<b>6,756</b>	<b>7,093</b>	<b>744</b>	<b>2,828</b>	<b>521,805</b>	<b>539,226</b>

##### A.1.1. Bis. Breakdown of financial assets by portfolio classification and credit quality (book values) - Insurance companies

Portfolios/quality	(millions of euro)					
	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	TOTAL
1. Financial assets available for sale	-	-	-	-	74,928	74,928
2. Investments held to maturity	-	-	-	-	-	-
3. Due from banks	-	-	-	-	1,180	1,180
4. Loans to customers	-	-	-	-	31	31
5. Financial assets designated at fair value	-	-	-	-	4,920	4,920
6. Non-current financial assets held for sale	-	-	-	-	-	-
<b>TOTAL 31.12.2020</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>81,059</b>	<b>81,059</b>
<b>TOTAL 31.12.2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,022</b>	<b>76,022</b>



A.1.2. Breakdown of financial assets by portfolio classification and credit quality  
 (gross and net values) - Excluding insurance companies

Portfolios/quality	NON-PERFORMING ASSETS				PERFORMING ASSETS			(millions of euro)
	Gross exposure	Collective adjustments	Net exposure	Total partial write-offs	Gross exposure	Collective adjustments	Net exposure	TOTAL (net exposure)
1. Financial assets measured at amortised cost	20,982	-10,217	10,765	6,532	607,436	-2,941	604,495	615,260
2. Financial assets measured at fair value through other comprehensive income	49	-48	1	-	54,202	-45	54,157	54,158
3. Financial assets designated at fair value	-	-	-	-	X	X	3	3
4. Other financial assets mandatorily measured at fair value	81	-24	57	-	X	X	1,642	1,699
5. Non-current financial assets held for sale	5,424	-3,337	2,087	2,328	24,178	-125	24,053	26,140
<b>Total 31.12.2020</b>	<b>26,536</b>	<b>-13,626</b>	<b>12,910</b>	<b>8,860</b>	<b>685,816</b>	<b>-3,111</b>	<b>684,350</b>	<b>697,260</b>
<b>Total 31.12.2019</b>	<b>31,890</b>	<b>-17,297</b>	<b>14,593</b>	<b>8,135</b>	<b>524,877</b>	<b>-1,895</b>	<b>524,633</b>	<b>539,226</b>

Portfolios/quality	ASSETS OF EVIDENTLY LOW CREDIT QUALITY		OTHER ASSETS	(millions of euro)
	Cumulative capital losses	Net exposure	Net exposure	
1. Financial assets held for trading		-45	37	52,261
2. Hedging derivatives		-	-	1,134
<b>Total 31.12.2020</b>		<b>-45</b>	<b>37</b>	<b>53,395</b>
<b>Total 31.12.2019</b>		<b>-36</b>	<b>48</b>	<b>46,732</b>

 A.1.2. Bis Breakdown of financial assets by portfolio classification and credit quality  
 (gross and net values) - Insurance companies

Portfolios / Quality (Figures must be filled in absolute values)	Impaired assets			Not impaired assets			(millions of euro)
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	Total (net exposure)
1. Financial assets available for sale	-	-	-	74,928	-	74,928	74,928
2. Investments held to maturity	-	-	-	-	-	-	-
3. Due from banks	-	-	-	1,180	-	1,180	1,180
4. Loans to customers	-	-	-	31	-	31	31
5. Financial assets designated at fair value	-	-	-	X	X	4,920	4,920
6. Non-current financial assets held for sale	-	-	-	-	-	-	-
<b>Total 31.12.2020</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,139</b>	<b>-</b>	<b>81,059</b>	<b>81,059</b>
<b>Total 31.12.2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,692</b>	<b>-</b>	<b>76,022</b>	<b>76,022</b>

Portfolios / Quality	Assets of evidently low credit quality		Other assets	(millions of euro)
	Cumulative capital losses	Net exposure	Net exposure	
1. Financial assets held for trading		-	-	234
2. Hedging derivatives		-	-	449
<b>Total 31.12.2020</b>		<b>-</b>	<b>-</b>	<b>683</b>
<b>Total 31.12.2019</b>		<b>-</b>	<b>-</b>	<b>393</b>

**B. INFORMATION ON STRUCTURED ENTITIES (OTHER THAN SECURITISATION VEHICLES)**

In line with IFRS 12, the Group considers structured entities to be entities set up to achieve a narrow, well-defined objective, defined through contractual arrangements which often impose strict restrictions on decision-making powers of the entity's management bodies. In that sense, structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, as they refer to administrative tasks, while the relevant operating activities are directed by means of contractual arrangements agreed on at the time of structuring the structured entity, which are difficult to modify.

The characteristics of a structured entity include:

- limited activities;
- a narrow and well-defined objective;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

The structured entities through which the Group operates are mainly Special Purpose Entities (SPEs) and UCIs.

**B.1. Consolidated structured entities**

There are no structured entities consolidated in the accounts other than securitisation companies that fall within the scope of the Intesa Sanpaolo Banking Group.

**B.2. Structured entities not consolidated in the accounts***B.2.1. Prudential consolidation of structured entities*

There are no structured entities consolidated for prudential purposes other than securitisation companies that fall within the scope of the Intesa Sanpaolo Banking Group.

*B.2.2. Other structured entities***Qualitative information**

As indicated above, the Group's operations through structured entities are also carried out through SPEs. To that end, SPEs are understood as legal entities established to pursue a specific, well-defined and limited objective:

- to raise funds on the market by issuing specific financial instruments;
- to develop and/or finance a specific business initiative, capable of generating, through an economic activity, cash flows which permit the complete reimbursement of the debt;
- to finance the acquisition of a target company which, through its economic activity, will be capable of generating cash flows for the SPEs which permit the complete reimbursement of the debt.

For the purposes of this section, operations carried out through securitisation vehicles, that is vehicles established to acquire, sell and manage specific assets, separating them from the financial statements of the Originator, for the purpose of carrying out securitisations of assets or for acquiring funding through self-securitisations and issues of Covered Bonds (CB), shall not be relevant. For those types of vehicle companies, reference should be made to section "C. Securitisations" and section "D. Sales" of Part E of the Notes to the consolidated financial statements.

In some cases, the Group sponsors the SPE by structuring the transaction to pursue specific objectives, such as raising funds, securitising its own assets also for the purposes of funding or offering financial services to customers.

In detail, the Group's operations are carried out through the following types of structured entities represented by special purpose entities (SPEs).

*Project Financing SPEs*

These are financing instruments for capital intensive projects, which are based on the economic or financial validity of the industrial or infrastructural project, and are independent from the standing/creditworthiness of the sponsors who developed the "entrepreneurial" idea. The financing of the initiative is based on the project's capacity to generate positive cash flows, sufficient to reimburse loans received and guarantee an adequate risk-adjusted return on invested capital.

The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

*Asset Backed SPEs*

These are transactions aimed at acquisition/construction/management of physical assets by SPEs financed by one or more entities. Their recovery prospects mostly depend upon the cash flows generated by the assets. The assets generate cash flows in their recurring operations (e.g. rentals, goods transportation contracts, etc.) or in their non-recurring operations (e.g. a real estate development or disposal plan). Generally, the assets are also the collateral for the financing disbursed to the vehicle.

The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without any direct equity investments or any other interests which might lead to presume the role of sponsor. The risk undertaken is always a normal credit risk and the benefits are represented by the return on the financing granted.

*Leveraged & Acquisition Finance SPEs*

This category includes exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long-term) to legal entities in which the majority of share capital is held by private equity funds.

These are mainly positions in support of Leveraged Buy-Out projects (therefore with high leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash

flows in the medium term and low original leverage levels. The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

The Intesa Sanpaolo Group also has investments in/exposures to structured entities represented by UCIs.

The main cases include the Group's investments in several closed-end and reserved private equity as well as venture and seed capital funds.

The exposures to UCIs also include the investments in units of real estate funds deriving from transactions to contribute portions of the Group's real estate portfolio.

They also consist of investments in UCIs deriving from credit recovery operations or contributions of non-performing loans, together with other banking entities, to funds managed by specialist entities.

The investments in UCIs also include the units held in the Atlante Fund and the Italian Recovery Fund, alternative investment funds managed by the asset management company Quaestio Capital Management, involved in value enhancement of Non-Performing Loans of Italian banks.

Lastly, the Intesa Sanpaolo Group invests in hedge funds. For more information, reference is made to the specific section in Part E of the Notes to the consolidated financial statements.

The Group made further investments in UCIs through the subsidiary Eurizon Capital SGR and the companies controlled by it, in line with the financial portfolio management policies issued by the asset management company and its subsidiaries, in agreement with the Intesa Sanpaolo Group Guidelines. In detail, the asset management company and its subsidiaries have both temporary and structural available funds deriving from company equity that is not permanently invested in equity investments or other fixed assets, and from the ordinary cash flows. Based on that set out in the guidelines for managing the financial portfolio, as part of liquidity management activities, structural and temporarily available funds linked to the trend in short-term and on demand cash flows make up the liquidity portfolio net of the amount held in current accounts or invested in term deposits. In relation to the activities carried out by the asset management company and its subsidiaries and the characteristics of the available funds in question, excess liquidity must be invested in assets with moderate risk that can be easily liquidated. That portfolio includes investments in short-term money market and bond funds, both specialising in the Eurozone, established and/or managed by Eurizon Capital SGR or by its subsidiaries. The Group's investments in UCIs managed by subsidiaries do not prejudice the operational autonomy and capacity of the asset management companies to act in the exclusive interest of investors, considering the specific provisions set out in sector regulations and by the Supervisory Authorities.

### Quantitative information

Captions / Accounting portfolios under assets		Total assets (A)	Accounting portfolios under liabilities	Total liabilities (B)	NET BOOK VALUE (C = A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and book value (E = D - C)
(millions of euro)							
<b>1. Special purpose vehicle</b>		<b>3,660</b>		<b>479</b>	<b>3,181</b>	<b>4,477</b>	<b>1,296</b>
	Financial assets held for trading	350	Due to customers	477			
	Other financial assets mandatorily measured at fair value	3	Financial liabilities held for trading	2			
	Financial assets measured at fair value through other comprehensive income	22		-			
	Financial assets measured at amortised cost - Loans to customers	3,285					
<b>2. UCI</b>		<b>3,514</b>		<b>288</b>	<b>3,226</b>	<b>3,920</b>	<b>694</b>
	Financial assets held for trading	218	Due to customers	281			
	Financial assets designated at fair value	2,984	Financial liabilities held for trading	7			
	Assets measured at amortised cost Loans to customers	312		-			

The maximum exposure to risk, representing the maximum exposure of the Group to losses deriving from its interests in structured entities, is generally equal to the net book value, to which, where applicable, several types of off-balance sheet exposures are added (e.g. committed credit lines or guarantees given). The net book value equals the exposure in the financial statements net of value adjustments recorded during the current and previous years.

For UCIs, the maximum risk exposure also includes the Group's commitments, not yet called up by the fund, to subscribe additional units.

The table below shows the amount and type of revenues earned over the year by structured entities. The main component of the revenues recognised consists of fees deriving from the management and placement of the UCIs sponsored and managed by the Group's asset management companies and placed with customers. The fees in question are charged by the asset management company to the funds managed and partly reversed to the distribution network for the placement service.

Type of structured entity sponsored	(millions of euro)				
	Interest	Fees and commissions	Dividends	Other revenue	TOTAL
UCI	44	2,169	22	-115	2,120
Special-purpose vehicles	98	13	-	7	118

## SECTION 2 – RISKS OF THE PRUDENTIAL CONSOLIDATION

In this section the figures are shown gross of the transactions with the other companies included in the scope of the accounting consolidation. These figures usually also include the assets and liabilities, in proportion to the interest held, of the jointly-controlled banking, financial and operational companies consolidated proportionally for reporting purposes. Where the contribution of transactions between the companies included in the prudential consolidation and the other companies in the scope of the accounting consolidation is material, the details of those transactions are provided at the foot of the disclosure concerned.

The following table contains the reconciliation of the consolidated balance sheet with the regulatory-scope balance sheet.

Assets		31.12.2020 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	(millions of euro)
				31.12.2020 Regulatory- scope balance sheet
10.	Cash and cash equivalents	9,814	-13	9,801
20.	Financial assets measured at fair value through profit or loss	58,246	817	59,063
	<i>a) financial assets held for trading</i>	53,165	454	53,619
	<i>b) financial assets designated at fair value</i>	3	-	3
	<i>c) other financial assets mandatorily measured at fair value</i>	5,078	363	5,441
30.	Financial assets measured at fair value through other comprehensive income	57,858	7	57,865
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	177,170	-177,170	-
40.	Financial assets measured at amortised cost	615,260	791	616,051
	<i>a) due from banks</i>	110,095	-	110,095
	<i>b) loans to customers</i>	505,165	791	505,956
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,211	-1,211	-
50.	Hedging derivatives	1,134	-	1,134
60.	Fair value change of financial assets in hedged portfolios (+/-)	2,400	-	2,400
70.	Investments in associates and companies subject to joint control	1,996	7,107	9,103
80.	Technical insurance reserves reassured with third parties	93	-93	-
90.	Property and equipment	10,850	-1,117	9,733
100.	Intangible assets	8,194	-929	7,265
	<i>of which:</i>	-	-	-
	- <i>goodwill</i>	3,154	-774	2,380
110.	Tax assets	19,503	-690	18,813
	<i>a) current</i>	2,326	-104	2,222
	<i>b) deferred</i>	17,177	-586	16,591
120.	Non-current assets held for sale and discontinued operations	28,702	-	28,702
130.	Other assets	10,183	-3,854	6,329
<b>Total Assets</b>		<b>1,002,614</b>	<b>-176,355</b>	<b>826,259</b>
Liabilities and Shareholders' Equity		31.12.2020 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2020 Regulatory- scope balance sheet
10.	Financial liabilities measured at amortised cost	630,146	2,972	633,118
	<i>a) due to banks</i>	115,947	-257	115,690
	<i>b) due to customers</i>	422,365	1,309	423,674
	<i>c) securities issued</i>	91,834	1,920	93,754
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,935	-1,935	-
20.	Financial liabilities held for trading	59,033	120	59,153
30.	Financial liabilities designated at fair value	3,032	-	3,032
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	77,207	-77,207	-
40.	Hedging derivatives	7,088	-	7,088
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	733	-	733
60.	Tax liabilities	3,029	-990	2,039
	<i>a) current</i>	284	-45	239
	<i>b) deferred</i>	2,745	-945	1,800
70.	Liabilities associated with non-current assets held for sale and discontinued operations	35,676	-	35,676
80.	Other liabilities	14,439	-2,255	12,184
90.	Employee termination indemnities	1,200	-9	1,191
100.	Allowances for risks and charges	5,964	-154	5,810
	<i>a) commitments and guarantees given</i>	626	-27	599
	<i>b) post-employment benefits</i>	324	-	324
	<i>c) other allowances for risks and charges</i>	5,014	-127	4,887
110.	Technical reserves	96,811	-96,811	-
120.	Valuation reserves	-515	-	-515
125.	Valuation reserves pertaining to insurance companies	809	-	809
130.	Redeemable shares	-	-	-
140.	Equity instruments	7,441	-	7,441
150.	Reserves	17,461	-	17,461
160.	Share premium reserve	27,444	-	27,444
170.	Share capital	10,084	-	10,084
180.	Treasury shares (-)	-130	-	-130
190.	Minority interests (+/-)	450	-86	364
200.	Net income (loss) (+/-)	3,277	-	3,277
<b>Total Liabilities and Shareholders' Equity</b>		<b>1,002,614</b>	<b>-176,355</b>	<b>826,259</b>

(\*) The effects are attributable to :

- deconsolidation of companies that are not part of the Banking Group;

- proportional consolidation of the jointly controlled companies that are consolidated at equity in the financial statements.

## 1.1. CREDIT RISK

### QUALITATIVE INFORMATION

#### 1. GENERAL ASPECTS

The Group's strategies, Risk Appetite Framework, and Powers and Rules for credit granting and management are aimed at:

- achieving sustainable growth of lending operations consistent with the risk appetite and value creation;
- diversifying the portfolio, limiting the concentration of exposures on single counterparties/groups, single economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency;
- privileging lending business aimed at supporting the real economy and production system;
- constantly monitoring relationships, through the use of both IT procedures and systematic surveillance of positions, with the aim of detecting any symptoms of imbalance and promoting corrective measures geared towards preventing possible deterioration of the relationship in a timely manner.

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.

It is important to note that the 2018-2021 Business Plan includes – among other things – the ambition to excel in asset quality in which the effective management of non-performing loans is one of the first priorities. The operations carried out during the year to reduce the Group's NPLs, also in light of the integration with UBI which began in August 2020, include several extraordinary de-risking operations. NPLs at year-end 2020 did not include portfolios classified as ready to be sold, accounted under non-current assets held for sale and discontinued operations. Excluding the contribution of UBI Banca, these were equal to around 3.2 billion euro gross and 0.5 billion euro net; including the contribution, to around 5.4 billion euro gross post PPA (of which 1.5 billion euro related to the going concern to be sold to BPER Banca) and 2.1 billion euro net (of which 0.9 billion euro related to the going concern to be sold to BPER Banca).

The main contents of these strategies and the results for the year are described in the "2018-2021 Business Plan" section of the Report on operations.

#### *1.1. Impacts from the COVID-19 pandemic*

Since the beginning of the pandemic all the Bank's functions have been involved in an extensive and complex set of actions aimed at supporting the various types of Group customers. This was provided through both the offer of government support related initiatives and through initiatives implemented autonomously by the Group.

The pandemic caused a significant threat to the resilience of the companies in the Group's loan portfolio. On the other hand, a series of unprecedented government measures were implemented to support the economy, which must be considered in assessing risk. The speed of change in the economic and social context has increased the level of uncertainty of economic forecasts used as the basis for the estimates of risk appetite. This phase thus requires a greater capacity to adapt and attention to the various challenges laid down by the current credit risk assessment models. Thus, it was decided to recalibrate the risk appetite, to avoid pro-cyclical conduct while supporting the economy, maintaining a solid financial and equity position. With specific reference to the Credit Risk Appetite (CRA) framework, approved by the Board of Directors' meeting of 4 February 2020, the risk and resilience drivers on the scope of Domestic Corporate and Large Corporate (Italy component) were revised and a vulnerability indicator was introduced. The risk and resilience drivers on the scope of Domestic Corporate and Large Corporate (Italy component) were revised to consider the particular effect of the lockdown on specific micro-sectors and the recovery expected in 2021. The vulnerability indicator is based on the company's liquidity profile and its resulting ability to service existing debt and contracted debt in relation to the COVID-19 emergency. The assessment of sustainability falls within the framework of a generic year of return to normal conditions following the crisis. The methodological decision to consider a post-crisis time horizon was due to the need to sterilise the transitional effects of the crisis, such as the exceptional institutional measures (e.g. moratoria, grace period for new secured transactions) and the volatility of net working capital, as well as to assess the medium/long-term sustainability in order to reduce the pro-cyclical effects. Thus, this indicator can contribute to providing an initial - though partial - response to the expectation of reducing to the minimum any cliff-edge effects at the time that the moratoria expire.

For Retail SME, it was decided to replace the risk and resilience drivers with a single resilience factor, adopted at micro-sector level. In particular, this action was aimed at defining greater granularity in highly populated macro-sectors in order to differentiate the treatment of counterparties that suffered greater consequences of the pandemic from customers in micro-sectors that are more resilient to the current economic context. Using micro-sector-based scenarios, it was possible to identify the companies that suffered a greater impact from the lockdown and estimate, in advance, their new funding requirements, thereby identifying, assessing and implementing solutions that can best support these companies. Due to the introduction of exceptional institutional measures, many counterparties contracted additional debt to attempt to survive the crisis phase.

In addition to the methodologies and processes developed by the Chief Lending Officer (CLO) Area and the Chief Risk Officer (CRO) Area, the Internal Validation and Controls Head Office Department (within CRO Area) created a model using machine learning techniques, for the purpose of assigning to positions in the Corporate Performing perimeter a risk score in terms of probability of being classified in greater risk classes in the next six months. That model was refined during the year in order to make it more reactive to capturing signs of crisis/recovery specific to the COVID period. The main objective of the model is to support the II Level controls on credit (so called single name), specifically as regards selecting the positions to be controlled.



In line with the roll-out plan updated by the Intesa Sanpaolo Group and adopted following the measures set out by the Supervisory Authorities as a result of the emergency COVID-19 crisis, the re-estimation continued of all Corporate and Large Corporate PD models (submission of application Q1 2021), Banking LGD/EAD (Q1 2021), Leasing/Factoring LGD/EAD (Q4 2021), Structured Finance (Q4 2021), Retail (Q1 2021) and Retail SME (Q4 2021)), and the related remediation plans were closed<sup>43</sup>.

With reference to determining the Expected Credit Loss (ECL), as illustrated in greater detail in Paragraph 2.3 “Methods for measuring expected losses” in this Section the macroeconomic context that marked 2020 made it necessary to intervene in the methods for determining the ECL to best capture the specific factors connected to the pandemic. The measurements of performing loans saw a significant increase in 2020.

Even in March 2020, the Group followed the instructions provided by various authorities to supplement the ordinary measurement process with management overlay actions, in order to produce an initial estimate of the possible effects on the measurement of loans linked to the COVID-19 pandemic. The profit or loss effects of these measures, recognised in the financial statements under provisions for risks and charges (and in the provisions for liabilities), were determined:

- considering the full effect on the entire performing portfolio of the alternative worst-case scenario identified in December 2019, which envisaged an even greater economic slowdown than the scenario envisaged by the ECB;
- estimating the impact of the denotching of the riskiest part of the performing portfolio – identified using a top-down approach solely for valuation purposes – by identifying the economic sectors most at risk.

In June 2020, it was possible to adopt a more structured measurement process. The construction of the most-likely and alternative scenarios incorporated the macroeconomic projections of the European Central Bank issued on 4 June and of the Bank of Italy, also considering the impacts of the government guarantees and moratoria in estimating the forward-looking ECL. Lastly, a specific aggravating factor was introduced for some micro-sectors of economic activity particularly hard hit by the COVID-19 crisis, to increase the granularity of the inclusion of impacts of the macroeconomic context on the micro-sectors; a methodological change was made to the forward-looking models (satellite models), modifying the macroeconomic cycle indicators (provided at system level by the Bank of Italy) from the decay rates (transition to bad loan status) to the default rates<sup>44</sup>, and, as a result, the thresholds for significant increases in credit risk (SICR) were updated.

At September 2020, no significant changes were made to the approach described.

Lastly, at December 2020, the macroeconomic scenario was updated, implementing the instructions provided by the ECB and the Bank of Italy, the thresholds for significant increases in credit risk (SICR) were updated and the micro-sector-based correction was remodulated, using a more analytical and targeted criterion.

With regard to the ECL of non-performing loans, the macroeconomic projections of the European Central Bank and the Bank of Italy on June and December 2020 were implemented to estimate the conditioning of the forward-looking scenarios. In line with the previous years, an upside scenario was ruled out, remaining anchored to the downside scenario.

In order to support customers impacted by the pandemic, the credit risk governance was accompanied by initiatives coordinated by the Divisions and the Chief Lending Officer Area, which guaranteed a timely response both from a commercial and credit perspective.

All the initiatives have been planned in accordance with the principles of sound and prudent management and based on the Group’s credit risk appetite. In some cases, the initiatives were carried out by anticipating certain legislative measures and guiding the practices of the Italian banking system.

The main support initiatives launched during 2020 included the following:

- suspension of payments for outstanding mortgage loans and loans for households and businesses (legislative and non-legislative moratoria);
- activation of concrete measures to support Italian Businesses, such as credit ceiling and instruments to support liquidity and investments, which may be combined with guarantees issued by the Guarantee Fund for SMEs pursuant to Italian Law 662/96 and SACE, as well as innovative solutions to guarantee business continuity;
- suspension of the revocation of short-term credit facilities, implementing the legal measures set out in the “Cura Italia” Decree and the subsequent “Agosto” Decree.

With specific reference to credit portfolio management, in addition to the standard early warning indicators and proactive credit management processes, a further operative assessment layer was introduced, which joins sector-based forecasts with additional risk indicators.

As part of the ordinary credit initiatives, the Group launched numerous initiatives to manage any cliff-edge effects caused by expiring legislative and non-legislative moratoria granted to manage the impacts deriving from the pandemic. In particular, priority perimeters were identified based on the following risk indicators:

- medium/high risk sectors;
- rating;
- vulnerability indicators jointly defined by the CLO Area and the CRO Area (based on the counterparty’s liquidity profiles and to its ability to honour the debt service deriving from the COVID-19 emergency).

The Group is managing the delicate phase of handling the expiry dates of the moratoria portfolio through the following actions:

- targeted communications to customers to provide them with advance notice of the expiry of the support measures;
- analysis of initiatives of extending moratoria/ refinancing/ products dedicated to supporting customers impacted by COVID-19.

<sup>43</sup> The support measures set out by the ECB for the current health emergency – communicated via the FAQs published on 20 March 2020 and a letter addressed to the Group dated 30 March 2020 – postponed the following by six months, while maintaining the validity of the decisions and measures already taken:

- the deadlines for the remedial actions imposed in the context of inspections (ordinary, linked to the TRIM project and on internal risk models);
- the issuance of TRIM Decisions, follow-up letters relating to ordinary inspections and internal model decisions, unless the Group explicitly asks for a decision because it is seen as beneficial to the Group.

<sup>44</sup> Under ordinary conditions, the trend in decay rates and default rates is generally comparable, however, in the event of rapid and extensive changes in the macroeconomic environment, there is a misalignment between the behaviour of the two indicators, making the use of deterioration rates less appropriate for determining the portfolio’s point-in-time parameters.

The CLO Area routinely defines and launches initiatives dedicated to specific risk areas that it deems require additional investigation.

Based on the business segmentation, the management teams involved in the initiative assess the counterparties' risk and provide feedback to the head office departments based on a predefined set of outcomes. A structured analysis of the relationship manager contributes to the choice of such outcomes (forward-looking analysis where possible, assessment of the expected counterparty risk in the following month or over the next 12 months).

With reference to the proactive management process of the Corporate segment and in addition to the initiatives involving Intesa Sanpaolo's network, the internal dialogue with relationship managers and product desks was also intensified, with a specific focus on the sectors with greater exposure to the pandemic emergency, in order to promptly detect signs of potential financial tension. Using a bottom-up approach, the Corporate customers and big tickets selected were steered to a phase of assessment of the sustainability of the debt and identification of the most appropriate support measures.

The analysis was based on both internal and external sources. In many cases, Intesa Sanpaolo requested that counterparties revise their business plans and provide post-COVID-19 scenarios, supported by independent analyses conducted by external consultants (usually the Big Four or international business consultants). The standard scope of independent assessments conducted by external consultants includes: i) sector analyses (demand, competition, trend, impact of COVID-19); ii) data on past and current trade; iii) assumptions underlying the business plans (top line, variable and fixed costs, working capital, cash flow generation, etc.) and iv) sensitivity analyses (downside case).

A specific re-rating initiative has been launched for the Corporate customers, in order for the Group to correctly consider the impacts of the current economic situation with a forward-looking approach, so that a more stable creditworthiness assessment may be achieved through greater consideration to the medium/long-term effects. Specific guidelines have been provided to the network to ensure the adoption of a common approach by the Bank's analysts. The guidelines require the rating to be updated in the case where the customer's financial projections or that of the underlying sector's outlook show the risk of a potential inability of the counterparty to handle the adverse phases of the economic cycle (so called "through the cycle" approach)

The re-rating initiative, which complements the standard annual rating review plan, was launched on a perimeter that includes the Banca dei Territori Division and the IMI Corporate & Investment Banking Division. The main rationale underlying the initiative include the following aspects:

- assigning priority to updating the risk profile of customers operating in the sectors that are more vulnerable to the economic effects of the ongoing pandemic crisis (High and Medium Risk);
- in-depth analysis through business models of the most hard hit sectors;
- the rating assessment should factor in the customer's risk profile expected for the end of 2021, without, however, ignoring the effect of the crisis on financial sustainability;
- the estimate of the recovery time of the company's economic-financial performance;
- the rating assessment should conservatively consider the impact of the crisis, whenever the recovery occurs over a time horizon greater than 24 months;
- the use of legislative or non-legislative moratoria should not, *per se*, be a factor that triggers a downgrade, as it is aimed at preserving business continuity.

The initiative was focused on approximately 15,600 customers with total exposure of 11 billion euro. As of 31 December 2020, 51% of the exposure (around 5.5 billion euro) was updated, with the following results:

- 50% (out of the total 5.5 billion euro already subject to re-rating) resulted in an unchanged rating;
- 30% reported a downgrading of the rating;
- 20% reported an upgrading of the rating;
- 60% of the perimeter of the Investment Grade portfolio was unchanged, while 32% of the perimeter recorded a downgrading;
- counterparties with an "R" rating, corresponding to the worst risk class, which represent only 6% of the total perimeter, had their ratings downgraded in 37% of the cases analysed.

With regard to sectorial outlook, the perimeter in scope of the re-rating initiative showed the following results:

- a large percentage (72%) of counterparties belonging to sectors with a "Low" sectorial impact outlook due to COVID-19 (around 42% of the perimeter) showed no changes in their ratings;
- The sectors with a "Medium" sectorial impact outlook (around 44% of the perimeter) showed an upgrading of the rating in 29% of cases;
- for the counterparties belonging to sectors with a "High" sectorial impact outlook due to COVID-19 (around 13% of the scope) the percentage of ratings downgraded rose to 54%.

The re-rating of the counterparties covered by the initiative, whose rating had not yet been updated as of 31 December 2020, is continuing in the first quarter of 2021 and is being constantly monitored by the functions of the Chief Lending Officer Area.

As part of the initiatives to support customers impacted by the pandemic crisis, Intesa Sanpaolo provided its international subsidiaries with an organic, homogeneous framework for treating legislative and non-legislative moratoria, in line with that implemented by the Parent Company and with the "EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis". In particular, indications were provided in correspondence with the key moments:

- a) in Q1/Q2, at the time that the EBA defined the "general payment moratoria", outlining the access criteria and the approaches in terms of decision making and classification as forborne;
- b) in Q2/Q3, at the time of communicating the expiry of the "general payment moratoria" of 30 September and the resulting phase out starting from 1 October 2020;
- c) in Q4, at the time of re-activating the "general payment moratoria", introducing the limit of 9 months of overall suspension and the moratoria activation date by 31 March 2021.

With reference to counterparty risk, the pandemic crisis entailed an initial increase in exposures, mainly due to the decline in Euro Area interest rates and the general, significant increase in the volatility of the main risk factors. However, no critical issues were encountered in the margining process with market counterparties, despite the sharp increase in collateral calls,

by both number and volume, during the weeks of greatest stress on the markets. Margin processes with central counterparties also did not generate any operating issues. The situation on the financial markets gradually stabilised, although interest rates remain at record lows, resulting in high levels of exposure to customers. With regard to the customers of the Banca dei Territori Division, the Bank implemented the "Cura Italia" Decree pursuant to Italian Law Decree 18 of 17 March 2020 (an ad hoc Italian governmental measure) for derivatives as well: in particular, customers in the SME segments in good standing that submitted moratorium applications for their loans may also apply for a moratorium on any hedging derivatives until the end of January 2021. At the end of December, 175 applications for suspension of OTC derivative payments had been received, relating to an outstanding amount of 340 million euro and payments suspended until 30 June 2021 of around 4.8 million euro. The most significant transaction had an outstanding amount of 22 million euro and suspended payments of 285 thousand euro;

Lastly, with reference to credit risk issues, note that the Group publishes the disclosure set out in the "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis", published by the EBA (EBA/GL/2020/07) in the "Pillar 3" public disclosure.

## 2. CREDIT RISK MANAGEMENT POLICIES

### 2.1. Organisation

Within the Intesa Sanpaolo Group, a fundamental role in managing and controlling credit risk is played by the corporate bodies, which, to the extent of their respective competences, ensure adequate coverage of credit risk by setting strategic guidelines and risk management policies, verifying that they remain constantly efficient and effective and assigning tasks and responsibilities to the company functions and units involved in the processes.

The coverage and governance of credit ensured by the corporate bodies is reflected in the current organisational structure, which identifies areas of central responsibility attributable to:

- Chief Lending Officer Governance Area;
- Chief Risk Officer Governance Area;
- Chief Financial Officer Governance Area;

They ensure that risk control activities are managed and implemented, with an appropriate level of segregation, in addition to the establishment of the supporting processes and applications.

The Chief Lending Officer Governance Area, with the aid of its structures (BdT Underwriting Head Office Department, CIB Underwriting Head Office Department, ISB Credit Head Office Department, Credit Governance Head Office Department, Credit Value Preservation Head Office Department and NPE Head Office Department):

- makes material credit decisions, directly or submitting them to the relevant bodies, in relation to the assumption and management of the Group's credit risks, authorising them directly if falling within its prerogatives, including by way of advisory opinions;
- ensures, for its area of responsibility, the proactive management of credit and guarantees the management and the monitoring of the Group's non-performing and bad loans kept within the Group's internal management;
- designs and manages transactions for the sale of individual NPE positions or portfolios, credit exposures and other assets within scope, with the collaboration of other competent functions;
- performs monitoring and control on outsourced activities, including the monitoring of the performance KPIs of outsourcers, directly making decisions, or submitting them to the Competent Bodies, regarding proposals exceeding the powers delegated to the Outsourcers;
- contributes to the process of formulating the proposal of the Credit Strategies in the analysis of the impacts on the granting of loans and to their definition in relation to the relevant credit management variables, without prejudice to the Chief Financial Officer Governance Area's ultimate responsibility for their finalisation;
- coordinates the implementation of Credit Management Guidance by the relevant Group business units, also in the various corporate contexts;
- analyses the evolution of the cost of credit within the Group, also taking into account the application of the aforesaid Credit Strategies;
- assigns and validates the ratings to the relevant positions, also providing support in the definition of the rating assignment processes and tools;
- defines the relevant regulations on credit matters, the requirements for the development of credit tools and contributes to the formulation of the proposals for the assignment of credit granting and management powers, without prejudice to the Chief Risk Officer Governance Area's ultimate responsibility for their finalisation;
- promotes initiatives aimed at disseminating and developing a credit culture;
- ensures, consistently with the guidelines of the Chief Risk Officer Governance Area and in compliance with the Credit Management Guidance, the first level systematic supervision of the relevant loan portfolio, identifying phenomena referring to specific credit aggregates characterised by high levels of anomalies for which to activate the appropriate risk mitigation measures.

The Chief Risk Officer Governance Area is responsible for adapting the Risk Appetite Framework for the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures. Specifically, the Chief Risk Officer Governance Area:

- establishes the metrics for the measurement of credit risk - also with regard to the collective measurement of performing loans and the measurement of non-performing loans on a statistical basis;
- provides risk-adjusted pricing models and guidance on Expected Loss, Economic Capital (ECAP) and RWAs;
- monitors the absorption of capital relating to credit risk, supporting the Chief Financial Officer Governance Area in the active management of capital;

- makes proposals for the assignment of the Credit Granting and Management Powers;
- validates internal risk measurement systems;
- oversees model risk;
- performs level 2 controls for credit risk.

The activities are performed directly by the Chief Risk Officer Governance Area for both the Parent Company and the main subsidiaries, according to a service contract.

With regard to the credit management policies, the Chief Financial Officer Governance Area:

- assists the Corporate Bodies in defining, in accordance with the Group corporate strategies and objectives, the guidelines and policies on administration, planning and management control, studies and research, active management of the loan portfolio, relations with investors and rating agencies, and social and environmental responsibility;
- oversees Credit Portfolio Management at Group level, supporting the Divisions in the active management of credit risk, with the aim of improving the risk-return profile of the loan portfolio in order to create value for shareholders, through targeted credit strategies (including a specific incentive and disincentive mechanism) and participation in market operations on performing loans (including those being purchased) and non-performing loan portfolios;
- oversees the coordination of the “Group NPL Plan Control Room”, a managerial body with consulting, monitoring and guidance functions, established to ensure that the strategic objectives of the Group’s NPL Plan, approved annually by the Parent Company’s Board of Directors, are achieved while in compliance with the performance targets, solidity of the capital ratios and creation of value for the Group.

The Chief IT, Digital and Innovation Officer establishes the model and oversees the Group’s Data Governance and Data Quality system, ensuring its dissemination and implementation and coordinating the activities of the parties involved.

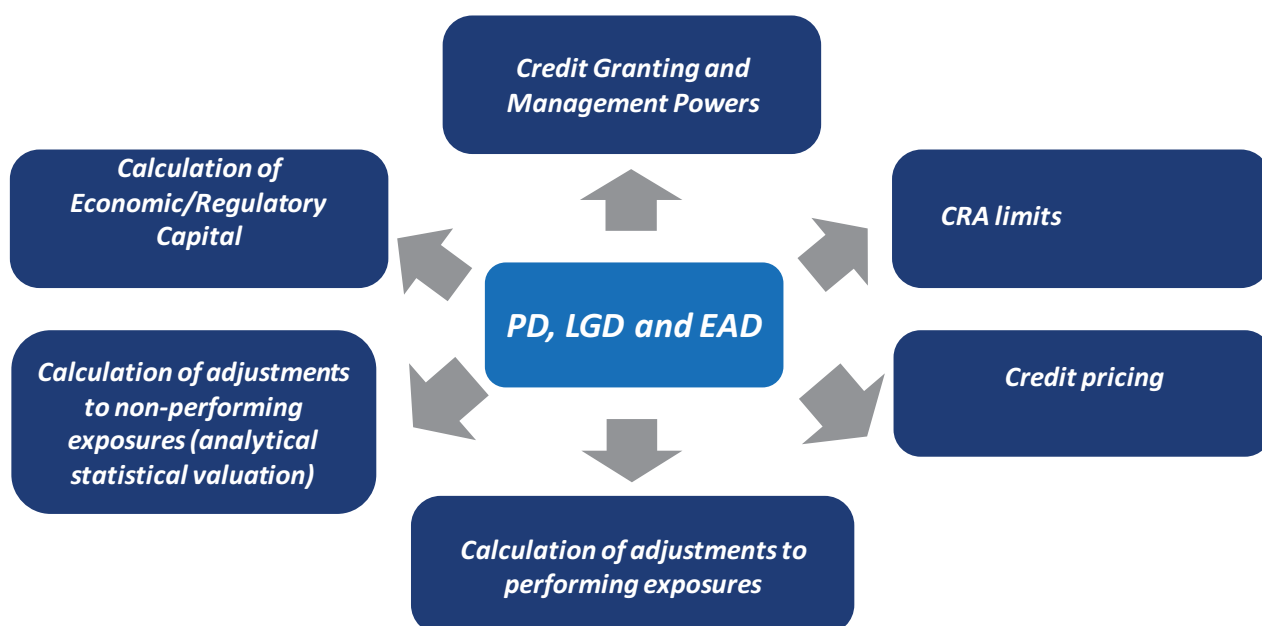
Lastly, as is the case for all the risk areas and above all for credit risk, the Chief Audit Officer performs internal audits aimed at identifying breaches of the procedures and regulations and periodically assessing the completeness, adequacy, functioning (in terms of efficiency and effectiveness) and reliability of the internal control system and the ICT system (ICT audit), at preset intervals according to the nature and extent of the risks.

## 2.2. Management, measurement and control systems

Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentration of exposures, limit potential losses in adverse scenarios, and maintain credit quality in line with the objectives of capital and financial stability.

Expected Loss and Risk Weighted Assets are fundamental elements for the management, measurement and control of credit risk. These measures incorporate the effects of the exposure size (Exposure at Default - EAD), the relative riskiness of the customer (Probability of Default - PD), the loss estimate where insolvency conditions exist - taking into account the guarantees that mitigate the assumption of risk related to the loan (Loss Given Default - LGD) - and the duration of the exposure (maturity), as detailed in paragraph 2.3.

The components that contribute to the determination of the Risk Weighted Assets are the key elements for the determination of the levels of the Credit Granting Powers, the limits of the Credit Risk Appetite (CRA), the credit pricing, the calculation of the adjustments on performing exposures and the analytical-statistical adjustments on non-performing exposures, as well as the calculation of the economic and regulatory capital.





The Credit Risk Appetite is aimed at optimising the risk/return profile of the assets. The “Rules on Credit Risk Appetite” define the methods for applying the CRA and the methods for calculating the CRA colour class, with associated exposure limits, in order to pursue a growth in lending consistent with the risk appetite defined for the Group. Following the acquisition of the UBI Banca Group, in order to ensure homogeneous treatment of customers, guarantee current operations and consistent oversight of Group risks, it was necessary to extend to the scope of UBI Banca and IW Bank the Credit Risk Appetite (CRA) framework of Intesa Sanpaolo. Thus, specific limits were defined, dedicated to the operations of UBI Banca and IW Bank, as well as the governance for managing breaches of the limits in line with that established at Intesa Sanpaolo.

The objective of the calculation of the pricing of transactions is to define the suitability of the economic conditions based on the value generation with respect to the expressed riskiness and all the components that contribute to the calculation of the value, also including the costs allocated to the structures.

The capital at risk is defined as the maximum “unexpected” loss that the Group may incur with particular confidence levels. The calculation is made with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast macroeconomic scenario and on stress scenarios. Risk capital is a fundamental element in the assessment of the Group’s capital adequacy and is calculated within the ICAAP process both with regard to the regulatory parameters and from a management perspective.

The levels of Powers set on terms of RWA delimit the decision-making power in the granting phase, specifying the authorised professional profiles and the decision-making procedures for the loans for the individual counterparties. In particular, where the granting of loans by the Group’s subsidiaries exceeds certain thresholds, a request for a “Compliance Opinion” is made to the competent bodies of the Parent Company.

The credit granting phase is also regulated by metrics that are complementary to the RWAs, which define coordination mechanisms and support tools for the ongoing exercise of guidance, coordination and control responsibilities, in implementation of the corporate governance provisions. In particular, the company rules include the Granting Rules, which specify the methods for taking on credit risk with customers, and the Rules on Credit Strategies, which are designed to direct the development and composition of the loan portfolio towards a risk/return profile that is recognised as optimal over the medium/long-term.

With reference to the integration of UBI, at the end of November 2020 transitional regulations were issued regarding the management of credit risk, to be implemented in the transitional period.

Those operating instructions mainly envisage:

- common rules for managing customers shared by ISP and UBI, setting out the aggregation of risks for shared customers and a mechanism for coordination between the managers of shared positions;
- the need to request an advisory opinion from the competent decision-making bodies of Intesa Sanpaolo for credit granting proposals and management proposals (classification, impairment adjustments and write-off) for non-performing loans exceeding the thresholds set by the competent ISP functions;
- standardised management of governance on Most Significant Transactions, Related Parties, Associated Entities, Board Members and General Managers and other relevant persons pursuant to Art. 136 of the Consolidated Law on Banking of UBI Banca and Intesa Sanpaolo.

The credit risk management processes also envisage the periodic review of all the credit positions by the relevant centralised or decentralised structures and the assessment of customers not only at origination, but also on a continuous basis, by means of a monthly monitoring process that interacts with credit management and control processes and procedures to ensure timely assessment of any signs of impairment, with an impact on the level of risk of the exposures. An Early Warning System is in place for the Corporate, Retail SME, Retail and Institutions portfolios, with adaptations introduced alongside the updates to the internal rating models. The system was developed on the basis of the indicators identified in the Asset Quality Review and consists of a statistical component and a qualitative component, plus manual triggers by event. The indicators are updated on a daily basis and, when they confirm a potential anomaly in the management of the relationship the related positions are detected and reported in the Proactive Management Process.

The valuation of the adjustments to the performing and non-performing exposures<sup>45</sup> is based on methods consistent with IFRS 9, described in detail in Part A - Section “A. 2 - Main financial statement captions” and in particular in the paragraph “Impairment of assets”.

Country risk is an additional component of an individual borrower’s insolvency risk, measured by credit risk control systems. This component is linked to losses potentially resulting from international lending operations caused by events in a country that are partly or entirely within the control of the government concerned, but not that of the individual residents of the country in question. Country risk therefore takes the form of both transfer risk for non-sovereign counterparties, due to the freezing of international payments, and sovereign risk, which is measured through an assessment of the sovereign states’ creditworthiness. This definition includes all forms of cross-border lending to entities residing in a given country, whether they are the government, a bank, a private enterprise or an individual.

The country risk component is used in the granting of credit to non-resident entities in order to obtain a preliminary evaluation of the absorption of country risk limits set on an ex-ante basis. These limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, set on an annual basis in the Group Risk Appetite Framework.

Counterparty risk is a particular kind of credit risk arising from derivatives and securities lending transactions and refers to the possibility that a counterparty may default before the contract expires. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, in the case of default of the counterparty, the solvent party would be forced to replace the position on the market, thereby suffering a loss.

With regard to counterparty risk, the Banking Group has an internal model for measuring this risk both for regulatory (only for

<sup>45</sup> The analytical statistical measurement of the non-performing exposures applies to non-performing past-due due exposures and bad loan and unlikely-to-pay positions equal to or less than 2 million euro for the Parent Company. For Group companies, the threshold value for analytical-statistical measurement is set by the competent bodies of the individual companies, in coordination with the structures of Intesa Sanpaolo, at a level that is not, in any event, higher than that set by the Parent Company.

the Parent Company) and managerial purposes.

Potential Future Exposure (mean effective PFE 95%) has been adopted by the entire Banking Group for the measurement of the utilization rate of credit limits for derivatives and SFTs exposures. The Financial and Market Risks Head Office Department produces daily estimates for the counterparty risk measurements, for the measurement of the utilization rate of credit lines for OTC derivatives and SFTs for the Parent Company and Fideuram. The other Banks of the Group use the PFE method in a simplified form, through internally estimated Add-ons.

In addition, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:

- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives and SFTs with margining agreements (CSA, GMRA and similar);
- periodic reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk;
- definition and periodic calculation of back-testing analyses to monitor the predictive performance over time of the model with respect to the movements of the risk factors underlying the transactions in the portfolio.

The concentration risk arises from the exposure to counterparties, groups of related counterparties and counterparties in the same business segment or that engage in the same business or operate in the same geographical region. In the annual update of the Risk Appetite Framework, such counterparties are subject to stress tests aimed at identifying and assessing threats for the Group and the most appropriate mitigating actions:

- aimed at defining exposure limits for specific geographical areas and sets of counterparties (e.g.: the top 20);
- aimed at ex ante limitation of exposures with significant concentration effects, in particular with reference to "large exposures" and to credit lines subject to country risk;
- aimed at ex post correction of the profile, through the secondary loan market, through specific judgement metrics based on the maximisation of overall portfolio value.

The acquisition of UBI did not significantly alter the Group's overall position, both regarding positions in securities and regarding credit exposures. At the acquisition date, the UBI Group held a small position in securities and a loan portfolio featuring a limited percentage of corporates and a significant prevalence of small and medium-sized counterparties and individuals, with resulting benefits in terms of the diversification and division of the overall loan portfolio of the Group.

Through specific control, guidance and coordination activities, the Internal Validation and Controls Head Office Department within the Chief Risk Officer Governance Area oversees the credit granting and management processes for the performing loans portfolio at the Group level, and through controls on individual positions, assesses that loans are properly classified. It also assesses the compliance of the internal risk measurement and management systems over time as regards determination of the capital requirements with the regulatory provisions, company needs and changes in the relative market.

The Group's lending activity is focused on Italian customers (80% of the total, in line with the 2019 value) and is primarily aimed at households and small and medium enterprises.

The exchange of basic information flows between different Group entities is assured by the Group's Central Credit Register (exposure monitoring and control system) and by the "Posizione Complessiva di Rischio" (global risk position), which highlight and analyse credit risks for each counterparty/economic group both towards the Group as a whole and towards individual Group companies.

From the September 2018 monthly report – following the preparation of the input and generation architecture for the Anacredit reporting, aimed at supporting the "collection of granular credit and credit risk data" as defined by EU Regulation 2016/867 of 18 May 2016 – a new reporting system has been in place in compliance with the regulatory provisions established by the ECB and implemented by the related Central National Banks.

### 2.3. Methods for measuring expected losses

The expected loss is the product of exposure at default, probability of default and Loss Given Default.

In Intesa Sanpaolo, probability of default is measured by means of different rating models according to borrower segment (Corporate, Retail SME, Retail, Sovereigns, Public Sector Entities and Banks). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a consistent scale of reference.

A number of rating models are used for the Corporate segment, which use all available information sources and incorporate the opinions of credit analysts and relationship managers. In particular:

- models differentiated according to the market (domestic or international) and size bracket of the company are applied to most businesses;
- specific models are in use for specialised lending, one for real-estate initiatives, one for project-finance transactions and one for Leveraged Buy-Out/acquisition-finance and asset-finance transactions.

The Corporate model is also used to calculate the resulting RWAs for the Equity portfolio of the Banking Book.

The models applied to the Retail portfolio are as follows:

- for the Retail SME segment, a highly-decentralised rating model by counterparty is used, in which the quantitative-objective elements are supplemented by qualitative subjective elements;
- for the Retail segment, a counterparty rating model consisting of the Retail Mortgages segment and the Other Retail segment has been in use since September 2018.



With regard to the Institutions portfolio:

- the models for banks (banks in mature economies and banks in emerging countries) are composed of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component relating to systemic risk, and a component relating to specific country risk, for banks most closely correlated with country risk;
- the models used for Municipalities and Provinces are default models, whereas shadow rating models based on agency ratings are used for the Regions. An approach to extend the rating of the regulatory Entity (e.g.: Region) has been adopted for local healthcare authorities and other sector entities, with possible changes on the basis of the assessment financial statement data (notching).

For the Sovereign portfolio, the structure of the rating model includes a quantitative module that takes into account the structural rating assigned by the main international agencies, the implicit risk in the market prices of sovereign debt, the macroeconomic assessment estimated with an econometric model of regression, and a qualitative opinion component, which supplements the qualitative opinion with elements drawn from the broader scope of publicly available information concerning the political and economic structure of the individual sovereign countries. The Sovereign rating model is used solely for management purposes.

For the international subsidiary banks of the Group, PD models are used, which may be:

- developed by the international subsidiary banks in order to capture the specific features of the risk of the local counterparties;
- extended by the Parent Company;
- borrowed from the Parent Company and adapted to local situations.

Some of these models are used for reporting purposes and others only for management purposes, as set out in the table below.

The Loss Given Default (LGD) models are based on the concept of “Economic LGD”, namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group, and consists, in brief, of the following elements:

- estimate of a Bad Loan LGD Model: starting from the LGD observed on the portfolio, namely “Workout LGD”, determined on the basis of the recoveries and costs, a regression econometric model of the LGD is estimated on variables considered to be significant for the determination of the loss associated to the Default event;
- application of the Danger Rate, a multiplying correction factor, used to recalibrate the Bad Loan LGD with the information available on the other default statuses, in order to calculate an LGD representative of all the possible default statuses and their evolution;
- application of an additional correction factor, known as “Final Settlement Component”: this component is used as an add-on to the estimate recalibrated for the Danger Rate in order to consider the loss rates associated with positions not evolved to the Bad Loan status (Unlikely to pay or Past Due positions).

LGD is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail, Factoring, Leasing, Public Entities and Banks). As in the case of the PD, the models that have been adopted for the LGD of the International Subsidiary Banks of the Group were developed by the banks themselves, extended by the Parent Company, using local parameters where necessary or changed by the Parent Company, with adaptations to each international subsidiary bank.

For the banks, the LGD calculation model partly diverges from the models developed for the other segments as the estimation model used is based on the market price of debt instruments observed 30 days after the official date of default and relating to a sample of defaulted banks from all over the world, acquired from an external provider. The model is completed by an econometric estimate aimed at determining the most significant drivers, in accordance with the practice in use for the other models.

The Sovereign LGD is estimated by analysing the historical recovery rates on sovereign defaults, differentiated into five categories according to the risk factors of each country. The country risk component associated with exposures to non-sovereign counterparties allocates different LGDs to the countries based on their geographical area. These LGDs are estimated based on an analysis of changes in the exchange rate of the local currency against the US dollar and any support received from the International Monetary Fund’s Rainy Day Fund.

The LGD Sovereign and transfer models are used solely for management purposes.

The calculation of the Exposure at Default (EAD) uses regulatory parameters (Retail SME, Factoring, Leasing, Public Entities and Banks) and models differentiated and specialised by operating segment (Corporate and Retail). Specifically, the methodology is based on data from the 12 months prior to the default event and differs according to whether or not there is a margin available at the observation date. In any case, corrective factors are applied in compliance with the regulatory requirements and in order to introduce a margin of conservatism on the estimates.

Portfolio	PD - Model Type	LGD - Model Type	EAD - Model Type	Status
Sovereign	Shadow model based on agency rating	Model based on recovery rates estimated by rating agencies	Regulatory parameters	Used for management purposes only; Standardised approach for reporting purposes
Institutions	Default model (Banks) <sup>(4)</sup>	Market model (Banks)	Regulatory parameters (Banks)	AIRB authorised since June 2017
	Default model (Municipalities and Provinces) Shadow model (Regions) <sup>(4)</sup>	Workout model (Municipalities, Provinces, Regions)	Regulatory parameters (Municipalities, Provinces, Regions)	AIRB authorised since June 2017
Corporate	Default model (Corporate)	Workout model (Corporate)	CCF/K factor model (Corporate)	FIRB authorised since December 2008, AIRB LGD authorised since December 2010, EAD authorised since September 2017 <sup>(1)</sup>
	Simulation models (Specialised Lending)	Simulation models (Specialised Lending)	Regulatory parameters (Specialised Lending)	AIRB authorised since June 2012
	Expert-Based Model (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Used for management purposes only; Standardised approach for reporting purposes
Retail	Default model (Retail)	Workout model (Retail)	CCF/K factor model (Retail)	IRB Retail since September 2018 <sup>(2)</sup>
	Default model (Retail SME)	Workout model (Retail SME)	Regulatory parameters (Retail SME)	AIRB authorised since December 2012 <sup>(3)</sup>

1) ISP authorised for FIRB from December 2008, for LGD AIRB from December 2010 and for EAD from 2017, Banca IMI (2012, merged by incorporation into the Parent company since 2020), ISP Ireland (2010), VUB (2010), Intesa Sanpaolo Bank (2017), and ISP Luxembourg (2017). From 2017, the Corporate model has also been used to calculate the risk on the Banking book equity portfolio with LGD 65%/90%.

2) VUB authorised from June 2012 for PD and LGD of Retail Mortgage models.

3) VUB authorised from June 2014.

4) ISP and Banca IMI (merged by incorporation into the Parent company in 2020) authorised from 2017.

Following the acquisition of the UBI Banca Group, in order to ensure homogeneous treatment of customers, guarantee current operations and consistent oversight of Group risks, in September 2020 the strategic plan for the recovery of regulatory compliance in relation to Pillar I risks and the request to temporarily use the related internal models for credit and operational risk for the purpose of consolidated supervisory reports were sent to the Supervisory Authorities. With specific reference to credit risk, the preparatory activities were begun for sending the requests to the ECB to apply for the extension of Intesa Sanpaolo's internal models to the acquired UBI portfolios.

In particular, the UBI Group was authorised by the Bank of Italy to use Advanced Internal Rating Based systems (AIRB) to calculate capital requirements for credit risk relating to the regulatory Retail segment, sub-classes "Exposures secured by residential property" and "Other retail exposures (Retail SME)" and the regulatory Corporate segment. This authorises the use of internal estimates of the parameters of Probability of Default (PD) and Loss Given Default (LGD) for the RRE – Residential Real Estate (Individuals and Retail Companies), Other Retail (Retail Companies) and Corporate portfolios. Moreover, the Bank was authorised to apply the new models (extension of internal models for determining capital absorption of the Corporate and Retail portfolios deriving from the New Banks, as well as gradual extension of the IRB scope to the Other Retail - Individuals and Qualifying Revolving segment) with resulting benefits in terms of lower capital absorption.

To date, the scope of application of the AIRB approaches authorised, in terms of the scope of companies, comprises IW Bank and UBI Banca.

For the Group companies included in the roll out plan, the internal rating models (PD) and the EAD and LGD components are subject to independent validation by the Validation function and a level three control by the Internal Audit Department. At the end of these activities, a report is produced for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also verifies the actual deviation between the ex-ante forecast estimates and the actual ex-post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the compliance to the regulatory requirements.

The methodology for the estimation of the Expected Credit Loss (ECL), adopted for the determination of the impairment on loans in accordance with IFRS 9, is implemented at individual transaction or securities tranche level, based on the IRB modelling of the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate adjustments are made to ensure compliance with the requirements of the standard. A detailed description of the methods adopted by the Group is provided in Part A - Section "A. 2 - Main financial statement captions" and in particular in the paragraph "Impairment of assets", to which reference is made, as well as in that indicated in detail in the section "The Intesa Sanpaolo Group's approach to the preparation of the Financial Statements as at 31 December 2020" of the Report on Operations, and in Part A – Section 5 – Other Aspects – Risks, Uncertainties and Impacts of the COVID-19 Epidemic.

More specifically, the measurement of the financial assets reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the "risk" of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the

determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the “Most likely scenario+Add-on” approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario (“Most Likely”, in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes.

As indicated in the section “Changes due to COVID-19” below, the macroeconomic scenarios were determined by the Bank’s Research Department using forecast models, taking into account the forecasts of the main national and international bodies and institutions.

With reference to UBI, to estimate the collective performing loan portfolio, the same macroeconomic scenario adopted by the Parent Company was used, and several changes were made to the methodologies adopted, to guarantee a gradual convergence toward Intesa’s approaches, in view of the planned integration in 2021. In particular, the satellite models of the Parent Company were used, including guarantee and moratoria overlays, and additional prudential factors connected with the COVID-19 situation were incorporated (micro-sector corrections), in line with the Parent Company. Lastly the activities were begun in preparation for the fully loaded application of the statistical models of Intesa Sanpaolo, in view of the integration activities in 2021.

The effectiveness of the IFRS 9 models is also monitored by the Validation function at least once a year on the risk parameters (staging criteria and PD, LGD and haircut models), both through model performance tests and in terms of model design, data treatment and code review. The results are presented, in the same way as over mentioned, in the annual report on internal models used for managerial purposes. The analyses carried out in 2020 did not identify any critical issues and provided an opinion of general adequacy with respect to the areas analysed.

### Changes due to COVID-19

As highlighted in the introduction to this Section, COVID-19 had a particular impact on the issues of classification of credit exposures, specifically the aspects linked to payment moratoria, as well as on the measurement of the significant increase in credit risk (SICR) and the measurement of expected losses for the purpose of determining the Expected Credit Losses (ECL) pursuant to IFRS 9.

The classification of credit exposures subject to the COVID-19 moratoria was the subject of a regulation in the dedicated EBA “Guidelines on legislative and non-legislative moratorium on loan repayments applied in the light of the COVID-19 crisis”. According to the EBA, in order to be considered in line with its indications, the moratoria must meet several specific requirements. In brief, they must:

- be offered without distinction by the bank to a large group of (performing) borrowers or following legislative provisions;
- not provide a waiver of contractual interest or principal but solely a deferral/extension of payments.

Following the activation of EBA compliant moratoria, the count of the past due for the purposes of identifying the default (with classification as non-performing past due) is stopped. In addition, as the Bank has not waived the repayment of the principal or the accrual of contractual interest, the calculation of the diminished obligation for the purposes of distressed restructuring and the resulting classification as Unlikely-to-Pay is substantially irrelevant. The moratorium is not automatically considered as a forbearance measure and therefore does not also constitute a trigger for a significant increase in credit risk with consequent transition to Stage 2 (for Stage 1 positions) pursuant to IFRS 9. In addition, for positions with companies at higher risk (identified through their rating) for which the Bank had decided to grant a moratorium, up to 30 September our Group carried out specific assessments in any event, to determine whether or not to consider the renegotiation as a forbearance measure.

Subsequently, in light of the scenario of cautious optimism at the end of the summer, the EBA decided not to extend that exceptional measure. The Authority had thus decided to return to the practice whereby any renegotiation of loans has to follow a case-by-case approach according to the usual prudential rules, i.e. with an analysis of whether the single measure is to be considered a forbearance and/or a default event. As a result, from 1 October that test was applied to all new measures towards companies and individuals (regardless of rating and type of moratorium).

Following the second wave of COVID-19 which hit Europe in mid-October, the EBA reconsidered the issue, and with its communication of 2 December (“Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis”):

- re-opened the option to grant moratoria according to the existing guidelines, until 31 March 2021;
- introduced a nine-month cap for new moratoria or the extension of an existing moratorium. The cap shall also apply to the granting of non-consecutive periods of suspension (in this case, the durations of the various periods are added together). The nine-month cap does not apply retroactively to moratoria granted up to 30 September.

In December, the Group thus aligned with that set out in the amendment issued by the EBA on 2 December, restoring the framework in force as at 30 September, described above, while introducing a case-by-case assessment of classification as forborne for newly granted moratoria or those extended, at the time the duration of the suspension exceeds nine months, as envisaged by the EBA.

Acknowledging that, with the reopening of the moratoria, one of the main instruments for monitoring credit quality - i.e. the regularity of payments - no longer applied, the EBA also specified that banks shall notify to the relevant competent authority a plan that outlines the process, the sources of information and responsibilities in the context of the assessment of the unlikeliness to pay of borrowers subject to (legislative or non-legislative) payment moratoria. That matter – which our Group was well aware of even before the due solicitation by the authorities – is being gradually reinforced, also for the purpose of assessing positions as illustrated in greater detail below, through the process of revising and updating the ratings if individual counterparties, in addition to a specific analysis on the individual counterparties that benefited from the moratoria aimed at capturing the vulnerabilities of the position in the specific COVID-19 context.

As regards the assessment of loans, the Group prudently defined specific adjustments to both the SICR measurement process and the measurement models for expected losses, to take account of the specific characteristics of the impacts of COVID-19 on the economy. The approach was gradually rendered more sophisticated and consistent by defining management overlays, which were gradually enriched following the improved perception of the evolution of the crisis, defining new frameworks to assess expected vulnerabilities (e.g. updating the CRA framework, introducing micro-sector vulnerabilities), as well as the results of the operational responses adopted by the Group (e.g. re-rating campaigns, campaigns to revitalise and restructure the revitalisation and restructuring the Businesses segment, priority analysis of the portfolio of moratoria).

In particular, the approach adopted, strengthened in the 2020 Financial Statements due to several actions described below, is also extremely consistent with the indications in the ECB Letter of 4 December 2020. This letter states that significant institutions should identify a significant increase in credit risk as early as possible and, given the level of uncertainty caused by the pandemic crisis, use integrations in applying IFRS 9, by including subjective parameters from expert judgements or overlays, with specific attention to the consistency that those parameters must have with the observable macroeconomic variables and forecasts.

Thus, in substance, considering the continuing validity of the underlying rationale, the choices made at the time of the Half-yearly Report were confirmed. In summary:

- one-off treatments to provide more granularity through extraordinary staging triggers of the impacts of the current scenario on counterparties in the micro-sectors most penalised by the crisis, also in light of the specific analyses on counterparties and the presence of moratoria measures;
- adoption of corrective factors on default rates to include the expected benefits of major economic support initiatives such as government guarantees not captured by satellite models, on the one hand, and to incorporate in the models the worsening effects of the moratoria during the period of their validity in postponing the transition to default status to future years.

In relation to the decisions made in the Half-yearly Report, the solutions set out in the 2020 Financial Statements have obviously been refined somewhat and are more sophisticated, in light of the larger time frame available and the increased wealth of information that can be used. The treatments listed below were also applied to the UBI portfolio (net of the positions disposed of and reclassified under discontinued operations) in a substantially equivalent manner, in light of the information available.

The international subsidiary banks also adopted local management overlay actions using a prudent approach.

Thus, a description of the measures adopted for the purposes of the 2020 Financial Statements is provided below, briefly listing, where appropriate, the updates on that applied in the Half-yearly Report.

#### *Effects of the government guarantees acquired*

This overlay incorporates the mitigating effects on future risk deriving from the acquisition of government guarantees, such as those deriving from the “Cura Italia” and “Liquidità” Decrees, as they were not included in the satellite models. Those guarantees enabled banks to provide support to the liquidity of counterparties which otherwise could not have received support, allowing at least some of them to survive the ongoing crisis.

As for the Half-yearly Report, this aspect was subject to quantitative analysis, based on the detailed analyses conducted in relation to evidence deriving from the Credit Risk Appetite (CRA). In particular, on a subset deemed as adequately representing Intesa Sanpaolo customers, using the prospective financial statements approach, customers “with liquidity requirements” were identified and those which, out of this subset, would have difficulty repaying the debt following the grace period (“vulnerable customers”). Thus, two measures of average probability of default were defined:

- average probability of default A: in a hypothetical scenario without government guarantees, presuming that the customers “with liquidity requirements” in the CRA classes with the highest risk (Red CRA) have their rating downgraded or default;
- average probability of default B: in a scenario with government guarantees, the customers with “liquidity requirements” and a Red CRA that are not vulnerable are assumed not to have a rating downgrade, while the vulnerable customers would have the same downgrading assumed above.

The ratio of the probabilities of default in these two scenarios provides a mitigation factor to be used to discount the default rate envisaged by the model over 24 months.

The analysis of the impact of government guarantees highlights an important factor to contain the increase in system-wide default rates resulting from the worsening of the scenario, as it increases the base of customers that can access credit and, thus, increases the liquidity in circulation, assisting companies undergoing temporary difficulties. The estimated effect is deemed prudent, as it did not consider additional benefits (e.g. the guarantee scheme reduces the interest rates applied by banks, thereby reducing debt service for companies and introducing grace periods of 24 months).

#### *Effects of the moratoria granted: transfer of default flows*

This overlay was incorporated in the results of the forward-looking assessments in the satellite models, as it is aimed at “correcting” the estimated expected default flows (based on the application of the “COVID” macroeconomic scenarios described above) to incorporate the effect that the moratoria have on transfers to default during their period of validity. In substance, it reduces the forecast of default flows during the period of validity of the moratoria and transfers it (in addition to those estimated by the satellite model) to subsequent periods, when the moratoria pursuant to law will expire.

The overlay is applied to counterparties in the Corporate, Corporate SME, Retail SME and Mortgages segments.

In the Half-yearly Report, the simulations conducted on the effects of the moratoria (confirmed by the final analysis) allowed for transferring to the next year (2021) a portion of the defaults of Domestic Corporate and Retail SME customers estimated at the time by the satellite models for the second half of 2020.

In the 2020 Parent Company’s Financial Statements, instead, the mitigating effect was recognised directly in the fewer defaults for the year, while the expected cliff-edge effect due to the passage of time was maintained, which entails additional



flows for 2021 compared to those estimated by the satellite models. Moreover, in order to consider the updated scenario - which entails more severe conditions in terms of growth in economic activity (goods and services) in 2021 - the survival rate of defaults not realised in 2020, transferred to 2021 was revised downwards. This was brought down from 30% to 15% in the baseline scenario. As a result, the percentages in the upside scenario (30%) and downside scenario (reducing survival to zero) were also recalibrated.

The effects of that overlay, along with the macroeconomic scenario adopted, act through the SICR logics of the PD Change, thus increasing the transfers to Stage 2 and ECLs. Moreover, for the purposes of the 2020 Financial Statements, additional assessments were conducted of the vulnerability criteria of loans under moratoria which resulted in the transfer of portfolios to Stage 2 through the triggers described below.

#### *Micro-sector vulnerabilities and moratoria to identify extraordinary triggers for sliding into Stage 2*

As known, IFRS 9 requires that where a significant increase in credit risk (SICR, which results in the need to include the exposures in Stage 2) is detected, the expected losses must be measured over the entire residual life of the credit exposure. In the other cases (no significant increase in credit risk), the expected loss shall be calculated with reference to a time horizon of 12 months (exposure included in Stage 1).

In the approach adopted by the Intesa Sanpaolo Group, the parameter that measures the change in credit risk and, thus, any "significant" increase in the risk, is default risk, expressed by the changes in the Probability of Default over the entire residual life of the financial asset (hereinafter, "Lifetime PD Change"), calculated considering the effects of the expected macroeconomic scenarios.

In addition to the Lifetime PD, in identifying an SICR, Intesa Sanpaolo considers two other elements: (i) the number of days past due as an indicator of the deterioration of credit quality of the counterparty, which shall be presumed to become "significant" when the days past due exceed 30; and (ii) the granting of forbearance measures.

That being said, as regards the staging allocation deriving from the "Lifetime PD Change" component - which is the main case for determining exposures in Stage 2 - the forward-looking assessment based on scenarios like those caused by the pandemic crisis, only partially limited by the mitigating effects described above, is already an important element that explains the migration from Stage 1 to Stage 2 of the performing portfolio recognised during 2020.

In that context, an impact was also made by the initiatives launched to re-rate counterparties in 2020 (both in Banca dei Territori and in IMI C&IB). These were assisted by specific guidelines and analysis tools to support the measurement to correctly identify the aspects of deterioration of credit quality also deriving from elements that are not directly connected to or intensified by the pandemic crisis, in relation to more contingent elements deriving from the crisis and considering, according to a more forward-looking view in assessing the rating, the capacity and speed of recovery of the most affected counterparties and the differentiated effects on their sectors of operation.

Instead, as regards the triggers "30 days past due" and "forbearance", which, also in ordinary conditions, are a marginal share of the reasons for classification in Stage 2 (usually the downgrading of the rating ensures early interception of the worsening of credit quality of the counterparty), the various initiatives of payment moratoria described above resulted in a weakening of their significance for the purposes of staging allocation, which was subject to the ordinary triggers for transfer to Stage 2 established by the Group.

An additional factor to consider derives from the vulnerability factors originated by the pandemic situation and its economic impacts, which are not suitably intercepted by the methods used to estimate the Lifetime PD. This aspect was already identified in the Half-yearly Report 2020, in consideration of the specific characteristics of micro-sectors. For the purpose of determining the Lifetime PD, the IFRS 9 methodology, resulting from the application of the prudential rules, considers large sectors to guarantee the stability of estimates. In the current crisis scenario, a diversified impact is expected on the individual micro-sectors, with behaviour that may be highly polarised in relation to the trend in their macro-sectors. Thus, this distance may entail a degree of worsening in the credit quality not captured by the current SICR rules.

The ECB also discussed that aspect in its Letter of 4 December 2020, "[...] Borrowers are being affected (directly or indirectly) by the coronavirus (COVID-19) pandemic to a different extent, depending on their sector. In this regard, macroeconomic information and/or the adverse business impact on specific sectors might in itself indicate that there has been a significant increase in credit risk for adversely affected exposures. A transfer to stage 2 may be necessary solely because of these particular circumstances, unless more granular information is available to show that exposures may still remain in stage 1. Using a more differentiated approach, it may be possible to rebut the assumption that adverse effects stemming from the business, financial and economic environment affect the entire portfolio".

To that end, a bottom-up analysis conducted to support the revision of the Credit Risk Appetite (CRA) Framework as a result of the COVID-19 pandemic was considered, which was based on the application of the micro-sector scenarios issued by the Research Department. The CRA methodology entails the processing of forward-looking financial statement data for single counterparties, simulated considering the scenario of the specific micro-sector and, based on this data, the estimation of a forward-looking rating at the landing point at the end of the time horizon of the forecast.

Moreover, based on the forward-looking rating, the Point-in-Time transition matrices were regenerated according to the IFRS 9 methodology and, as a result, the new ECL at counterparty level was calculated. As a result, it was possible to compare that ECL, on a cluster of exposures grouped by micro-sector, with that calculated on the same counterparties according to the IFRS 9 methodology (based on satellite models at macro-aggregate level) and calculated the related ECL change.

Therefore, where the behaviour of the micro-sector worsens to the point of exceeding the threshold of the related "ECL change", it is considered more vulnerable than the reference macro-aggregate. In addition, on the basis of an expert-based assessment, a further 21 micro-sectors were added (deemed vulnerable and not captured by the methodology of forward-looking financial statements in relation to specific aspects, as in the case of companies operating in the construction sector, for which the variable of "turnover" is not significant), identifying a total of 56 micro-sectors, representing 16% of the exposures in the Corporate and Corporate SME segments of the scope examined.

That being said, the following triggers for transition to Stage 2 were identified for counterparties in the Corporate and Corporate SME segments (not already classified in that stage of risk) where they concurrently meet the following three conditions:

- they belong to the high-risk micro-sectors as identified above;

- they have availed of the extraordinary measure of moratorium at least once;
- they have a rating of less than or equal to M4 (equal to BB in the external rating scale), so that counterparties that may have availed of the measure due to opportunity and not due to need can be excluded.

Also as regards the Retail and Retail SME portfolios, an extraordinary trigger for sliding into Stage 2 was introduced for counterparties that have availed of at least one extraordinary measure (moratorium) and are considered risky (rating equal to or worse than RT10 for Retail or M4 for Retail SME). Moreover, consideration was also made of the findings gathered from the “Moratoria, Refinancing and Renegotiation” Action Plan, as part of the Coraggio Italia initiatives, completed during Q4 2020 for the purpose of priority analysis of the clusters of customers with the highest risk and expiring moratoria. The initiative under way is set up with a rolling approach on portfolios with consecutive expiries. The findings of the first batch processed were verified in order to add the “extraordinary” Stage 2 triggers not already captured by the rules mentioned above.

The findings of the initiative on the Individuals and Retail Companies portfolios of the Banca dei Territori Division were also considered. Starting with clusters defined on the basis of specific risk drivers, individual managers were asked to carry out a priority assessment (triggering a traffic light result) to identify customers for which to support the return to payment at the deadlines with appropriate measures based on the prospective of temporarily assisting them with financial difficulties. In brief, the traffic light results entailed, at each end of the range, the clustering of exposures with a green traffic light with a return to payment considered sustainable without intervention, save for any refinancing of the outstanding instruments, and those with red traffic light, with a return to payment considered unsustainable, no intervention possible and thus, subject to measures to transfer them to a higher risk status. Instead, the yellow traffic light was assigned where the recovery of payment was not sustainable, assessing the need for renegotiation, and temporary return to payment not sustainable, thus, with the need for extension and careful monitoring of the evolution of the risk. The orange traffic light was assigned where the return to payment was deemed unsustainable, but with little possibility of action and, thus, exposures to be placed on the watch list for the following months.

As a result, positions with a yellow or orange traffic light which were not already in Stage 2 due to the application of the IFRS 9 methodology or the Stage 2 triggers described above were classified in Stage 2.

The presumable results at the end of 2020 of the “Revitalisation and Restructuring of the Business Segment post-COVID” initiative on the CIB scope were analysed for transfer to Stage 2 with regard to Orange and Yellow severity levels, which involved around 15% of the cluster.

#### *Scenarios used to determine the ECL and sensitivity analysis*

As indicated in greater detail in the chapter “Overview of 2020” of the Report on operations, for the purpose of measuring the Expected Credit Loss in accordance with IFRS 9 as at 31 December 2020, the Group aligned its macroeconomic forecasts with the indications, reiterated in the recent ECB Letter of 4 December 2020, which emphasised that “[...] significant institutions are recommended to continue anchoring their IFRS 9 baseline scenarios using the ECB’s forecasts in an unbiased manner”. In particular, in interacting with the CRO Area, the Research Department generated IFRS 9 scenarios (most likely and alternative) using the (baseline, mild and severe) forecasts published by the Eurosystem/ECB on 10 December, along with the equivalent baseline forecasts for the Italian economy published by the Bank of Italy.

The table below thus shows the scenarios generated and used to measure Expected Credit Losses. In particular, the ECB/Bank of Italy forecasts were directly used for the indicators provided by them while - as is usual for non-EU indicators, only partly identified - the other necessary variables were reconstructed using simulations from internal modelling according to the standardised approach envisaged for that process in the Intesa Sanpaolo Group.

For the international subsidiary banks of the International Subsidiary Banks Division and Banca Intesa Russia, the assessments were made in line with the approach adopted centrally, taking into account the lower sophistication of some of the entities. In particular, the banks that adopt internal satellite models for the purposes of estimating the Point in Time (PIT) Forward Looking PD introduced local scenarios in line with that of the ECB of December 2020 or with the scenarios issued by the local Regulator.



## Intesa Sanpaolo macroeconomic scenarios for calculating the ECL in the 2020 Financial Statements

		Baseline				Best case				Worst case			
		2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
<b>Italy</b>	Real GDP Italy	-9.0%	3.5%	3.8%	2.3%	-8.5%	6.2%	2.5%	1.9%	-9.1%	-0.5%	2.6%	1.7%
	CPI Italy	-0.2%	0.5%	0.9%	1.2%	-0.1%	0.6%	1.2%	1.4%	-0.2%	-0.3%	0.4%	1.0%
	Residential Property Italy	2.4%	-2.0%	0.5%	1.0%	2.7%	0.3%	2.0%	3.1%	2.4%	-5.0%	-2.7%	-1.7%
	10Y BTP yield	1.2%	0.8%	1.0%	1.2%	1.1%	1.0%	1.4%	2.2%	1.2%	1.0%	1.3%	1.7%
	BTP-Bund Spread 10Y	1.6%	1.3%	1.5%	1.6%	1.6%	1.3%	1.5%	1.6%	1.7%	1.6%	1.8%	2.1%
	Italian Unemployment	9.2%	10.4%	10.0%	9.5%	9.3%	10.2%	9.9%	9.5%	9.4%	11.6%	11.8%	11.5%
<b>Euro Area</b>	Real GDP EUR	-7.3%	3.9%	4.2%	2.1%	-7.2%	6.0%	4.3%	2.1%	-7.6%	0.4%	3.0%	2.9%
	CPI EUR	0.2%	1.0%	1.1%	1.4%	0.2%	1.1%	1.3%	1.5%	0.2%	0.7%	0.6%	0.8%
	Equity ESTOXX 50	-5.2%	4.6%	4.0%	2.9%	-1.6%	12.0%	3.6%	3.3%	-5.5%	-5.2%	-7.0%	-4.7%
	Euro/\$	1.14	1.18	1.18	1.18	1.14	1.16	1.14	1.17	1.13	1.17	1.17	1.19
	Euribor 3M	-0.4%	-0.5%	-0.5%	-0.5%	-0.4%	-0.5%	-0.5%	-0.2%	-0.5%	-1.0%	-1.0%	-0.9%
	EurIRS 10Y	-0.1%	-0.2%	-0.1%	0.1%	-0.1%	0.0%	0.2%	0.8%	-0.2%	-0.4%	-0.2%	-0.2%
	10Y Bund yield	-0.5%	-0.5%	-0.5%	-0.4%	-0.5%	-0.2%	0.0%	0.6%	-0.5%	-0.6%	-0.5%	-0.4%
	Unemployment EUR	8.0%	9.3%	8.2%	7.5%	7.9%	8.8%	7.5%	6.9%	8.1%	10.3%	9.9%	9.4%
<b>US Area</b>	Real GDP US	-3.5%	4.2%	2.7%	2.1%	-3.5%	5.2%	3.9%	2.5%	-4.1%	0.3%	0.2%	0.2%
	Equity US	10.0%	7.3%	-0.4%	-0.6%	15.0%	29.0%	6.2%	2.8%	9.8%	-4.2%	-4.6%	-4.4%
	Unemployment US	8.2%	6.5%	5.6%	4.8%	8.2%	6.3%	5.1%	4.3%	8.4%	8.7%	7.8%	6.7%

In light of the epidemiological situation that can be forecast at the start of December 2020, the baseline scenario assumes only partial success in containing the virus, with persistence of infections in the first quarters of 2021 and consequent containment measures. However, these measures are expected to result in lower economic costs than those incurred during the initial strict lockdowns. In any event, the economy is expected to gradually grow. The transition period will last until the vaccination campaigns have reached significant critical mass, which is expected by mid-2021.

In the worst-case scenario it is assumed that the new restrictions put in place to combat the second wave that arose near the end of 2020 will have a more damaging impact on economic activity and will not effectively contain the disease, with the possibility of having to deal with a new wave during 2021. This new wave would require that containment measures stricter than those of the end of 2020 be maintained. Sustained efforts to prevent the spread of the virus would continue, in any event, to dampen activity in sectors of the economy until significant coverage by vaccines is achieved which, in this case, would not be effective by the end of the year.

With regard to the health situation, the best-case scenario assumes effective containment of the virus. The strict lockdown period should be followed by a gradual recovery of the economies. The successful containment of the spread of the virus during the second wave is due to rapid progress in treatment and efficient coverage by vaccines, thus paving the way for a gradual return to normal activity. This scenario does not foresee a resurgence of the virus and envisages that the economic responses from the authorities will be very successful.

These scenarios were applied in the measurement of loans according to the “Most-Likely scenario + Add-on” model described in the “Accounting Policies” and in the previous chapter of this section of the Notes to the financial statements.

Considering the considerable uncertainty that characterised the reference economic-financial context, evidenced by the extreme volatility of the above scenarios, the Group’s Expected Credit Loss (ECL) for 2020, calculated in accordance with IFRS 9, was subject to sensitivity analysis aimed at analysing the variability with respect to the individual alternative scenarios, also in light of the strengthening of the indications provided in that sense by the Regulators during 2020, to increase financial entities’ awareness of the need to include appropriate disclosure in the financial statements that allows the market to interpret the possible evolution – and potential impacts – of credit risk in the short/medium-term.

That analysis was conducted on a performing loan portfolio (Stage 1 and Stage 2) relating to the scope representing the Group (Parent Company and banks in the IMI C&IB Division that represent around 80% of the Group’s total exposure), assuming as reference scenario the single alternative scenarios (upside and downside) used to determine the add-on, in place of the most-likely scenario, keeping valid the effects deriving from adopting managerial adjustments and overlays, used to consider - in the exceptional context of COVID-19 – the specific elements that make it possible to ensure more consistent estimates of expected losses.

The sensitivity of the portfolio to the downside scenario would see a significant amount of counterparties sliding into Stage 2, whose exposure would potentially increase by 25%, with a resulting increase in the ECL 2020 estimated at around 17% (around 400 million euro) and greater average coverage of around 10 bps.

Vice versa, the sensitivity analysis of the portfolio in the upside scenario would see a significant reduction in the stock of positions in Stage 2, which would decrease by 30%, with a potential economic benefit on the ECL 2020 decreasing by 29% (over 600 million euro), and a resulting decrease in the coverage ratio of around 18 bps.

To complete the reporting, in line with the provisions of said Communication of 15 December of the Bank of Italy, which

supplements Circular 262, also see the quantitative information on the loans subject to COVID-19 support measures and the related net adjustments for credit risk published, respectively:

- in Part B – Information on the consolidated balance sheet – Assets, in the tables:
  - o 3.3a Loans measured at fair value through other comprehensive income subject to Covid-19 support measures: gross amount and total adjustments;
  - o 4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross amount and total adjustments;
- in Part C – Information on the consolidated income statement:
  - o 8.1a Net adjustments for credit risk associated with loans measured amortised cost subject to Covid-19 support measures: breakdown;
  - o 8.2a Net adjustments for credit risk associated with loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown;

Lastly, for quantitative information on transfers between different credit risk stages and loans subject to COVID-19 support measures broken down by category of non-performing exposures, refer to the following tables in this Part E (Section 2 “Risks of the prudential consolidation”) in these Consolidated financial statements:

- A.1.3a Loans subject to Covid-19 support measures: transfers between stages of credit risk (gross amounts);
- A.1.5a Loans subject to Covid-19 support measures: gross and net amounts.

#### 2.4. Credit risk mitigation techniques

The risk mitigation techniques include the instruments that contribute to reducing the loss the Bank would incur in the event of counterparty default, i.e. the Loss Given Default described in the paragraph above. In particular, they include guarantees and certain types of contracts that result in a reduction in credit risk.

The evaluation of the mitigating factors is performed through a procedure that assigns a Loss Given Default to each individual exposure, assuming the highest values in the case of ordinary unsecured financing and decreasing in accordance with the strength given to any mitigating factors present. The Loss Given Default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relation.

During the credit granting and managing process, the acquisition of mitigating factors is encouraged for counterparties with non-investment grade ratings or some types of transactions, namely medium/long-term transactions.

The mitigating factors that have the greatest impact include pledges of financial assets and residential mortgages. Other forms of risk mitigation are pledges of non-financial assets and non-residential mortgages.

The strength of the personal guarantees issued by rated parties, typically banks/insurance companies, Credit Guarantee Consortia and corporations, is instead assessed on the basis of the type of guarantee and guarantor’s credit quality.

Detailed processes govern the material acquisition of single collateral and guarantees, identifying the responsible structures as well as the methods for correct acquisition of collateral and guarantees, for filing documentation and for complete and timely reporting of the related information in the applications.

The set of internal regulations and organisational and procedural controls is aimed at ensuring that:

- all duties are fulfilled to ensure the validity and effectiveness of the credit protection;
- for generally and normally used collateral and guarantees, standard contracts are defined, accompanied by instructions for their use;
- the methods for approving collateral and guarantee documents deviating from the standard by structures other than those in charge of commercial relations with the customer are identified.

The management of collateral and guarantees received uses a single platform at Group level, which is integrated with the register of assets and the portal that manages the real estate valuations.

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the valuation of the asset, the acquisition of the collateral and the control of its value. The enforcement of the collateral is handled by specialist departments, which are responsible for credit recovery.

In any case, the presence of collateral does not grant exemption from an overall assessment of the credit risk, mainly concentrated on the borrower’s ability to meet the obligations assumed, irrespective of the associated collateral.

The assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments accepted as collateral.

For real-estate collateral, the prudential market value is considered; for properties under construction, the construction cost is considered, net of prudential haircuts differentiated according to the intended use of the property.

Assets are appraised by internal and external appraisers. The external appraisers are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties used as collateral for mortgage loans to private individuals is mainly assigned to specialised companies. The work of the appraisers is monitored on an ongoing basis, by means of statistical verifications and sample checks carried out centrally.

The appraisers are required to produce estimates on the basis of standardised appraisal reports, differentiated according to the valuation method to be applied and the characteristics of the asset, in accordance with the Rules on real estate property valuation for credit purposes drawn up by the Bank. The internal rules are consistent with the “Guidelines for the valuation of real estate properties securing credit exposures” promoted by the Italian Banking Association and with the European Valuation Standards.

Property valuations are managed through a specific integrated platform covering the entire appraisal phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.

The market value of the real estate collateral is recalculated periodically through various statistical valuation methods, which apply prices/coefficients provided by an external supplier with proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.

Asset value is constantly monitored. The appraisers carry out inspections and verify the work progress for properties under construction. The valuation is duly updated in the event of limitation or splitting of the mortgage, of damage to the property,

significant impairment losses reported by market indicators used to monitor fair value and, in any case, according to the due dates established for significant exposures, or when there are real estate properties securing non-performing loans.

In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of a pledge when the assets decrease below their initial value or, for real estate collateral, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property's value. There is also an "umbrella" insurance policy that, with limited exceptions, covers damages on the entire portfolio of properties mortgaged as collateral for the loans granted. Collateral and guarantees are subject to accurate, regular control using a specific application, the CRM verifier, in which a series of tests have been implemented to confirm the effective compliance with the requirements set by prudential supervision regulations.

The support application verifies whether the collateral and guarantees received are eligible with regard to all three methods permitted by the regulations for calculating capital requirements (Standardised and Internal Rating Based). Based on the specifics of each category, the eligibility results are defined at the level of individual guarantee for unfunded guarantees (usually personal guarantees) or, for collateral, for each asset or financial instrument.

The Bank completed the implementation of two integrated asset and guarantee management systems (PGA - Active Guarantees Portal and ABS - System Assets Archive) in order to improve the efficiency of collateral management. This has been accompanied by the development of a specific system for managing bad loans, to track the main legal actions and particularly those relating to the enforcement of real estate collateral (EPC - Ex Parte Creditoris).

In order to mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (Securities Financing Transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow the netting of claims and obligations if a counterparty defaults.

This is achieved by entering into International Swap Derivatives Association (ISDA) and International Securities Market Association/Public Securities Association (ISMA/PSA) agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.

In addition, the Group has collateral agreements in place, mainly with daily margining, to hedge OTC derivatives transactions (Credit Support Annexes), also due to the margin requirements for non-centrally cleared derivatives, established by the EMIR; for SFTs, the Bank implements daily margining agreements (GMRAs - Global Master Repurchase Agreements and GMSLAs - Global Master Securities Lending Agreements).

With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

In 2020, the Parent Company continued its activities relating to the "GARC" (Active Credit Risk Management) Project, involving a platform for monitoring credit risk of performing portfolios. The initiative involves the systematic acquisition of both personal guarantees and collateral to support lending to companies. In particular, considering the economic and market context in 2020, during the year specific initiatives were activated to support companies damaged by the COVID-19 emergency, with guarantees issued by the Guarantee Fund for SMEs.

The guarantees obtained provide hedging of default risk (past due, unlikely to pay and bad loan) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (including Regulation (EU) 575/2013 and Bank of Italy Circular 285/2013).

During the year – again as part of the "GARC" Project – the following were finalised: (i) a "Line A" portfolio relating to a tranching cover synthetic securitisation on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2014-2020 Regional Operational Programme of the European Regional Development Fund – Axis III "Competitiveness of production systems" – Thematic Objective III.3 "Promoting competitiveness of SMEs" – "Measure to support access to credit for piedmontese SMEs through the establishment of the 2017 Tranching Cover Piemonte Fund"; (ii) a newly issued portfolio dedicated to new business of companies in the Veneto Region as part of the programme of the Guarantee Fund for SMEs.

For details of the transactions carried out in 2020 under the GARC Project, see the description provided in paragraph C. Securitisations of this chapter.

In order to optimise capital absorption, transactions to hedge the risk of expropriation of the compulsory and unrestricted reserves of the ISP Group banks operating in Bosnia Herzegovina, Egypt and Moldova were also renewed.

### 3. NON-PERFORMING CREDIT EXPOSURES

#### 3.1 Management strategies and policies

On 31 March 2020, the Board of Directors approved the annual revision of the Group NPL Plan, carried out on the basis of the ECB Guidance to banks on non-performing loans, in line with the baseline macroeconomic scenario prior to the COVID-19 pandemic. That document, sent to the Supervisor on 1 April 2020, was subsequently updated based on the revised Group budget (approved by the Board of Directors on 4 August 2020) to include the effects of the COVID-19 pandemic. The 2018-2021 NPL Plan is consistent with both the 2018-2021 Business Plan, approved by the Board of Directors in February 2018, and the Risk Appetite Framework, and takes into account the observations and recommendations of the Supervisory Authority.

The Group NPL Plan is made up of a main document (2018-2021 Group NPL Plan) which includes a summary of the initiatives detailed in the "Operational Plans" (drawn up at Business Owner level, which include the targets for reducing the stock of non-performing loans, the detailed measures and the enablers, as well as the related costs and investments required

to achieve the targets set) and the projections underlying the NPL Plan, with the granular level and in accordance with the requirements established by the ECB.

In the 2018-2021 Business Plan, de-risking is the first pillar through which the Group aims to reduce the level of gross non-performing loans as a proportion of total loans, at no cost to shareholders. Over the Plan period, a 49% reduction in the stock of gross non-performing loans is envisaged with respect to the figure at the beginning of 2018 and the achievement of a gross NPL ratio of 6.0% (from 11.9% at the beginning of 2018 after the IFRS 9 FTA and including the two former Venetian banks). Following the finalisation of several extraordinary de-risking operations during the year, as well as the classification of portfolios of non-performing loans of the Intesa Sanpaolo Group and UBI Banca as ready to be sold, under the caption Non-current assets held for sale and discontinued operations for around 5.4 billion euro gross of post-PPA adjustments (whose execution phase will be finalised during 2021), the Group achieved - one year in advance - the target for reducing non-performing loans that the Business Plan envisaged for the entire four-year period 2018-21. Non-performing loans before adjustments amounted to 20.9 billion euro (including the non-performing loan portfolio of the former UBI Banca), bringing the ratio of non-performing loans (before adjustments) to total loans to 4.4%, with a cost of risk of 104 basis points (50 basis points excluding the contribution of UBI Banca and the provisions for future impacts of COVID-19).

Preliminarily, it is noted that starting from November 2019, in line with the additional clarifications introduced by Bank of Italy Circular 272 to implement that set out in the EBA 2016/07 Guidelines of 18/01/2017 on the application of the definition of default under Article 178 of Regulation 575/2013 (CRR), the Intesa Sanpaolo Group adopted the New Definition of Default in advance. That definition of non-performing loans also coincides with the definition of "impaired" financial assets contained in IFRS 9, with the consequent recognition of all non-performing loans within Stage 3.

Intesa Sanpaolo Group adopts a "per borrower" approach in identifying non-performing exposures. Accordingly, the entire counterparty with credit relationship is assessed and subsequently classified, rather than the individual credit lines granted to that counterparty.

Based on the regulatory framework, according to the rules of the Bank of Italy, in line with IAS/IFRS and European Supervisory Regulations, supplemented by internal implementing rules, non-performing financial assets are classified into one of the three below mentioned categories, based on their level of severity:

- non-performing Past Due exposures: this category includes on-balance sheet exposures, other than those classified as bad loans or unlikely to pay that, as at the reporting date, are past due or overdrawn by over 90 days on a continuous basis. The total exposure to a debtor must be recognised as Past Due if, at the reference reporting date, the amount of the principal, interest and/or fees not paid when due exceeds both of the following thresholds (hereinafter, collectively, the "Relevance Thresholds"):
  - the absolute limit of 100 euro for retail exposures and of 500 euro for non-retail exposures (the "Absolute Threshold"), to be compared with the total amount past due from the borrower;
  - the relative limit of 1%, to be compared with the ratio of the total amount past due to the total amount of all on-balance sheet exposures to the same borrower (the "Relative Threshold").
- Unlikely To Pay: exposures for which - according to the judgement of the creditor bank - full repayment is deemed unlikely (in terms of capital or interest, and without considering recourse to actions such as enforcement of collateral/ guarantees). This assessment is conducted regardless of the presence of any amounts (or instalments) due and unpaid. As the assessment of unlikelihood of repayment is at the discretion of the Bank, it is not necessary to await an explicit symptom of anomaly (non-repayment), when there are elements that imply a risk of non-compliance by the borrower (for example, a crisis in the industrial sector in which the borrower operates). The overall on- and off-balance sheet exposures toward the same borrower in said situation is therefore classified under the category "Unlikely To Pay" (unless the conditions for classification of the borrower among bad loans exist). Loans classified as "Unlikely To Pay" should include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to listed debt securities, unless they meet the conditions for classification as bad loans. To this end the "grace period" established by the contract is recognised or, in its absence, the period recognised by the market listing the security. Intesa Sanpaolo Group's policy also provides for a further classification within "unlikely to pay" exposures, identified as "forborne unlikely to pay", which may include counterparties that have at least one exposure subject to forbearance measures that are regularly respected or remain in the state of risk pending the start of the normally imposed cure period (minimum of 12 months);
- bad loans: on- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Bank. This is irrespective, therefore, of whether any collateral or guarantees have been established to cover the exposures. Exposures whose anomalous situation may be attributed to Country risk are excluded from this category;

The type "exposures subject to concessions - forbearance" has also been established. These are exposures subject to renegotiation and/or refinancing due to financial difficulties (evident or in the process of becoming evident) of the debtor, which effectively constitute a subgroup of both non-performing exposures (non-performing exposures with forbearance measures) and performing exposures (other forborne exposures).

Non-performing exposures with forbearance measures do not represent a separate category of non-performing assets, rather, they are a sub-set of the above categories of non-performing assets.

Non-performing assets are subject to an assessment process resulting in the calculation of the expected loss for uniform categories (identified based on the risk status, duration of risk status and significance of the underlying exposure) and the allocation of the impairment adjustment for each position.

Non-performing loans are measured using two methods:

- analytical-statistical measurement: for exposures equal to or lower than certain thresholds, and for all Past Due exposures, based on the use of specific LGD grids;
- specific analytical measurement: for exposures above certain thresholds based on write-down estimates defined by the relationship manager, following analyses and valuations based on pre-established criteria.

In addition to the assessment component determined through statistical valuation models or through individual expert evaluation, a component is calculated to take into account the evolution of the current operational variables, the future



macroeconomic scenarios, the incremental risk of the counterparty as long as it remains in the specific risk status for unlikely-to-pay exposures (vintage), as well as the sales prospects if present.

The assessment of non-performing positions classified as assets held for sale was carried out based on the expected selling prices of the portfolios determined using fairness opinions.

The assessment methods for non-performing loans are described in detail in Part A - Section "A. 2 - Main financial statement captions" and in particular in the paragraph "Impairment of assets", to which reference is made.

The assessments are carried out upon classification of the exposures as non-performing and are reviewed periodically.

The assessment of the loans is also reviewed whenever a new event occurs that could affect the prospects for recovery (e.g. change in the value of collateral, developments in ongoing litigation, etc.).

In order to timely identify such events, the information set relative to borrowers and guarantors is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly monitored.

The management of the Group's Non-Performing exposures may be directly carried out by the internal organisational structures or by/with external partners granted appropriate mandates. The internal organisational structures are identified, on the basis of pre-determined relevance thresholds, as the local organisational units (at regional level) that perform specialist activities, or within the Head Office Departments, which are also responsible for the overall management and coordination of these matters.

The classification of positions to non-performing is performed on proposal of both territorial structures, owners of the commercial relationship, or of specialised central and local territorial structures in charge of the monitoring and recovery of non-performing loans. Classification may also be performed through automatic mechanisms when predefined objective default conditions arise. This refers, for example, to Past Due loans above certain thresholds for certain periods of time, and to forbore performing positions that have not yet completed their 12-month probation period, if the conditions are identified for the classification of these exposures to non-performing following the verification of objective parameters.

Furthermore, automatic mechanisms detect any mismatches, thereby ensuring that material non-performing loans to counterparties shared between the Group's various entities are subject to the required uniform convergence of management decisions. Materiality is represented by exceeding a pre-established relevance threshold for loans classified in a higher risk status with respect to the overall exposure.

Automatic mechanisms within the system also ensure that positions are allocated to the risk status most representative of their creditworthiness (bad loans excluded) as material default continues.

The return to performing status of non-performing exposures is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the Structures responsible for their management, upon verification that the critical conditions or state of default no longer exist.

Non-performing Past Due exposures and Unlikely To Pay exposures, not subject to forbearance measures must continue to be classified as such for at least 3 months after they cease to meet the requirements for being classified as such. During the probation period the counterparty's conduct must be assessed in light of its financial situation (in particular, by verifying the absence of amounts past due exceeding the Relevance Thresholds).

For counterparties classified as Forborne Unlikely-to-Pay, the application of the cure period of at least 12 months shall prevail. At the end of this period, the position may be reclassified as performing, provided that there are no past due exposures of the borrower and the borrower has repaid a significant amount of the principal and interest and, more generally, the criteria for the counterparties returning to performing status are met.

Exposures classified as Past Due return automatically to performing when the 90-day probation period has passed. The same mechanism is applied to exposures of moderate amounts previously classified as Unlikely To Pay when automatic mechanisms detect that the conditions that triggered the classification no longer apply.

The Internal Validation and Controls Head Office Department of the Chief Risk Officer Governance Area carries out II level controls on single positions, to verify proper classification and provisioning.

### 3.2 Write-offs

Lastly, with regard to non-performing loans, it is highlighted that the Intesa Sanpaolo Group uses the – full or partial – write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:

- a) uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
- b) disposal of the loan;
- c) waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
- d) no waiver of the credit claim. In order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value.

Therefore, on a periodic basis, the Group identifies the bad loan portfolios to be subject to total or partial write-offs:

- percentage cover of 100% and a vintage (understood as the period of time in "bad loan" status) of >1 year;
- when they jointly have a percentage cover of >95% and a vintage (understood as the period of time in "bad loan" status) of >5 years or >8 years, respectively, for non-mortgage and mortgage loans;
- with similar characteristics that are different from those indicated above, where the minimum coverage (calculated taking into account the accumulated write-offs on the position, according to the same rule established at prudential level by the calendar provisioning framework) is at least equal to the amount needed to bring the value of the exposures up to their fair value estimated based on the prices recorded in the latest sales of bad loans made by the Group.

In 2020, the Group carried out write-offs on gross bad loans for around 2.8 billion euro. Of these, around 2.3 billion euro regarded bad loans, for the most part using the allowance already set aside. More than 90% of these write-offs related to derecognised positions that are still subject to enforcement procedures, for which any recoveries from collections after the write-off will be recognised in the income statement as recoveries.

### 3.3 Purchased or originated credit-impaired financial assets

According to IFRS 9, loans considered as impaired already upon initial recognition in the financial statements, due to the high credit risk associated with them, are defined as Purchased or Originated Credit Impaired Assets (POCI).

If these loans fall within the scope of impairment in accordance with IFRS 9, they are valued by allocating allowances - from the date of initial recognition - to cover losses for the entire residual life of the loan (Lifetime Expected Credit Loss). Since these are non-performing loans, they are initially recognised within Stage 3, subject to the possibility of being transferred, over the course of their lives, to Stage 2 if, based on the credit risk analysis, they are identified as no longer being impaired.

POCI loans recorded in the Group's financial statements may derive from single renegotiations of non-performing exposures carried out as part of routine lending activity or be recognised as part of business combinations. With regard to the latter case, the acquisition of the former UBI Group during 2020 resulted in the recognition of a significant portfolio of non-performing loans, which, therefore, were initially recognised as POCI pursuant to IFRS 9 and posted in the financial statements at the fair value determined on Purchase Price Allocation, as the initial recognition value. More in detail, at the acquisition date, the accounting records of the UBI Group showed a gross amount of non-performing loans of approximately 6.5 billion euro (8 billion euro in terms of credit claim). From initial recognition, a significant part of that acquired portfolio was already subject to deleveraging by the former UBI Group as at the acquisition date, completed at the end of 2020, in addition to another significant portion of former UBI non-performing loans included in the business line consisting of the bank branches to be sold to BPER under a binding agreement conditional upon the success of the Public Purchase and Exchange Offer, entered into between Intesa Sanpaolo and BPER Banca to prevent potential antitrust issues.

In December 2020, continuing the process of deleveraging NPLs that has marked the last few years, the Intesa Sanpaolo Group launched additional initiatives for the purpose of disposing of the non-performing loans acquired, whose closing is expected during 2021 thereby entailing reclassification of those POCI loans under discontinued operations pursuant to IFRS 5.

In light of the sales already carried out or expected during 2021, the POCI loans referring to the former UBI Group posted in the consolidated financial statements as at 31 December 2020 under assets measured at amortised cost amount to a total of 327 million euro, of which 267 million euro in non-performing loans and 60 million euro in positions that returned to performing status (Stage 2).

## 4. RENEGOTIATED FINANCIAL ASSETS AND FORBORNE EXPOSURES

Forbearance measures are concessions made to a borrower that is facing, or could face, situations of difficulty in meeting their contractual commitments that would prevent them from meeting their original payment obligations (troubled debt).

The term "forbearance measures" indicates contractual modifications granted to the borrower undergoing financial difficulties (modification), as well as the disbursement of a new loan in order to satisfy the pre-existing obligation (refinancing). "Forbearance measures" include the exercise of clauses, which may be freely requested by a borrower with regard to a contract already signed, but only if the lender deems that there are circumstances indicating that the borrower is in financial difficulty (the so-called "embedded forbearance clauses"). The concept of "forborne" therefore does not include renegotiations carried out due to commercial reasons/practices, which do not take into account the financial difficulties of the borrower.

In many cases, a situation of financial difficulty is accompanied by a situation of economic instability of the borrower, consisting of the inability of the core business to remunerate all the production factors that the company needs, through the usual sources of cash flow and at normal market conditions.

The identification of "forborne assets" or "forborne exposures", in line with the provisions of the EBA regulations and unlike the "per borrower" approach used by the Intesa Sanpaolo Group for the classification of non-performing exposures, necessarily takes place on a "per transaction" basis. The term "exposure" in this context refers to the renegotiated individual contract, rather than to all the exposures to the same borrower.

More generally, Intesa Sanpaolo Group's policy, based on the instructions provided by the Supervisory Authorities, envisages criteria for the identification of the financial difficulty (of the performing borrower) which, in the event of renegotiation/refinancing, entails the classification of one (or more) credit line(s) as forborne, if at least one of the following conditions applies:

- a significant deterioration in the debtor's rating identified in the previous three months;
- the presence of exposures past due by thirty days or more at the date of the measure;
- Early Warning System (EWS) traffic light at "red", associated with a rating in the highest risk band.

A state of financial difficulty is always assumed in the case where the borrower is classified as non-performing.

The definition of forborne exposure applies transversally to the classification macro-categories (performing and non-performing). Forborne assets may be included in Stage 2 (Performing) or Stage 3 (Non-Performing – forborne non-performing).

The forbearance measures granted are monitored for minimum predefined periods, differentiated based on the administrative status of the risk assigned to the counterparty. In detail:

- 24 months for performing positions (probation period);
- 36 months for positions classified as non-performing, represented by a cure period of 12 months and a probation period of an additional 24 months.

When a forbearance measure is granted to a performing counterparty, quantitative assessments (diminished financial obligation indicator set at 1%) and/or qualitative assessments are performed, as envisaged in the EBA Guidelines on the



application of the definition of default pursuant to Article 178 of Regulation (EU) 575/2013, which could result in the possible classification to Non-Performing.

According to Intesa Sanpaolo Group's interpretations, the identification of an exposure as forborne necessarily implies the existence of a "significant increase" in risk since the origination of the loan (and, therefore, implies also a classification in stages 2 or 3 at the time of assignment of the forborne status).

Unlike the forbearance measures, which relate to loans to borrowers in financial difficulty, renegotiations for commercial reasons involve borrowers that are not in financial difficulty and include all transactions aimed at adjusting the cost of the debt to market conditions.

Transactions involving commercial renegotiations result in a change in the original conditions of the contract, usually requested by the borrower, which normally relate to aspects concerning the cost of the debt (or its duration), with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer would borrow from another intermediary and the bank would incur a decrease in *expected future revenues*.

These operations, under certain conditions, are treated for accounting purposes as an early repayment of the original debt and the opening of a new loan.

The amount of the gross on-balance-sheet credit exposures to customers (non-performing and performing) subject to forbearance measures is shown in Table A.1.7bis below, in the section Quantitative information - A. Credit quality.

With regard to the influence of the measures to support the economy through payment moratoria on the process of measuring SICR and expected losses, see Paragraph 2.3 "Methods for measuring expected losses" of the previous Section.

## QUANTITATIVE INFORMATION

### A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and quotas of UCI.

The term "on-balance sheet credit exposures" refers to all the on-balance sheet financial assets due from banks or customers, irrespective of the accounting portfolio they are allocated to (measured at fair value through profit or loss, measured at fair value through other comprehensive income, measured at amortised cost, or discontinued financial assets).

The term "off-balance sheet exposures" refers to all the financial transactions that are not on the balance sheet (guarantees given, revocable and irrevocable commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of those transactions (trading, hedging, etc.). The off-balance sheet credit exposures also include the counterparty risk associated with any securities lending transactions. Where necessary, the counterparty risk associated with exposures relating to repurchase agreements, transactions involving the granting or assumption of goods on loan, and loans with margins falling within the notion of securities financing transactions defined by the prudential regulations, is also reported.

Non-performing credit exposures (on-balance sheet and off-balance sheet) do not include financial assets held for trading and hedging derivatives, which are therefore normally recognised as performing credit exposures.

Starting from the 2018 Financial Statements, the tables below also include the revocable commitments in the off-balance sheet exposures.

#### A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, economic and geographical breakdown

##### A.1.1. Prudential consolidation - Breakdown of financial assets by past-due brackets (book value)

Portfolios/risk stages	(millions of euro)								
	STAGE 1			STAGE 2			STAGE 3		
	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days
1. Financial assets measured at amortised cost	2,202	347	169	1,019	703	349	589	330	7,997
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Non-current financial assets held for sale	270	17	1	132	15	3	54	34	1,602
<b>Total 31.12.2020</b>	<b>2,472</b>	<b>364</b>	<b>170</b>	<b>1,151</b>	<b>718</b>	<b>352</b>	<b>643</b>	<b>364</b>	<b>9,599</b>
<b>Total 31.12.2019</b>	<b>1,277</b>	<b>170</b>	<b>848</b>	<b>474</b>	<b>402</b>	<b>299</b>	<b>394</b>	<b>313</b>	<b>10,792</b>

## A.1.2. Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and total provisions

Reasons/risk stages	TOTAL ADJUSTMENTS									
	Stage 1 assets					Stage 2 assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses
<b>Initial total adjustments</b>	<b>681</b>	<b>47</b>	-	<b>506</b>	<b>222</b>	<b>1,154</b>	<b>20</b>	-	<b>970</b>	<b>204</b>
Increases in purchased or originated financial assets	710	13	-	560	163	472	2	-	364	110
Derecognition other than write-offs	-219	-11	-	-122	-108	-145	-4	-	-58	-91
Net losses/recoveries for credit risk (+/-)	-319	-6	-	-253	-72	721	1	-	676	46
Changes in contracts without derecognition	-5	-	-	-	-5	26	-	-	26	-
Changes in the estimation methodology	3	-	-	2	1	1	-	-	3	-2
Write-offs not recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-
Other changes	14	-14	41	27	14	-149	-3	84	-25	-43
<b>Final total adjustments</b>	<b>865</b>	<b>29</b>	<b>41</b>	<b>720</b>	<b>215</b>	<b>2,080</b>	<b>16</b>	<b>84</b>	<b>1,956</b>	<b>224</b>
Recoveries on collection of financial assets previously written off	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-

Reasons/risk stages	TOTAL ADJUSTMENTS						Purchased or originated credit-impaired financial assets	TOTAL PROVISIONS ON COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES GIVEN			TOTAL
	Stage 3 assets					TOTAL PROVISIONS ON COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES GIVEN		TOTAL			
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses				Stage 1	Stage 2	
<b>Initial total adjustments</b>	<b>17,161</b>	<b>35</b>	<b>94</b>	<b>16,815</b>	<b>475</b>	<b>193</b>	<b>74</b>	<b>76</b>	<b>299</b>	<b>19,641</b>	
Increases in purchased or originated financial assets	606	10	-	592	24	571	53	20	40	1,926	
Derecognition other than write-offs	-7,713	-	-91	-7,644	-160	-41	-21	-17	-15	-8,236	
Net losses/recoveries for credit risk (+/-)	2,987	3	-	2,966	24	79	26	66	-6	3,473	
Changes in contracts without derecognition	11	-	-	10	1	-	-	-	-	32	
Changes in the estimation methodology	1	-	-	1	-	-	1	-	2	8	
Write-offs not recognised directly through profit or loss	-2,497	-	-	-2,422	-75	-72	-	-	-	-2,497	
Other changes	-334	-	3,334	2,821	179	-14	-5	10	-4	2,974	
<b>Final total adjustments</b>	<b>10,222</b>	<b>48</b>	<b>3,337</b>	<b>13,139</b>	<b>468</b>	<b>716</b>	<b>128</b>	<b>155</b>	<b>316</b>	<b>17,321</b>	
Recoveries on collection of financial assets previously written off	68	-	-	67	1	-	-	-	-	68	
Write-offs recognised directly through profit or loss	-273	-	-	-263	-10	-1	-	-	-	-273	

The Intesa Sanpaolo Group does not use the simplified method for the valuation of the loss allowance in relation to trade receivables, contract assets and lease receivables (method envisaged by IFRS 9, paragraph 5.5.15).

## A.1.3. Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: transfers between stages of credit risk (gross and nominal amounts)

(millions of euro)

Portfolios/risk stages	GROSS AMOUNTS/NOMINAL VALUE					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
1. Financial assets measured at amortised cost	44,386	9,642	1,335	440	1,186	137
2. Financial assets measured at fair value through other comprehensive income	402	263	12	-	3	-
3. Non-current financial assets held for sale	1,057	494	250	45	89	7
4. Commitments to disburse funds and financial guarantees given	40,373	6,382	183	29	220	32
<b>Total 31.12.2020</b>	<b>86,218</b>	<b>16,781</b>	<b>1,780</b>	<b>514</b>	<b>1,498</b>	<b>176</b>
<b>Total 31.12.2019</b>	<b>56,080</b>	<b>36,285</b>	<b>3,494</b>	<b>960</b>	<b>1,067</b>	<b>338</b>

## A.1.3a Loans subject to Covid-19 support measures: transfers between stages of credit risk (gross amounts)

(millions of euro)

Portfolios/Risk stages	GROSS EXPOSURE / PAR VALUE					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfer between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
<b>A. Loans measured at amortized cost</b>	<b>7,834</b>	<b>788</b>	<b>126</b>	<b>109</b>	<b>158</b>	<b>32</b>
A.1 subject to EBA-compliant moratoria	6,111	786	117	108	117	29
A.2 subject to COVID-19-related forbearance measures	23	-	9	-	11	-
A.3 newly originated loans	1,700	2	-	1	30	3
<b>B. Loans and advances valued at fair value with an impact on overall profitability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
B.1 subject to EBA-compliant moratoria	-	-	-	-	-	-
B.2 subject to COVID-19-related forbearance measures	-	-	-	-	-	-
B.3 newly originated loans	-	-	-	-	-	-
<b>Total 31.12.2020</b>	<b>7,834</b>	<b>788</b>	<b>126</b>	<b>109</b>	<b>158</b>	<b>32</b>

The row “Loans subject to forbearance measures compliant with GL” shows the information relating to financial assets subject to moratoria that fall within the scope of application of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis”, published by the EBA (EBA/GL/2020/02), as amended.

## A.1.4. Prudential Consolidation – On- and off-balance sheet credit exposures to banks: gross and net values

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	(millions of euro)	
	Non-performing	Performing		Net exposure	Total partial write-offs
<b>A. On-balance sheet exposures</b>					
a) Bad loans	4	X	-4	-	79
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	79	X	-14	65	-
- of which: forborne exposures	79	X	-14	65	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	4	-	4	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	117,372	-39	117,333	-
- of which: forborne exposures	X	-	-	-	-
<b>Total (A)</b>	<b>83</b>	<b>117,376</b>	<b>-57</b>	<b>117,402</b>	<b>79</b>
<b>B. Off-balance sheet exposures</b>					
a) Non-performing	8	X	-	8	-
b) Performing	X	66,296	-2	66,294	-
<b>Total (B)</b>	<b>8</b>	<b>66,296</b>	<b>-2</b>	<b>66,302</b>	<b>-</b>
<b>Total (A+B)</b>	<b>91</b>	<b>183,672</b>	<b>-59</b>	<b>183,704</b>	<b>79</b>

## A.1.5. Prudential Consolidation – On- and off-balance sheet credit exposures to customers: gross and net values

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	(millions of euro)	
	Non-performing	Performing		Net exposure	Total partial write-offs
<b>A. On-balance sheet exposures</b>					
a) Bad loans	13,755	X	-8,737	5,018	8,036
- of which: forborne exposures	1,985	X	-1,066	919	454
b) Unlikely to pay	12,299	X	-4,771	7,528	743
- of which: forborne exposures	5,222	X	-1,596	3,626	524
c) Non-performing past due exposures	637	X	-111	526	2
- of which: forborne exposures	37	X	-4	33	-
d) Performing past due exposures	X	5,353	-127	5,226	-
- of which: forborne exposures	X	243	-16	227	-
e) Other performing exposures	X	588,517	-2,949	585,568	-
- of which: forborne exposures	X	5,656	-303	5,353	-
<b>Total (A)</b>	<b>26,691</b>	<b>593,870</b>	<b>-16,695</b>	<b>603,866</b>	<b>8,781</b>
<b>B. Off-balance sheet exposures</b>					
a) Non-performing	2,606	X	-314	2,292	-
b) Performing	X	324,107	-283	323,824	-
<b>Total (B)</b>	<b>2,606</b>	<b>324,107</b>	<b>-597</b>	<b>326,116</b>	<b>-</b>
<b>Total (A+B)</b>	<b>29,297</b>	<b>917,977</b>	<b>-17,292</b>	<b>929,982</b>	<b>8,781</b>

The dealings between the Banking Group and other non-banking companies included within the scope of consolidation amounted to:

- 269 million, adjusted by 27 million, included among gross non-performing on-balance sheet exposures to customers;
- 7,002 million, adjusted by 17 million, included among gross performing on-balance sheet exposures to customers;
- 92 million, adjusted by 3 million, included among gross non-performing off-balance sheet exposures to customers;
- 5,719 million, adjusted by 17 million, included among gross performing off-balance sheet exposures to customers;

The exposures also include financial assets allocated to the accounting portfolio of discontinued operations.

## A.1.5a Loans subject to Covid-19 support measures: gross and net amounts

Loans types / amounts	Gross exposure	(millions of euro)	
		Total value adjustments and total provisions	Net exposure
<b>A. BAD LOANS</b>	<b>25</b>	<b>-9</b>	<b>16</b>
a) Subject to EBA-compliant moratoria	22	-8	14
b) Subject to other COVID-19-related forbearance measures	2	-1	1
c) Newly originated loans	1	-	1
<b>B. UNLIKELY TO PAY LOANS</b>	<b>484</b>	<b>-130</b>	<b>354</b>
a) Subject to EBA-compliant moratoria	424	-114	310
b) Subject to other COVID-19-related forbearance measures	33	-10	23
c) Newly originated loans	27	-6	21
<b>C. NON-PERFORMING PAST DUE LOANS</b>	<b>42</b>	<b>-5</b>	<b>37</b>
a) Subject to EBA-compliant moratoria	34	-4	30
b) Subject to other COVID-19-related forbearance measures	1	-	1
c) Newly originated loans	7	-1	6
<b>D. OTHER PAST DUE PERFORMING LOANS</b>	<b>316</b>	<b>-8</b>	<b>308</b>
a) Subject to EBA-compliant moratoria	155	-7	148
b) Subject to other COVID-19-related forbearance measures	2	-	2
c) Newly originated loans	159	-1	158
<b>E. OTHER PERFORMING LOANS</b>	<b>68,076</b>	<b>-628</b>	<b>67,448</b>
a) Subject to EBA-compliant moratoria	34,237	-556	33,681
b) Subject to other COVID-19-related forbearance measures	159	-6	153
c) Newly originated loans	33,680	-66	33,614
<b>TOTAL (A+B+C+D+E)</b>	<b>68,943</b>	<b>-780</b>	<b>68,163</b>

The row “Loans subject to forbearance measures compliant with GL” shows the information relating to financial assets subject to moratoria that fall within the scope of application of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis”, published by the EBA (EBA/GL/2020/02), as amended.

The loans subject to COVID-19 support measures presented in the table also include loans allocated to the accounting portfolio of discontinued operations.

## A.1.6. Prudential Consolidation – On-balance sheet credit exposures to banks: changes in gross non-performing exposures

Reasons/Categories	(millions of euro)		
	Bad loans	Unlikely to pay	Non-performing past due exposures
<b>A. Initial gross exposure</b>	<b>4</b>	<b>96</b>	<b>-</b>
- of which: exposures sold not derecognised	-	-	-
<b>B. Increases</b>	<b>-</b>	<b>2</b>	<b>-</b>
B.1 inflows from performing exposures	-	1	-
B.2 inflows from purchased or originated credit-impaired financial assets	-	1	-
B.3 transfers from other non-performing exposures categories	-	-	-
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	-	-	-
- of which: business combinations	-	-	-
<b>C. Decreases</b>	<b>-</b>	<b>-19</b>	<b>-</b>
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-19	-
C.4 profits on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposure categories	-	-	-
C.7 changes in contracts without derecognition	-	-	-
C.8 other decreases	-	-	-
<b>D. Final gross exposure</b>	<b>4</b>	<b>79</b>	<b>-</b>
- of which: exposures sold not derecognised	-	-	-

## A.1.6. Bis Prudential Consolidation – On-balance sheet credit exposures to banks: changes in gross forborne exposures broken down by credit quality

Description/Quality	(millions of euro)	
	Forborne exposures: non-performing	Forborne exposures: performing
<b>A. Initial gross exposure</b>	<b>96</b>	<b>-</b>
- of which: exposures sold not derecognised	-	-
<b>B. Increases</b>	<b>1</b>	<b>-</b>
B.1 inflows from non-forborne performing exposures	1	-
B.2 inflows from forborne performing exposures	-	X
B.3 inflows from non-performing forborne exposures	X	-
B.4 inflows from forborne non-performing exposures	-	-
B.5 other increases	-	-
<b>C. Decreases</b>	<b>-18</b>	<b>-</b>
C.1 outflows to non-forborne performing exposures	X	-
C.2 outflows to forborne performing exposures	-	X
C.3 outflows to non-performing forborne exposures	X	-
C.4 write-offs	-	-
C.5 collections	-18	-
C.6 profits on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
<b>D. Final gross exposure</b>	<b>79</b>	<b>-</b>
- of which: exposures sold not derecognised	-	-



## A.1.7. Prudential Consolidation – On-balance sheet credit exposures to customers: changes in gross non-performing exposures

Reasons/Categories	(millions of euro)		
	Bad loans	Unlikely to pay	Non-performing past due exposures
<b>A. Initial gross exposure</b>	<b>19,525</b>	<b>11,610</b>	<b>886</b>
- of which: exposures sold not derecognised	26	78	9
<b>B. Increases</b>	<b>3,281</b>	<b>5,303</b>	<b>900</b>
B.1 inflows from performing exposures	200	2,154	734
B.2 inflows from purchased or originated credit-impaired financial assets	1,328	1,733	80
B.3 transfers from other non-performing exposures categories	1,160	731	19
B.4 changes in contracts without derecognition	-	5	-
B.5 other increases	593	680	67
<b>C. Decreases</b>	<b>-9,051</b>	<b>-4,614</b>	<b>-1,149</b>
C.1 outflows to performing exposures	-19	-354	-219
C.2 write-offs	-2,376	-392	-2
C.3 collections	-859	-1,178	-134
C.4 profits on disposal	-1,572	-726	-3
C.5 losses on disposal	-209	-53	-
C.6 transfers to other non-performing exposure categories	-56	-1,104	-750
C.7 changes in contracts without derecognition	-	-20	-
C.8 other decreases	-3,960	-787	-41
<b>D. Final gross exposure</b>	<b>13,755</b>	<b>12,299</b>	<b>637</b>
- of which: exposures sold not derecognised	8	15	1

“Inflows from purchased or originated credit-impaired financial assets” reports the amounts deriving from the acquisition of the UBI Banca Group companies.

With regard to exposures to banks, the company acquisitions amount to a total of 1 million euro, among unlikely-to-pay exposures.

With regard to exposure to customers, at the date of the operation, the company acquisitions amount to 1,247 million euro in bad loans, 1,733 million euro in unlikely-to-pay exposures and 80 million euro in past due exposures.

The “other increases” mainly include the increases in the amounts for charges and the increase in the amounts in foreign currency due to changes in the exchange rate.

The “other decreases” mainly include the portfolio of loans classified as “bad loans” and “unlikely to pay” which were sold during the year.

## A.1.7. Bis Prudential Consolidation – On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

Reasons/Quality	(millions of euro)	
	Forborne exposures: non-performing	Forborne exposures: performing
<b>A. Initial gross exposure</b>	<b>7,541</b>	<b>5,927</b>
- of which: exposures sold not derecognised	89	214
<b>B. Increases</b>	<b>2,671</b>	<b>3,512</b>
B.1 inflows from non-forborne performing exposures	236	1,540
B.2 inflows from forborne performing exposures	425	X
B.3 inflows from non-performing forborne exposures	X	221
B.4 inflows from forborne non-performing exposures	228	10
B.5 other increases	1,782	1,741
<b>C. Decreases</b>	<b>-2,968</b>	<b>-3,540</b>
C.1 outflows towards non-forborne performing exposures	X	-2,350
C.2 outflows towards forborne performing exposures	-221	X
C.3 outflows towards non-performing forborne exposures	X	-425
C.4 write-offs	-468	-
C.5 collections	-587	-602
C.6 profits on disposal	-660	-3
C.7 losses on disposal	-49	-
C.8 other decreases	-983	-160
<b>D. Final gross exposure</b>	<b>7,244</b>	<b>5,899</b>
- of which: exposures sold not derecognised	11	2

## A.1.8 Prudential Consolidation – On-balance sheet non-performing credit exposures to banks: changes in total adjustments

Reasons/Categories	(millions of euro)					
	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
<b>A. Initial total adjustments</b>	<b>4</b>	-	<b>14</b>	14	-	-
- of which: exposures sold not derecognised	-	-	-	-	-	-
<b>B. Increases</b>	<b>1</b>	-	-	-	-	-
B.1 adjustments to purchased or originated credit-impaired assets	-	X	-	X	-	X
C.2 other adjustments	1	-	-	-	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposures categories	-	-	-	-	-	-
B.5 changes in contracts without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	-	-	-	-
<b>C. Decreases</b>	<b>-1</b>	-	-	-	-	-
C.1 recoveries on impairment losses	-1	-	-	-	-	-
C.2 recoveries on repayments	-	-	-	-	-	-
C.3 profits on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing exposure categories	-	-	-	-	-	-
C.6 changes in contracts without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
<b>D. Final total adjustments</b>	<b>4</b>	-	<b>14</b>	14	-	-
- of which: exposures sold not derecognised	-	-	-	-	-	-

## A.1.9 Prudential Consolidation – On-balance sheet non-performing credit exposures to customers: changes in total adjustments

Reasons/Categories	(millions of euro)					
	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
<b>A. Initial total adjustments</b>	<b>12,769</b>	<b>1,635</b>	<b>4,379</b>	<b>1,540</b>	<b>142</b>	<b>14</b>
- of which: exposures sold not derecognised	9	3	34	30	1	-
<b>B. Increases</b>	<b>3,437</b>	<b>592</b>	<b>2,492</b>	<b>939</b>	<b>182</b>	<b>6</b>
B.1 adjustments to purchased or originated credit-impaired assets	352	X	275	X	7	X
B.2 other adjustments	2,236	293	1,885	590	122	5
B.3 losses on disposal	209	30	53	13	-	-
B.4 transfers from other non-performing exposures categories	445	127	141	18	11	-
B.5 changes in contracts without derecognition	-	-	28	28	-	-
B.6 other increases	195	142	110	290	42	1
<b>C. Decreases</b>	<b>-7,469</b>	<b>-1,161</b>	<b>-2,100</b>	<b>-883</b>	<b>-213</b>	<b>-16</b>
C.1 recoveries on impairment losses	-413	-73	-330	-177	-40	-
C.2 recoveries on repayments	-193	-16	-163	-76	-12	-1
C.3 profits on disposal	-42	-8	-31	-12	-	-
C.4 write-offs	-2,376	-348	-392	-120	-2	-
C.5 transfers to other non-performing exposure categories	-30	-6	-435	-126	-132	-13
C.6 changes in contracts without derecognition	-	-	-8	-8	-	-
C.7 other decreases	-4,415	-710	-741	-364	-27	-2
<b>D. Final total adjustments</b>	<b>8,737</b>	<b>1,066</b>	<b>4,771</b>	<b>1,596</b>	<b>111</b>	<b>4</b>
- of which: exposures sold not derecognised	3	-	3	2	-	-

“Inflows from purchased or originated credit-impaired financial assets” mainly include the amounts deriving from the acquisition of the UBI Banca Group companies.

With regard to credit exposures to customers, the amount of adjustment deriving from the business combination at the acquisition date came to 344 million euro in bad loans, 273 million euro in unlikely-to-pay exposures and 2 million euro in past due exposures. Those amounts, limited to the row “of which Forborne” were reported in the caption “Other increases” (107 million euro in bad loans and 195 million euro in unlikely-to-pay exposures).

The recoveries on repayments referring to on-balance sheet non-performing credit exposures to customers deriving from payments from the borrower as capital or interest repayments amount to 65 million euro for bad loans, 158 million euro for unlikely-to-pay exposures and 12 million euro for past due exposures. Recoveries on repayments deriving from the recovery of guarantees amount to 128 million euro for bad loans and 5 million euro for unlikely-to-pay exposures.

The “other increases” mainly include the collections of loans derecognised in full (through “recoveries on repayments”) and increases in the balances of allowances in foreign currency due to changes in the exchange rate.

The “other decreases” mainly include the portfolio of loans classified as “bad loans” and “unlikely to pay”, which were sold during the year. This caption also includes the collections of overdue interest applied in previous years, losses on disposal not covered by the allowance, the decrease in allowances in foreign currency due to changes in the exchange rate and the reduction in the allowances for adjustment due to the passing of time.

## A.2. Classification of exposures based on external and internal ratings

### A.2.1. Prudential Consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by external rating classes (gross amounts)

The Intesa Sanpaolo Group uses the ratings supplied by the following external rating agencies for portfolios subject to reporting: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings, DBRS Morningstar and Cerved Group Spa. These agencies are valid for all Group banks<sup>46</sup>.

In compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used, when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken

Exposures	EXTERNAL RATING CLASSES						(millions of euro)	
	class 1	class 2	class 3	class 4	class 5	class 6	UNRATED	TOTAL
<b>A. Financial assets measured at amortized cost</b>	<b>16,486</b>	<b>31,695</b>	<b>119,379</b>	<b>14,094</b>	<b>5,177</b>	<b>848</b>	<b>441,539</b>	<b>629,218</b>
- Stage 1	16,247	28,462	114,095	9,079	3,355	353	356,549	528,140
- Stage 2	239	3,233	5,281	5,010	1,821	295	64,004	79,883
- Stage 3	-	-	3	5	1	200	20,986	21,195
<b>B: Financial assets measured at fair value through other comprehensive income</b>	<b>13,149</b>	<b>16,882</b>	<b>17,896</b>	<b>3,425</b>	<b>456</b>	<b>113</b>	<b>2,337</b>	<b>54,258</b>
- Stage 1	12,946	16,417	17,630	3,109	425	94	2,218	52,839
- Stage 2	203	465	266	316	31	6	84	1,371
- Stage 3	-	-	-	-	-	13	35	48
<b>C. Non-current financial assets held for sale</b>	<b>-</b>	<b>-</b>	<b>51</b>	<b>75</b>	<b>-</b>	<b>-</b>	<b>29,475</b>	<b>29,601</b>
- Stage 1	-	-	51	75	-	-	21,215	21,341
- Stage 2	-	-	-	-	-	-	2,836	2,836
- Stage 3	-	-	-	-	-	-	5,424	5,424
<b>Total (A+B+C)</b>	<b>29,635</b>	<b>48,577</b>	<b>137,326</b>	<b>17,594</b>	<b>5,633</b>	<b>961</b>	<b>473,351</b>	<b>713,077</b>
<i>of which: purchased or originated credit-impaired financial assets</i>	-	5	3	2	1	2	2,816	2,829
<b>D. Commitments to disburse funds and financial guarantees given</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Stage 1	10,637	24,776	39,935	10,654	2,109	135	144,606	232,852
- Stage 2	184	2,136	6,883	3,029	524	246	41,339	54,341
- Stage 3	-	-	-	-	-	5	2,601	2,606
<b>Total (D)</b>	<b>10,821</b>	<b>26,912</b>	<b>46,818</b>	<b>13,683</b>	<b>2,633</b>	<b>386</b>	<b>188,546</b>	<b>289,799</b>
<b>Total (A+B+C+D)</b>	<b>40,456</b>	<b>75,489</b>	<b>184,144</b>	<b>31,277</b>	<b>8,266</b>	<b>1,347</b>	<b>661,897</b>	<b>1,002,876</b>

The following tables show the mapping of risk classes and the external ratings.

### Mapping of long-term ratings issued by external rating agencies

Long-term ratings for exposures to: central governments and central banks, supervised issuers, public-sector entities, local authorities, multilateral development banks, enterprises and other parties

Credit quality step	ECAI		
	Moody's	Fitch Standard & Poor's DBRS Morningstar	Cerved Rating Agency
1	from Aaa to Aa3	from AAA to AA-	-
2	from A1 to A3 from Baa1 to Baa3	from A+ to A-	from A1.1 to A3.1
3	from Ba1 to Ba3	from BBB+ to BBB-	B1.1
4	from B1 to B3	from BB+ to BB-	from B1.2 to B2.2
5	Caa1 and lower	CCC+ and lower	C1.1
6			from C1.2 to C2.1

<sup>46</sup> Solely for the securitisations, the former UBI Group used DBRS Ratings Limited, part of the DBRS Morningstar Group. The agency Cerved Group Spa was used solely for the product companies UBI Leasing and UBI Factor of the former UBI Group.

Short-term ratings for exposures to supervised issuers and enterprises

	ECAI			
	Moody's	Fitch	Standard & Poor's	DBRS Morningstar
<b>Credit quality step</b>				
1	P -1	F1 +, F1	A -1 +, A -1	R -1
2	P -2	F2	A -2	R -2
3	P -3	F3	A -3	R -3
from 4 to 6	NP	lower than F3	lower than A -3	R-4 R-5

Ratings for exposures to UCI

	ECAI		
	Moody's	Fitch DBRS Morningstar	Standard & Poor's
<b>Credit quality step</b>			
1	from Aaa to Aa3	from AAA to AA-	from AAA m/f to AA - m/f
2	from A1 to A3	from A+ to A-	from A + m/f to A - m/f
3 and 4	from Baa1 to Ba3	from BBB+ to BB-	from BBB + m/f to BB - m/f
5 and 6	B1 and lower	B+ and lower	B + m/f and lower

Standardised approach - Long-term ratings for exposures to securitisations

	ECAI		
	Moody's	DBRS Morningstar	Fitch Standard & Poor's
<b>Credit quality step</b>			
1	from Aaa to Aa3	from AAA to AAL	from AAA to AA-
2	from A1 to A3	from AH to AL	from A+ to A-
3	from Baa1 to Baa3	from BBBH to BBBL	from BBB+ to BBB-
4	from Baa1 to Ba3	from BBH to BBL	from BB+ to BB-
5	B1 and lower	BH and lower	B+ and lower

Standardised approach - Short-term ratings for exposures to securitisations

	ECAI			
	Moody's	Fitch	DBRS Morningstar	Standard & Poor's
<b>Credit quality step</b>				
1	P -1	F 1 +, F 1	R-1 (high), R-1 (middle), R-1 (low)	A -1 +, A -1
2	P -2	F2	R-2 (high), R-2 (middle), R-2 (low)	A -2
3	P -3	F3	R-3	A -3
from 4 to 6	NP	lower than F3	-	lower than A -3

## IRB approach - Long-term ratings for exposures to securitisations

Credit quality step	ECAI			Fitch Standard & Poor's
	Moody's	DBRS Morningstar		
1	Aaa	AAA		AAA
2	Aa	AA		AA
3	A1	AH		A+
4	A2	A		A
5	A3	AL		A-
6	Baa1	BBBH		BBB+
7	Baa2	BBBH		BBB
8	Baa3	BBBL		BBB-
9	Ba1	BBH		BB+
10	Ba2	BB		BB
11	Ba3	BBL		BB-
12	lower than Ba3	lower than BBL		lower than BB-

## IRB approach - Short-term ratings for exposures to securitisations

Credit quality step	ECAI			
	Moody's	Fitch	DBRS Morningstar	Standard & Poor's
1	P -1	F 1 +, F 1	R-1 (high), R-1 (middle), R-1 (low)	A -1 + , A -1
2	P -2	F2	R-2 (high), R-2 (middle), R-2 (low)	A -2
3	P -3	F3	R-3	A -3
All other credit quality steps	lower than P-3	lower than F3	All other ratings	lower than A -3

## A.2.2. Prudential Consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by internal rating classes (gross amounts)

As indicated above in the paragraph entitled "Basel 3 Regulations", the Intesa Sanpaolo Group has a set of ratings for the various operating segments of the counterparties (Corporate, Retail SME, Retail, Public Sector Entities and Banks).

The breakdown of exposures by internal rating classes shown in the following table is based on all ratings available in the credit risk management and control system, in addition to ratings for validated models. These ratings include credit ratings assigned by external agencies for counterparties in customer segments for which an internal model is not available.

Unrated exposures account for 9% of all exposures to performing counterparties and refer to customer portfolios for which a rating model is not available, to counterparties for which the roll-out of internal models is still underway (mainly international subsidiaries), as well as to Group companies whose mission is not related to credit and loans, which have been integrated into the credit risk management system, or to marginal exposures.

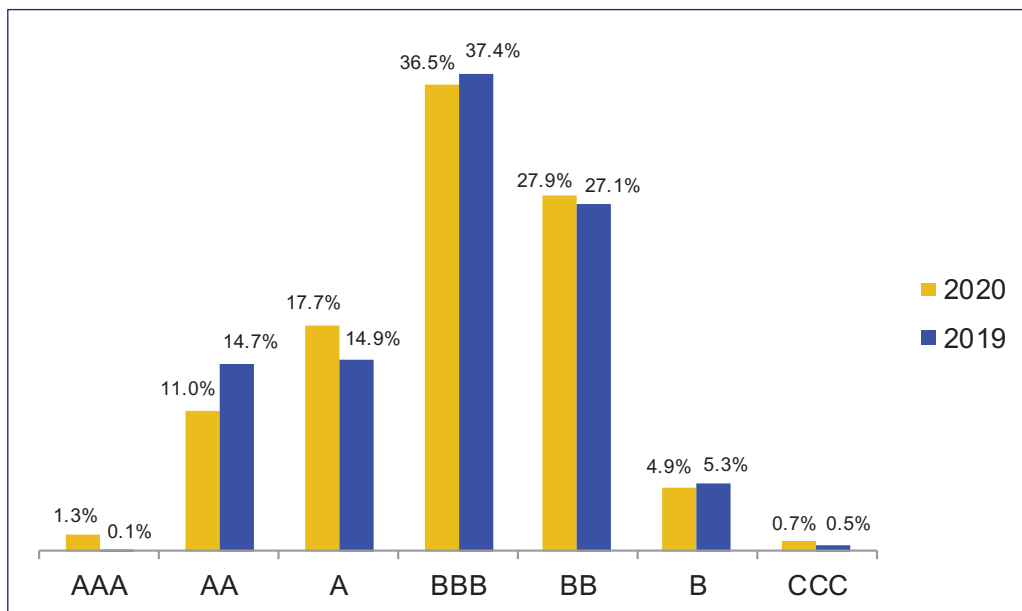
When unrated counterparties and non-performing loans are excluded, there is a high concentration of investment grade classes (classes 1, 2 and 3, representing ratings between AAA and BBB-) at 77.1% of the total, whilst 18.4% fall within the BB+/BB- range (class 4) and 4.4% fall under higher risk classes (of which 0.6% are below B-).



Exposures	Internal rating classes						UNRATED	(millions of euro)	
								TOTAL	
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6			
<b>A. Financial assets measured at amortized cost</b>	<b>64,942</b>	<b>104,362</b>	<b>241,084</b>	<b>108,945</b>	<b>24,965</b>	<b>6,241</b>	<b>78,679</b>	<b>629,218</b>	
- Stage 1	64,572	100,960	223,161	76,460	9,811	818	52,358	528,140	
- Stage 2	370	3,402	17,922	32,482	14,628	3,321	7,758	79,883	
- Stage 3	-	-	1	3	526	2,102	18,563	21,195	
<b>B. Financial assets measured at fair value through other comprehensive income</b>	<b>13,758</b>	<b>12,683</b>	<b>18,054</b>	<b>2,715</b>	<b>397</b>	<b>112</b>	<b>6,539</b>	<b>54,258</b>	
- Stage 1	13,677	12,387	17,482	2,456	359	100	6,378	52,839	
- Stage 2	81	296	572	259	38	5	120	1,371	
- Stage 3	-	-	-	-	-	7	41	48	
<b>C. Non-current financial assets held for sale</b>	<b>6,172</b>	<b>8,074</b>	<b>5,335</b>	<b>2,581</b>	<b>795</b>	<b>487</b>	<b>6,157</b>	<b>29,601</b>	
- Stage 1	6,041	7,661	4,714	1,798	393	147	587	21,341	
- Stage 2	131	413	621	783	402	333	153	2,836	
- Stage 3	-	-	-	-	-	7	5,417	5,424	
<b>Total (A+B+C)</b>	<b>84,872</b>	<b>125,119</b>	<b>264,473</b>	<b>114,241</b>	<b>26,157</b>	<b>6,840</b>	<b>91,375</b>	<b>713,077</b>	
<i>of which: purchased or originated credit-impaired financial assets</i>	-	4	8	26	24	62	2,705	2,829	
<b>D. Commitments and financial guarantees given</b>									
- Stage 1	29,390	57,356	94,392	32,986	3,716	147	14,865	232,852	
- Stage 2	3,224	9,120	16,104	16,438	4,576	593	4,286	54,341	
- Stage 3	-	-	-	-	596	396	1,614	2,606	
<b>Total (D)</b>	<b>32,614</b>	<b>66,476</b>	<b>110,496</b>	<b>49,424</b>	<b>8,888</b>	<b>1,136</b>	<b>20,765</b>	<b>289,799</b>	
<b>Total (A+B+C+D)</b>	<b>117,486</b>	<b>191,595</b>	<b>374,969</b>	<b>163,665</b>	<b>35,045</b>	<b>7,976</b>	<b>112,140</b>	<b>1,002,876</b>	

In addition to the tables required by the regulations, the rating allocation for performing loans to customers attributable to the main Group banks is shown below.

As at 31 December 2020, performing loans to customers assigned an individual rating internally or by an external agency accounted for 94% of the loans of the main Group banks.



The allocation shows a high level of investment grade exposures (from AAA to BBB inclusive), at 66.6%, slightly down compared to the previous year (67.1%).  
 Movements between rating classes are mainly caused by changes in risk parameters as a result of the update of the models.

The breakdown of the following portfolios by rating is presented below: Corporate, Retail Mortgage (residential mortgages for individuals), Small Business and other retail, Sovereign & Public Sector Entities.



Investment grade positions account for 57.9%, 77.4%, 67.7% and 92.0% of the above portfolios, respectively.

### A.3. Breakdown of guaranteed credit exposures by type of guarantee

#### A.3.1. Prudential Consolidation – Guaranteed on- and off-balance sheet credit exposures to banks

(millions of euro)

	Gross exposure	Net exposures	Collaterals (*)				Personal guarantees		
			(1)				(2)		
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	Credit derivatives		
							CLN	Other derivatives	
				Central counterparties					
<b>1. Guaranteed on-balance sheet credit exposures:</b>	<b>6,762</b>	<b>6,756</b>	-	<b>5</b>	<b>5,839</b>	-	-	-	
1.1 totally guaranteed	5,757	5,752	-	5	5,631	-	-	-	
- of which non-performing	-	-	-	-	-	-	-	-	
1.2 partly guaranteed	1,005	1,004	-	-	208	-	-	-	
- of which non-performing	-	-	-	-	-	-	-	-	
<b>2. Guaranteed off-balance sheet credit exposures:</b>	<b>7,513</b>	<b>7,513</b>	-	-	<b>2,863</b>	<b>2,460</b>	-	-	
2.1 totally guaranteed	5,770	5,770	-	-	2,863	1,747	-	-	
- of which non-performing	-	-	-	-	-	-	-	-	
2.2 partly guaranteed	1,743	1,743	-	-	-	713	-	-	
- of which non-performing	-	-	-	-	-	-	-	-	

(\*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*)							Total
	(2)							
	Credit derivatives			Commitments				(1)+(2)
	Other derivatives			Public Administration	Banks	Other financial companies	Other counterparties	
Banks	Other financial companies	Other counterparties						
<b>1. Guaranteed on-balance sheet credit exposures:</b>	-	-	-	<b>2</b>	<b>188</b>	<b>86</b>	<b>40</b>	<b>6,160</b>
1.1 totally guaranteed	-	-	-	2	23	-	38	5,699
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	-	-	-	-	165	86	2	461
- of which non-performing	-	-	-	-	-	-	-	-
<b>2. Guaranteed off-balance sheet credit exposures:</b>	-	-	-	<b>49</b>	<b>81</b>	-	<b>36</b>	<b>5,489</b>
2.1 totally guaranteed	-	-	-	44	74	-	14	4,742
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	-	-	-	5	7	-	22	747
- of which non-performing	-	-	-	-	-	-	-	-

(\*) Fair value of the guarantee or, if difficult to determine, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

## A.3.2. Prudential Consolidation - Guaranteed on- and off-balance sheet credit exposures to customers

(millions of euro)

	Gross exposure	Net exposure	Collateral (*) (1)				Personal guarantees (*) (2)	
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	Credit derivatives	
							CLN	Other derivatives
<b>1. Guaranteed on-balance sheet credit exposures:</b>	<b>341,730</b>	<b>330,843</b>	<b>175,065</b>	<b>10,724</b>	<b>27,297</b>	<b>13,450</b>	-	<b>76</b>
1.1 totally guaranteed	284,745	275,711	172,513	10,651	26,710	10,607	-	-
- of which non-performing	16,660	9,342	6,035	1,543	46	264	-	-
1.2 partly guaranteed	56,985	55,132	2,552	73	587	2,843	-	76
- of which non-performing	2,746	1,143	508	2	35	62	-	-
<b>2. Guaranteed off-balance sheet credit exposures:</b>	<b>52,438</b>	<b>52,292</b>	<b>2,651</b>	<b>18</b>	<b>13,210</b>	<b>2,552</b>	-	-
2.1 totally guaranteed	42,789	42,690	2,117	10	12,608	2,088	-	-
- of which non-performing	451	402	91	-	8	7	-	-
2.2. partly guaranteed	9,649	9,602	534	8	602	464	-	-
- of which non-performing	261	232	38	-	1	17	-	-

(\*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							Total (1)+(2)
	Credit derivatives			Commitments				
	Other derivatives			Public administration	Banks	Other financial companies	Other counterparties	
	Banks	Other financial companies	Other counterparties					
<b>1. Guaranteed on-balance sheet credit exposures</b>	<b>45</b>	<b>32</b>	<b>-</b>	<b>44,624</b>	<b>579</b>	<b>2,229</b>	<b>31,494</b>	<b>305,615</b>
1.1 totally guaranteed	-	4	-	22,891	463	1,633	25,527	270,999
- of which non-performing	-	-	-	176	7	146	1,057	9,274
1.2 partly guaranteed	45	28	-	21,733	116	596	5,967	34,616
- of which non-performing	-	-	-	63	1	21	143	835
<b>2. Guaranteed off-balance sheet credit exposures:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,327</b>	<b>125</b>	<b>1,762</b>	<b>25,628</b>	<b>48,273</b>
2.1 totally guaranteed	-	-	-	1,793	113	1,358	22,241	42,328
- of which non-performing	-	-	-	2	-	17	265	390
2.2. partly guaranteed	-	-	-	534	12	404	3,387	5,945
- of which non-performing	-	-	-	1	-	4	56	117

(\*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

**A.4. Prudential consolidation – Financial assets and non-financial assets resulting from the enforcement of guarantees**

	Derecognised credit exposure	Gross amount	Total adjustments	(millions of euro)	
				Book value	of which obtained during the year
<b>A. Property and equipment</b>	<b>342</b>	<b>406</b>	<b>-54</b>	<b>352</b>	<b>117</b>
A.1 Used in operations	3	3	-	3	1
A.2. Investment	139	137	-6	131	67
A.3 Inventories	200	266	-48	218	49
<b>B. Equities and debt securities</b>	<b>381</b>	<b>382</b>	<b>-139</b>	<b>243</b>	<b>43</b>
<b>C. Other assets</b>	-	-	-	-	-
<b>D. Non-current assets held for sale and discontinued operations</b>	<b>8</b>	<b>9</b>	<b>-3</b>	<b>6</b>	<b>-</b>
D.1 Property and equipment	8	9	-3	6	-
D.2. Other assets	-	-	-	-	-
<b>Total 31.12.2020</b>	<b>731</b>	<b>797</b>	<b>-196</b>	<b>601</b>	<b>160</b>
<b>Total 31.12.2019</b>	<b>654</b>	<b>681</b>	<b>-115</b>	<b>566</b>	<b>54</b>

For the Group, the assets seized (book value) are mainly represented by:

- Property and equipment used in operations: buildings (3 million euro);
- Investment property: buildings (95 million euro); land (36 million euro);
- Property and equipment – Inventories: buildings (205 million euro), land (12 million euro); other (1 million euro);
- Equities and debt securities:
  - o equity investments of 64 million euro (60 million euro relating to the equity investment in Risanamento);
  - o financial assets mandatorily measured at fair value of 109 million euro;
  - o financial assets measured at fair value through other comprehensive income of 70 million euro. These are financial assets not previously provided by the borrower as security for pre-existing loans, but acquired under bilateral agreements with the borrower, following which the Group has derecognised the credit exposure;
- Non-current assets held for sale and discontinued operations: land (6 million euro).

**B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES****B.1. Prudential Consolidation - Breakdown by sector of on- and off-balance sheet credit exposures to customers**

Exposures/Counterparts	(millions of euro)					
	Public administration		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
<b>A. On-balance sheet exposures</b>						
A.1 Bad loans	143	-93	73	-223	-	-
- of which: forborne exposures	-	-	20	-98	-	-
A.2 Unlikely to pay	53	-37	241	-181	-	-
- of which: forborne exposures	15	-30	60	-82	-	-
A.3 Non-performing past due exposures	2	-	33	-5	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	114,408	-105	68,442	-196	1,676	-1
- of which: forborne exposures	52	-	215	-6	-	-
<b>Total (A)</b>	<b>114,606</b>	<b>-235</b>	<b>68,789</b>	<b>-605</b>	<b>1,676</b>	<b>-1</b>
<b>B. Off-balance sheet exposures</b>						
B.1 Non-performing exposures	3	-3	24	-2	-	-
B.2 Performing exposures	38,835	-6	54,880	-48	8,592	-
<b>Total (B)</b>	<b>38,838</b>	<b>-9</b>	<b>54,904</b>	<b>-50</b>	<b>8,592</b>	<b>-</b>
<b>Total (A+B)</b>	<b>31.12.2020</b>	<b>153,444</b>	<b>-244</b>	<b>123,693</b>	<b>-655</b>	<b>10,268</b>
<b>Total (A+B)</b>	<b>31.12.2019</b>	<b>137,248</b>	<b>-298</b>	<b>128,779</b>	<b>-610</b>	<b>13,272</b>

Exposures/Counterparts	(millions of euro)			
	Non-financial companies		Households	
	Net exposure	Total adjustments	Net exposure	Total adjustments
<b>A. On-balance sheet exposures</b>				
A.1 Bad loans	3,503	-6,289	1,299	-2,132
- of which: forborne exposures	654	-775	245	-193
A.2 Unlikely to pay	5,208	-3,881	2,026	-672
- of which: forborne exposures	2,614	-1,293	937	-191
A.3 Non-performing past due exposures	81	-16	410	-90
- of which: forborne exposures	9	-1	24	-3
A.4 Performing exposures	228,141	-1,797	179,803	-978
- of which: forborne exposures	3,828	-247	1,485	-66
<b>Total (A)</b>	<b>236,933</b>	<b>-11,983</b>	<b>183,538</b>	<b>-3,872</b>
<b>B. Off-balance sheet exposures</b>				
B.1 Non-performing exposures	2,208	-295	57	-14
B.2 Performing exposures	213,248	-194	16,105	-35
<b>Total (B)</b>	<b>215,456</b>	<b>-489</b>	<b>16,162</b>	<b>-49</b>
<b>Total (A+B)</b>	<b>31.12.2020</b>	<b>452,389</b>	<b>-12,472</b>	<b>199,700</b>
<b>Total (A+B)</b>	<b>31.12.2019</b>	<b>357,033</b>	<b>-14,735</b>	<b>153,885</b>



**B.2. Prudential Consolidation - Breakdown by geographical area of on- and off-balance sheet credit exposures to customers**

(millions of euro)

Exposure/Geographical areas	Italy		Other european countries		
	Net exposures	Total adjustments	Net exposures	Total adjustments	
<b>A. On-balance sheet exposures</b>					
A.1 Bad loans	4,786	-8,081	225	-531	
A.2 Unlikely to pay	7,019	-4,404	384	-229	
A.3 Non-performing past due exposures	428	-64	82	-37	
A.4 Performing exposures	434,825	-2,312	113,417	-597	
<b>Total (A)</b>	<b>447,058</b>	<b>-14,861</b>	<b>114,108</b>	<b>-1,394</b>	
<b>B. Off-balance sheet exposures</b>					
B.1 Non-performing exposures	2,231	-278	48	-32	
B.2 Performing exposures	188,002	-169	96,444	-88	
<b>Total (B)</b>	<b>190,233</b>	<b>-447</b>	<b>96,492</b>	<b>-120</b>	
<b>Total (A+B)</b>	<b>31.12.2020</b>	<b>637,291</b>	<b>-15,308</b>	<b>210,600</b>	<b>-1,514</b>
<b>Total (A+B)</b>	<b>31.12.2019</b>	<b>489,846</b>	<b>-17,756</b>	<b>201,497</b>	<b>-1,425</b>

(millions of euro)

Exposure/Geographical areas	America		Asia		Rest of the world		
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments	
<b>A. On-balance sheet exposures</b>							
A.1 Bad loans	-	-48	3	-30	4	-47	
A.2 Unlikely to pay	32	-80	51	-20	42	-38	
A.3 Non-performing past due exposures	2	-	-	-	14	-10	
A.4 Performing exposures	21,060	-72	13,635	-25	7,857	-70	
<b>Total (A)</b>	<b>21,094</b>	<b>-200</b>	<b>13,689</b>	<b>-75</b>	<b>7,917</b>	<b>-165</b>	
<b>B. Off-balance sheet exposures</b>							
B.1 Non-performing exposures	11	-	1	-	1	-4	
B.2 Performing exposures	26,830	-18	8,807	-5	2,985	-3	
<b>Total (B)</b>	<b>26,841</b>	<b>-18</b>	<b>8,808</b>	<b>-5</b>	<b>2,986</b>	<b>-7</b>	
<b>Total (A+B)</b>	<b>31.12.2020</b>	<b>47,935</b>	<b>-218</b>	<b>22,497</b>	<b>-80</b>	<b>10,903</b>	<b>-172</b>
<b>Total (A+B)</b>	<b>31.12.2019</b>	<b>54,440</b>	<b>-194</b>	<b>20,674</b>	<b>-31</b>	<b>10,488</b>	<b>-194</b>

## B.2.Bis Prudential consolidation – Breakdown of relations with customers resident in Italy by geographical area

Exposure/Geographical areas	(millions of euro)							
	North West		North East		Centre		South and islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
<b>A. On-balance sheet exposures</b>								
A.1 Bad loans	1,587	-2,526	800	-1,528	1,211	-1,992	1,188	-2,035
A.2 Unlikely to pay	2,803	-1,970	1,211	-727	1,715	-1,061	1,290	-646
A.3 Non-performing past due exposures	136	-20	53	-8	111	-17	128	-19
A.4 Performing exposures	157,457	-928	74,171	-386	144,129	-534	59,068	-464
<b>Total A</b>	<b>161,983</b>	<b>-5,444</b>	<b>76,235</b>	<b>-2,649</b>	<b>147,166</b>	<b>-3,604</b>	<b>61,674</b>	<b>-3,164</b>
<b>B. Off-balance sheet exposures</b>								
B.1 Non-performing exposures	670	-90	524	-64	886	-108	151	-16
B.2 Performing exposures	84,545	-82	31,574	-28	59,347	-38	12,536	-21
<b>Total B</b>	<b>85,215</b>	<b>-172</b>	<b>32,098</b>	<b>-92</b>	<b>60,233</b>	<b>-146</b>	<b>12,687</b>	<b>-37</b>
<b>Total (A+B)</b>	<b>31.12.2020</b>	<b>247,198</b>	<b>-5,616</b>	<b>108,333</b>	<b>-2,741</b>	<b>207,399</b>	<b>-3,750</b>	<b>74,361</b>
<b>Total (A+B)</b>	<b>31.12.2019</b>	<b>163,645</b>	<b>-5,786</b>	<b>94,305</b>	<b>-3,702</b>	<b>173,871</b>	<b>-4,564</b>	<b>58,025</b>

## B.3. Prudential Consolidation - Breakdown by geographical area of on- and off-balance sheet credit exposures to banks

Exposures / Geographical Area	(million of euro)			
	Italy		Other european countries	
	Net exposures	Total adjustments	Net exposures	Total adjustments
<b>A. On-balance sheet exposures</b>				
A.1 Bad loans	-	-	-	-1
A.2 Unlikely to pay	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-
A.4 Performing exposures	76,623	-9	33,849	-17
<b>Total (A)</b>	<b>76,623</b>	<b>-9</b>	<b>33,849</b>	<b>-18</b>
<b>B. Off-balance sheet exposures</b>				
B.1 Non-performing exposures	-	-	-	-
B.2 Performing exposures	9,707	-	38,017	-1
<b>Total (B)</b>	<b>9,707</b>	<b>-</b>	<b>38,017</b>	<b>-1</b>
<b>Total (A+B)</b>	<b>31.12.2020</b>	<b>86,330</b>	<b>-9</b>	<b>71,866</b>
<b>Total (A+B)</b>	<b>31.12.2019</b>	<b>26,984</b>	<b>-9</b>	<b>61,992</b>

Exposures / Geographical Area	(Millions of euro)					
	America		Asia		Rest of the world	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
<b>A. On-balance sheet exposures</b>						
A.1 Bad loans	-	-	-	-3	-	-
A.2 Unlikely to pay	65	-14	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-
A.4 Performing exposures	2,594	-2	2,233	-5	2,038	-6
<b>Total (A)</b>	<b>2,659</b>	<b>-16</b>	<b>2,233</b>	<b>-8</b>	<b>2,038</b>	<b>-6</b>
<b>B. Off-balance sheet exposures</b>						
B.1 Non-performing exposures	8	-	-	-	-	-
B.2 Performing exposures	5,621	-	9,382	-	2,160	-1
<b>Total (B)</b>	<b>5,629</b>	<b>-</b>	<b>9,382</b>	<b>-</b>	<b>2,160</b>	<b>-1</b>
<b>Total (A+B)</b>	<b>31.12.2020</b>	<b>8,288</b>	<b>-16</b>	<b>11,615</b>	<b>-8</b>	<b>4,198</b>
<b>Total (A+B)</b>	<b>31.12.2019</b>	<b>8,719</b>	<b>-18</b>	<b>12,488</b>	<b>-6</b>	<b>5,130</b>

**B.3.Bis Prudential consolidation – Breakdown of relations with banks resident in Italy by geographical area**

Exposure/Geographical areas	(millions of euro)									
	NORTH WEST		NORTH EAST		CENTRE		SOUTH AND ISLANDS			
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments		
<b>A. On-balance sheet exposures</b>										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	4,311	-4	418	-	71,889	-5	5	-	-	-
<b>Total A</b>	<b>4,311</b>	<b>-4</b>	<b>418</b>	<b>-</b>	<b>71,889</b>	<b>-5</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>B. Off-balance sheet exposures</b>										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	5,854	-	923	-	2,713	-	217	-	-	-
<b>Total B</b>	<b>5,854</b>	<b>-</b>	<b>923</b>	<b>-</b>	<b>2,713</b>	<b>-</b>	<b>217</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (A+B)</b>	<b>31.12.2020</b>	<b>10,165</b>	<b>-4</b>	<b>1,341</b>	<b>-</b>	<b>74,602</b>	<b>-5</b>	<b>222</b>	<b>-</b>	<b>-</b>
<b>Total (A+B)</b>	<b>31.12.2019</b>	<b>9,762</b>	<b>-4</b>	<b>1,156</b>	<b>-</b>	<b>16,022</b>	<b>-5</b>	<b>44</b>	<b>-</b>	<b>-</b>

**B.4 Large exposures**

Large exposures	
a) Book value (millions of euro)	232,932
b) Weighted value (millions of euro)	19,174
b) Number	7

Based on regulatory provisions, the number of large exposures presented in the table was determined by the reference to unweighted "exposures" in excess of 10% of eligible capital as defined by Regulation (EU) 575/2013 (CRR). The "exposures" are defined as the sum of on-balance sheet assets at risk and off-balance sheet transactions (excluding those deducted from eligible capital) with a customer or a group of related customers, without applying weighting factors. Such presentation criteria result in the inclusion in the financial statement table for large exposures of entities that - even with a weighting of 0% - present an unweighted exposure in excess of 10% of eligible capital for the purposes of large risks.

In accordance with the provisions of the EBA document "Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) 575/2013", the supervisory reports have standard methods of presentation of groups of connected clients that (in the case of silos) require exposures to the central governments to be repeated within each corresponding economic group directly controlled by a central government or connected to it by economic dependence.

However, the amounts shown in points a) and b) and the number shown in point c) in the table above include the exposure to the various central governments, to which the Intesa Sanpaolo Group is exposed, only once.

## C. SECURITISATIONS

This section does not include securitisations where the originators are Intesa Sanpaolo Group banks and all the liabilities (e.g. ABS securities, loans at the warehousing stage) issued by the vehicle companies are subscribed at the time of issue by one or more Group companies. For a description of these types of transaction, see the section on liquidity risk in Part E of the Notes to the consolidated financial statements.

### Qualitative information

With reference to the aggregation of the UBI Group into the Intesa Sanpaolo Group, described in Part G of these Notes to the consolidated financial statements, the UBI Group has six outstanding securitisation transactions.

The securitisations carried out in 2020 are summarised below:

#### *GARC Securitisations*

As part of the “GARC” operations, four synthetic securitisations were finalised during the year: GARC Leasing-1, GARC Corp-3, GARC Energy Renewables-1 and GARC SME-9. For the first three transactions indicated, the junior risk relating to the following portfolios was sold to specialist investors:

- i) around 1.5 billion euro in finance leases to approximately 2,500 businesses in the Corporate regulatory segment, valued using internal models (Advanced IRB). For that transaction, Intesa Sanpaolo holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations;
- ii) around 3.1 billion euro in loans to approximately 500 businesses in the Corporate regulatory segment, valued using internal models (Advanced IRB). For that transaction, Intesa Sanpaolo holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations;
- iii) around 1.3 billion euro in loans and leases relating to 42 projects on renewable energy, mainly located in Italy and valued using internal models (Advanced IRB); For that transaction, Intesa Sanpaolo holds 10% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.

As part of the GARC SME-9 operation, the mezzanine risk relating to a portfolio of approximately 1.8 billion euro in loans to approximately 4,000 businesses in the Corporate and Corporate SME regulatory segments, valued using internal models (Advanced IRB), was transferred to the European Investment Fund (EIF). The initiative, realised in cooperation with the European Investment Bank (EIB), aims to provide new loans totalling 450 million euro to SMEs and midcaps damaged by the emergency caused by the COVID-19 epidemic. For this latter transaction, Intesa Sanpaolo holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.

Overall, the portfolios of the transactions mainly consist of customers operating in Northern Italy.

#### *Tranched Cover Fondo di Garanzia per le PMI Securitisation*

During 2020, as part of operations with the Guarantee Fund for SMEs, a tranched cover transaction was finalised on a newly issued portfolio dedicated to new entrepreneurship in the Veneto Region. In particular, the guarantee from the Fund, increased also using the resources provided by the Veneto Region Special Section, covers the junior risk of a portfolio of loans amounting to approximately 15 million euro to around 90 businesses in the Veneto Region.

For these transactions, Intesa Sanpaolo holds 20% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.

During the year, four new portfolios were admitted to the guarantee of the Fund, for a total amount of around 1.3 billion euro, activated to support businesses damaged by the COVID-19 emergency. The ramp-up of those portfolios will be completed from the second half of 2021 to the initial months of 2022.

#### *“Tranched Cover Piemonte 2017 – Linea A” Securitisation*

During the year, the “Line A” portfolio was completed relating to a tranched cover synthetic securitisation on newly-issued loans promoted by the Piedmont Regional Authority under the 2014-2020 Regional Operational Programme of the European Regional Development Fund – Axis III “Competitiveness of production systems” – Thematic Objective III.3 “Promoting competitiveness of SMEs” – “Measure to support access to credit for piedmontese SMEs through the establishment of the 2017 Tranched Cover Piemonte Fund”. This transaction involves the issue of collateral on the junior tranche by Finpiemonte S.p.A. to cover the credit risk relating to a portfolio of around 109 million euro of loans to around 500 companies in Piedmont.

For this transaction, Intesa Sanpaolo holds 100% of the senior tranches and 20% of the junior tranches in compliance with the retention rule laid down by the supervisory regulations.

#### *Yoda Securitisation*

As part of the wider de-risking strategy envisaged in the 2018-2021 Business Plan, in December 2020 the Intesa Sanpaolo Group launched and completed a process to deconsolidate a loan portfolio of Intesa Sanpaolo classified as “bad loans”, through a securitisation and subsequent application for issue of a “GACS” government guarantee for the holders of senior notes issued as part of the transaction, once those senior notes had obtained an investment grade rating of no less than BBB or equivalent, as envisaged by Italian Law no. 49/2016.

The portfolio, identified at the cut-off date of 30 June 2020, has a GBV (Gross Book Value) of approximately 4.5 billion euro (4.3 billion euro at the sale date in December 2020) and a NBV (Net Book Value) of approximately 1.3 billion euro (1.2 billion euro at the sale date).

The transaction was structured in two main phases:

- i) “self-securitisation”: in that phase, the sale of the portfolio to a securitisation vehicle, Yoda SPV S.r.l., established pursuant to Italian Law no. 130/99, was finalised, with ISP fully subscribing the senior, mezzanine and junior notes issued by the SPV to finance the purchase price of the portfolio. At the time of issue of the notes, ISP disbursed a loan with limited recourse as a liquidity facility for said SPV. In this phase of the transaction, as the risks and rewards of the

assets sold had not yet been transferred, the portfolio continued to be consolidated in the ISP financial statements. Concurrent with the issue of the securitisation notes, Moody's, DBRS and Scope issued ratings for the senior class of notes - investment grade "BBB" or equivalent (i.e. BBB for DBRS and Scope, Baa2 for Moody's);

- ii) "placement" of the subordinated mezzanine and junior notes and deconsolidation of the portfolio sold from the accounts: in that phase, the process of due diligence by the investors was completed and, following receipt of binding offers for the sale of 95% of the mezzanine and junior notes, ISP finalised the sale of the notes to third-party investors on 23 December 2020. Following the sale, the accounting and regulatory derecognition of the portfolio was finalised, and the GACS guarantee was applied for from the Ministry of the Economy and Finance and Concessionaria Servizi Assicurativi Pubblici.

The securitised assets were broken down as follows by geographical area:

- 31.2% North-West;
- 23.9% North-East;
- 23.7% Centre;
- 20.8% South and Islands;
- 0.4% Outside Italy.

The breakdown of the assigned debtors by economic sector was mainly concentrated in the following sectors:

- "Construction companies" at 30.9%;
- "Manufacturing" at 18.5%;
- "Distribution" at 16.6%;
- "Real estate business" at 13.6%;
- and a residual amount in other business sectors (Services, Transport, Agriculture, Fashion Industry, Finance and Insurance, Utilities, and others).

In relation to the sale of the portfolio, the SPV issued three different classes of notes (senior, mezzanine and junior) with the following tranching:

- Senior notes: 81% of the sale price, equal to 1,010 million euro in nominal value;
- Mezzanine notes: 17% of the sale price, equal to 210 million euro in nominal value;
- Junior notes: 2% of the sale price, equal to 20 million euro in nominal value.

In this regard, the notes subscribed by Intesa Sanpaolo, due to the business model used and the look-through test carried out, have been classified as follows:

- senior tranches under securities at amortised cost;
- mezzanine and junior tranches under securities measured at FVTPL.

#### *Sirio Securitisation*

In December 2020 UBI Banca finalised the deconsolidation of a portfolio of loans classified as bad loans, through a securitisation with senior, mezzanine and junior issues. The senior notes issued as part of the transaction obtained an investment grade rating (BBB) and, therefore, it was also possible to apply for the issue of the "GACS" government guarantee in favour of the holders of this class of notes, as envisaged by Italian Law no. 49/2016. The portfolio is composed of around 22,600 accounts, corresponding to approximately 14,300 borrowers, mainly SMEs, with a GBV of around 1 billion euro.

The breakdown of the assigned debtors by economic sector was mainly concentrated as follows:

- Non-financial companies - around 77%;
- Financial companies - around 1%;
- Other - around 22%.

The securitised assets were broken down as follows by geographical area:

- North - around 52.5%;
- Centre - around 29%;
- South and Islands - around 18%;
- Outside Italy - around 0.5%.

The transaction was structured through the sale of the loans to a securitisation vehicle, Sirio SPV S.r.l. ("SPV"), established pursuant to Italian Law no. 130/99, with UBI Banca fully subscribing the senior, mezzanine and junior notes issued by the SPV to finance the purchase price of the portfolio. At the time of issue of the notes, UBI Banca also disbursed a loan with limited recourse as a liquidity facility for said SPV. Concurrent with the issue of the securitisation notes, DBRS and Scope issued ratings for the senior class of notes - investment grade "BBB".

A due diligence process was then completed by third-party investors to which UBI Banca sold 95% of the junior and mezzanine notes on 23 December 2020. Following the sale, the accounting and regulatory derecognition of the portfolio was finalised, and the GACS guarantee was applied for from the Ministry of the Economy and Finance and Concessionaria Servizi Assicurativi Pubblici.

The three different classes of notes (senior, mezzanine and junior) issued by the SPV, with the related tranching, were as follows:

- Senior notes: 86% of the sale price, equal to 290 million in nominal value;
- Mezzanine notes: 11% of the sale price, equal to 35 million in nominal value;
- Junior notes: 3% of the sale price, equal to 10 million in nominal value.

Lastly, the notes subscribed by UBI Banca, due to the business model used and the look-through test carried out, also in line with the approach adopted by Intesa Sanpaolo, have been classified as follows:

- senior tranches under securities at amortised cost;
- mezzanine and junior tranches under securities measured at FVTPL.

## Quantitative information

### C.1. Prudential consolidation - Breakdown of exposures deriving from the main “originated” securitisations by type of securitised asset and by type of exposure

*On-balance sheet*

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES (millions of euro)					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
<b>A. Fully derecognised</b>	<b>3,469</b>	<b>-12</b>	<b>238</b>	<b>-</b>	<b>188</b>	<b>-127</b>
– Loans to businesses (including SMEs) (*)	2,725	-12	234	-	185	-127
– Residential mortgage loans	743	-	4	-	1	-
– Consumer credit	1	-	-	-	2	-
<b>B. Partly derecognised</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>C. Not derecognised</b>	<b>21,187</b>	<b>-53</b>	<b>223</b>	<b>-11</b>	<b>367</b>	<b>-6</b>
– Loans to businesses (including SMEs) (**) (***)	19,208	-51	50	-8	149	-1
– Leasing (***)	1,247	-1	-	-	6	-
– Residential mortgage loans (***)	732	-1	173	-3	212	-5
<b>TOTAL</b>	<b>24,656</b>	<b>-65</b>	<b>461</b>	<b>-11</b>	<b>555</b>	<b>-133</b>

(\*) The entire amount refers to non-performing financial assets associated with the Savoy and Kerma securitisations (see the 2018 and 2019 Annual Reports, respectively, for details about the transactions) and the Yoda and Sirio securitisations (described in the paragraph on “Qualitative information” of this Section).

(\*\*) The amounts include non-performing financial assets amounting to 37 million euro in Senior exposures, 30 million euro in Mezzanine exposures and 18 million euro in Junior exposures.

(\*\*\*) The captions also include performing amounts associated with the synthetic securitisations originated within the Intesa Sanpaolo Group.

*Off-balance sheet*

This type of exposure did not exist as at 31 December 2020.



## C.2. Prudential consolidation - Breakdown of exposures deriving from main “third-party” securitisations by type of securitised asset and by type of exposure

### On-balance sheet

Type of securitised asset/ Exposure	(millions of euro)					
	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Leases	-	-	11	-	2	-
Covered bonds	47	-	16	-	-	-
Commercial mortgage loans	113	-5	20	-4	-	-
Securitisations	154	-7	-	-	-	-
Trade receivables	522	4	14	-	1	-
Consumer credit	246	-	65	-3	-	-
Residential mortgage loans	645	-2	101	-	-	-
Loans to businesses (including SMEs) (*)	962	-1	275	-	6	-1
Other assets (**)	5,990	5	-	-	-	-
<b>TOTAL</b>	<b>8,679</b>	<b>-6</b>	<b>502</b>	<b>-7</b>	<b>9</b>	<b>-1</b>

(\*) The exposures include non-performing financial assets amounting to 41 million euro in Mezzanine exposures and 1 million euro in Junior exposures, respectively. The aggregate also includes debt securities issued by the securitisation vehicle set up as part of the sale of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato to Credit Agricole by the National Interbank Deposit Guarantee Fund - Voluntary Scheme, which the Bank participates in. The related Junior Notes were fully written down.

(\*\*) The amount also includes the Romulus securities for 4,097 million, held by the Banking Group, generally represented among third-party securitisations, as well as loans to the vehicle Duomo Funding Plc for 1,384 million as a result of the use of credit lines. For more information regarding the type of underlying assets, reference is made to Section 4 – Risks of other companies, of this Part E.

### Off-balance sheet

Type of securitised asset/ Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
Duomo ABCP Conduit transactions (*)	-	-	-	-	-	-	(*)	(*)	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(\*) With regard to the Duomo Funding Plc transaction funded by ABCP, Intesa Sanpaolo has granted credit lines (equal to 4,392 million euro in terms of net exposures and 3 million euro of adjustments) to secure the assets included under “Other assets” in Table C.2 On-balance sheet.

## C.3. Prudential consolidation - Stakes in securitisation vehicles

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION (a)	(millions of euro)					
			ASSETS (b)			LIABILITIES (b)		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l. (c)	Conegliano Veneto (TV)	(e)	2,411	-	130	1,062	-	1,351
Apulia Finance n. 4 S.r.l. (c) (h)	Conegliano Veneto (TV)	(e)	62	-	12	-	-	59
Augusto S.r.l. (d)	Milano	(e)	-	-	2	13	-	-
Berica ABS 3 S.r.l. (h)	Vicenza	(e)	(f)	(f)	(f)	(f)	(f)	(f)
Berica ABS 4 S.r.l. (h)	Vicenza	Non consolidated	(f)	(f)	(f)	(f)	(f)	(f)
Brera Sec S.r.l. (c)	Conegliano Veneto (TV)	(e)	13,967	-	804	10,946	-	3,457
Clara S.r.l. (c)	Conegliano Veneto (TV)	(e)	6,573	-	1,220	6,350	-	824
Diocleziano S.r.l. (d)	Milano	(e)	1	-	1	49	-	-
Giada S.r.l. (c)	Conegliano Veneto (TV)	(e)	9,613	-	587	6,610	-	3,485
ISP CB Ipotecario S.r.l. (g)	Milano	Consolidated	16,401	-	4,454		19,896	
ISP CB Pubblico S.r.l. (g)	Milano	Consolidated	2,275	1,563	1,308		4,968	
ISP OBG S.r.l. (g)	Milano	Consolidated	46,391	-	8,461		54,756	
UBI Finance S.r.l. (g)	Milano	Consolidated	15,688	-	1,686		17,473	
UBI Finance CB2 S.r.l. (g)	Milano	Consolidated	-	-	3,004		2,868	
UBI SPV Lease 2016 S.r.l. (c)	Milano	(e)	2,799	-	394	2,100	-	1,001

(a) Consolidation method referring to the so-called "prudential" scope.

(b) Figures gross of any intercompany relations.

(c) Self-securitisation vehicle described in Section 1.4 Banking Group - Liquidity Risk, Quantitative Information, paragraph 2 of these Notes to the consolidated financial statements.

(d) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2019).

(e) Vehicle consolidated at equity.

(f) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.4 of these Notes to the consolidated financial statements.

(g) Vehicle used for the covered bond issue by the Intesa Sanpaolo Group. For more information, see Section D.4 in Part E of these Notes to the consolidated financial statements.

(h) Vehicle deriving from the acquisition of certain assets and liabilities of the former Venetian Banks

With regard to the securitisations structured by the Intesa Sanpaolo Group on its own assets, including those named Towers, K-Equity, Savoy, Kerma, Yoda, Maior, Iseo and Sirio in addition to those shown in the table above, other special purpose vehicles were also used that are third-party and independent entities with respect to Intesa Sanpaolo and in which the Group does not hold any investments.

**C.4 Prudential consolidation – Unconsolidated securitisation vehicles**

The unconsolidated securitisation vehicles include the vehicles in which the Intesa Sanpaolo Group does not hold any stake in the capital and those in which it holds a residual stake. The table below shows the assets, liabilities, costs and revenues of each vehicle used for transactions in which the Group acts as originator.

	Berica ABS 4 S.r.l. (*) (**)	(millions of euro) BERICA ABS 3 S.r.l. (*)
<b>A. Assets</b>	<b>320</b>	<b>279</b>
A.1 Loans	320	279
A.2 Securities	-	-
A.3 Other assets	-	-
<b>B. Use of cash and cash equivalents</b>	<b>13</b>	<b>13</b>
B.1 Deposits with banks	-	-
B.2 Prepayments and accrued income	-	-
B.3 Other	13	13
<b>B Liabilities</b>	<b>289</b>	<b>249</b>
B.1 Class A Securities issued	45	11
B.2 Class B Securities issued	76	94
B.3 Class C Securities issued	47	-
B.4 Class J Securities issued	95	115
B.5 Other liabilities	26	29
<b>C. Interest expense and other expenses</b>	<b>6</b>	<b>6</b>
<b>D. Interest income and other revenues</b>	<b>9</b>	<b>8</b>

(\*) The vehicles are used for securitisations involving residential mortgage loans. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards.

(\*\*) Vehicle company which the Intesa Sanpaolo Group has not invested in.

With regard to the unconsolidated structured entities used for securitisations, the Group holds residual stakes in the vehicles Augusto and Diocleziano, consolidated at equity. These vehicles are entities used in securitisations of assets, primarily land and public works financing, of a company subject to joint control sold in previous years.

The Group holds a residual stake in these vehicles. There are no agreements in place which could result in the obligation of the Group to provide financial support to said vehicles.

The Intesa Sanpaolo Group controls the companies Romulus Funding Corporation and Duomo Funding Plc (included solely in the scope of accounting consolidation pursuant to IFRS 10), which are used for transactions in which the Intesa Sanpaolo Group acts as sponsor and whose operations are described in Section 4 - Risks of other companies, of this Part E.

**C.5. Prudential consolidation - Servicer activities – originated securitisations: collection of securitised loans and repayment of securities issued by the securitisation vehicle**

SERVICER	SPECIAL PURPOSE VEHICLE	SECURITISED ASSETS		COLLECTIONS OF LOANS		PERCENTAGE OF REIMBURSED SECURITIES					
		(end-of-period figure)		IN THE YEAR		(period-end figure)					
		(millions of euro)		(millions of euro)		Senior		Mezzanine		Junior	
		Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing
Intesa Sanpaolo	Apulia Finance n.4 S.r.l. (*)	25	37	2	5	0%	100%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 3 S.r.l.	38	241	3	40	0%	99%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 4 S.r.l.	38	282	3	48	0%	94%	0%	0%	0%	0%
Intesa Sanpaolo	Brera Sec S.r.l. (*)	118	13,849	13	2,361	0%	33%	0%	0%	0%	0%
Intesa Sanpaolo	Clara Sec S.r.l. (*)	37	6,536	4	1,159	0%	0%	0%	0%	0%	0%
Intesa Sanpaolo	Giada Sec S.r.l. (*) (**)	2	9,611	-	461	0%	0%	0%	0%	0%	0%
UBI Banca	UBI SPV LEASE 2016 (*) (**)	75	2,724	4	492	0%	0%	0%	0%	0%	0%
<b>Total</b>		<b>333</b>	<b>33,280</b>	<b>29</b>	<b>4,566</b>						

(\*) Vehicle used for self-securitisations

(\*\*) Vehicle structured in 2020 for securitisations for which no redemptions took place as at 31 December 2020.

**C.6. Prudential consolidation – Consolidated securitisation vehicles**

There were no transactions that used consolidated securitisation vehicles during 2020.

**D. SALES****A. Financial assets sold not fully derecognised****Qualitative information**

For a description of the operations shown in tables D.1 and D.3 below, reference is made to the information shown below the relevant tables.

Conversely, for operations in debt securities against medium/long-term repurchase agreements, reference is made to the information in Part B of the Notes to the consolidated financial statements.

**Quantitative information****Prudential consolidation - Financial assets sold fully recognised and related financial liabilities: book value**

	Financial assets sold fully recognised				Related financial liabilities			(millions of euro)
	Book value	of which: securitisations	of which: subject to sales contracts with repurchase clauses	of which: non-performing	Book value	of which: securitisations	of which: subject to sales contracts with repurchase clauses	
<b>A. Financial assets held for trading</b>	<b>1,075</b>	-	<b>1,075</b>	X	<b>1,040</b>	-	<b>1,040</b>	
1. Debt securities	887	-	887	X	847	-	847	
2. Equities	188	-	188	X	193	-	193	
3. Loans	-	-	-	X	-	-	-	
4. Derivatives	-	-	-	X	-	-	-	
<b>B. Other financial assets mandatorily measured at fair value</b>	-	-	-	-	-	-	-	
1. Debt securities	-	-	-	-	-	-	-	
2. Equities	-	-	-	X	-	-	-	
3. Loans	-	-	-	-	-	-	-	
<b>C. Financial assets designated at fair value</b>	-	-	-	-	-	-	-	
1. Debt securities	-	-	-	-	-	-	-	
2. Loans	-	-	-	-	-	-	-	
<b>D. Financial assets measured at fair value through other comprehensive income</b>	<b>5,048</b>	-	<b>5,048</b>	-	<b>4,987</b>	-	<b>4,981</b>	
1. Debt securities	5,048	-	5,048	-	4,987	-	4,981	
2. Equities	-	-	-	X	-	-	-	
3. Loans	-	-	-	-	-	-	-	
<b>E. Financial assets measured at amortised cost</b>	<b>3,062</b>	<b>137</b>	<b>2,863</b>	<b>18</b>	<b>2,911</b>	<b>97</b>	<b>2,767</b>	
1. Debt securities	2,925	-	2,863	-	2,814	-	2,767	
2. Loans	137	137	-	18	97	97	-	
<b>TOTAL 31.12.2020</b>	<b>9,185</b>	<b>137</b>	<b>8,986</b>	<b>18</b>	<b>8,938</b>	<b>97</b>	<b>8,788</b>	
<b>TOTAL 31.12.2019</b>	<b>32,353</b>	<b>686</b>	<b>31,610</b>	<b>69</b>	<b>32,135</b>	<b>411</b>	<b>31,680</b>	

The table above does not include covered bond transactions in which the Intesa Sanpaolo Group is both the seller and lender for the vehicle issuing the debt securities.

The operations shown in the table mainly relate to the use of securities held for short and medium/long-term repurchase agreements and loans to customers assigned as part of the K-Equity securitisations resulting from the acquisition of the former Venetian banks.

**Prudential consolidation – Financial assets sold partly recognised and related financial liabilities: book value**

These are not present in the Intesa Sanpaolo Group.

**Prudential consolidation - Sales with liabilities having recourse exclusively on the assets sold and not fully derecognised: fair value**

		(millions of euro)			
		Fully recognised	Partly recognised	31.12.2020	31.12.2019
<b>A. Financial assets held for trading</b>		<b>1,075</b>	-	<b>1,075</b>	<b>2,395</b>
1. Debt securities		887	-	887	2,395
2. Equities		188	-	188	-
3. Loans		-	-	-	-
4. Derivatives		-	-	-	-
<b>B. Other financial assets mandatorily measured at fair value</b>		-	-	-	-
1. Debt securities		-	-	-	-
2. Equities		-	-	-	-
3. Loans		-	-	-	-
<b>C. Financial assets designated at fair value</b>		-	-	-	-
1. Debt securities		-	-	-	-
2. Loans		-	-	-	-
<b>D. Financial assets measured at fair value through other comprehensive income</b>		<b>5,048</b>	-	<b>5,048</b>	<b>24,457</b>
1. Debt securities		5,048	-	5,048	24,457
2. Equities		-	-	-	-
3. Loans		-	-	-	-
<b>E. Financial assets measured at amortised cost (fair value)</b>		<b>3,062</b>	-	<b>3,062</b>	<b>5,605</b>
1. Debt securities		2,925	-	2,925	4,885
2. Loans		137	-	137	720
<b>Total financial assets</b>		<b>9,185</b>	-	<b>9,185</b>	<b>32,457</b>
<b>Total related financial liabilities</b>		<b>8,886</b>	-	<b>8,886</b>	<b>32,279</b>
<b>Net value</b>	<b>31.12.2020</b>	<b>299</b>	-	<b>299</b>	<b>X</b>
<b>Net value</b>	<b>31.12.2019</b>	<b>178</b>	-	<b>X</b>	<b>178</b>

The table above does not include covered bond transactions in which the Intesa Sanpaolo Group is both the seller and lender for the vehicle issuing the debt securities.

**B. Financial assets sold fully derecognised with recognition of continuing involvement**

This type of exposure did not exist as at 31 December 2020.

**C. Financial assets sold and fully derecognised****Qualitative information**

*Multioriginator sale transactions involving loan portfolios – classified as unlikely to pay in particular – attributable to the sale of loans to a mutual investment fund with the assignment of the units in the fund to the selling intermediaries*

At 31 December 2020, the Intesa Sanpaolo Group held units of mutual funds acquired in multioriginator sales of loan portfolios.

In accordance with the provisions of the Communication of the Bank of Italy of 23 December 2019, disclosures regarding “Multioriginator sale transactions involving loan portfolios – classified as unlikely to pay in particular – attributable to the sale of loans to a mutual fund with the assignment of the units in the fund to the selling intermediaries” are provided below.

***Back2Bonis Fund***

In implementation of the derisking envisaged in the 2018-2021 Business Plan, in the third quarter of 2020 the Intesa Sanpaolo Group began the deconsolidation of a portfolio of credit exposures classified as unlikely to pay with underlying real estate, contracts and assets held by the parent company ISP and UBI Banca, accompanied by their conversion into units of the securities fund called Back2Bonis.

The transaction, the closing of which took place at the end of 2020, took the form for Intesa Sanpaolo of the sale of a portfolio of loans, contracts, legal relationships and assets from lease contracts for a total gross amount of 166 million euro and net exposure of 71 million euro, accompanied by the subscription of the units of the Back2Bonis Fund for an amount of 70.6 million euro, substantially in line with the NBV of the loans and receivables sold.

The transaction was finalised through: (i) the sale to the securitisation vehicle Ampre S.r.l. of the bank receivables and the lease receivables; (ii) the sale to Ampre LeaseCo S.r.l. of the legal relationships and assets arising from the leases; (iii) the sale of the short-term revolving contracts and the related legal relationships and receivables of ISP, together with the medium/long-term contracts with residual disbursements and the related legal relationships, other than the lease relationships and assets through the fronting bank provided by Banca Finanziaria Internazionale S.p.A.; (iv) the subscription by the Back2Bonis Fund of all the securities issued by the securitisation vehicle; and (v) the acquisition by Intesa Sanpaolo of the units of the Fund in exchange for the loans and receivables sold.

In addition to the transaction finalised last year, UBI Banca sold loans belonging to 14 counterparties, for a total amount of 33.8 million euro (net book value at sale), receiving as consideration units of the Back2Bonis Fund for 32.1 million euro, generating a loss on sale of around 1.7 million euro.

The Back2Bonis fund, established in the form of a closed-end mutual fund whose units can only be subscribed by professional investors, is a multi-originator platform for the management of Real Estate Small & Medium Size loans classified as unlikely to pay, deriving from loans and credit lines granted to companies operating in the real estate sector or to real estate funds (including those not fully disbursed/drawn down at the time of sale).

Following the completion of the transfer of the loans and receivables to the platform, the Intesa Sanpaolo Group deconsolidated the loans and receivables and recognised the Fund's units in place of those loans and receivables.

At 31 December 2020, the Intesa Sanpaolo Group held an approximately 39% stake in the Back2Bonis Fund, classified among investments subject to significant influence, for a book value of 163 million euro.

The Back2Bonis Fund has been valued by an independent third party, which assigned it a fair value in line with its carrying amount as at 31 December 2020.

***FI.NAV. Fund***

In pursuit of the de-risking activities provided for in the 2018-2021 Business Plan, in the fourth quarter of 2018 the Intesa Sanpaolo Group launched the contribution to the FI.NAV. Fund (a closed-end Italian securities umbrella fund) of a portfolio of non-performing secured and unsecured loans attributable to the shipping sector.

The Fund, reserved for institutional investors, is managed by the asset management company Davy Investment Fund Service Limited, not a member of the Intesa Sanpaolo Group, based in Ireland, and is divided into two autonomous sub-funds: FI.NAV. Sub-fund A – Loans in which the loans transferred by the Intesa Sanpaolo Group, Unicredit were included and FI.NAV. Sub-fund B - New Finance, in which the capital of third-party investors will be included to relaunch the “repossessed” ships.

The transaction, formulated in 2018, was closed in 2019 through a sale of receivables without recourse for total gross consideration of 155 million euro and a net exposure of 102 million euro, equal to the sale price, set off against the price of subscription of the Fund units and, therefore, without any effects on the income statement for 2019.

In the first quarter of 2020, a further tranche was sold without recourse for a gross amount of 37 million euro and a net value of 34 million euro, in line with the sale price and, therefore, with no impact on the income statement for the year.

Pursuant to IFRS 9, for the Intesa Sanpaolo Group the transaction entailed the derecognition of the loans sold since the Fund has become solely responsible for managing them following the sale; the Intesa Sanpaolo Group therefore derecognised the loans concerned, while recognising the corresponding fair value of the units of the Fund assigned.

The Group companies involved in the transaction were the Parent Company Intesa Sanpaolo (including the units of the former subsidiaries Cassa di Risparmio in Bologna and Mediocredito acquired through the mergers in 2019) and Banca IMI, absorbed on 20 July 2020.

The FI.NAV. Fund, recognised in the Parent Company's financial statements at a value of 138.6 million euro, has been valued by an independent third party, which assigned it a fair value of 135.2 million euro. As a consequence, the value of the fund has been adjusted, resulting in a decrease of 3.4 million euro.



At 31 December 2020, the Parent Company ISP held a 43.5% stake in the FI.NAV. Fund, classified among investments subject to significant influence, for a consolidated book value of 126 million euro with measurement at current exchange rates.

#### *RSCT Fund – Loans Sub-Fund*

As part of the derisking envisaged in the 2018-2021 Business Plan, the Intesa Sanpaolo Group identified the opportunity to transfer assets (loans and securities) relating to non-performing positions to the closed-end RSCT FUND, in exchange for units of the fund. The project was managed by Pillarstone, which selected a portfolio of industrial and commercial companies with the objective of helping each of them to identify a strategy for maximising the potential for debt recovery, also through injections of new finance.

The transaction took place in May 2020 with the transfer of a portfolio of loans with 18 companies originated by the ISP Group (ISP and Banca IMI, subsequently merged into ISP on 20 July 2020), Unicredit, BPER Banca and Crédit Agricole to the newly established closed-end alternative investment RSCT Fund, managed by Davy Investment Fund Services, an alternative fund manager authorised by the Central Bank of Ireland.

The RSCT Fund is made up of two separate sub-funds: sub-fund A for the management of loans acquired from the selling banks and sub-fund B for the management of the new finance.

The sale involved a portfolio of loans, Sirti notes and PS Reti equity instruments for a gross amount of 377 million euro (ISP and Banca IMI) at a net value of 256 million euro, substantially in line with the sale price and, therefore, with no effects on the income statement for the year.

In July, a further sale was completed of a loan position for a gross amount of 6.5 million euro at a value of 4.5 million euro, with the sale price offset against the subscription price of the Fund's units, with no effects on the income statement for the year.

The RSCT Fund, recognised at a value of 259.3 million euro, has been valued by an independent third party, which assigned it a fair value of 257.3 million euro. As a consequence, the value of the fund was adjusted, resulting in a decrease of 2 million euro.

At 31 December 2020, the Parent Company held a 71.97% stake in the RSCT Fund, classified among investments subject to significant influence, for a book value of 257.3 million euro.

#### *IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-fund*

In 2018, the Intesa Sanpaolo Group (specifically Intesa Sanpaolo and the banks subsequently merged into Intesa Sanpaolo: Cassa di Risparmio del Veneto, Cassa di Risparmio di Firenze, Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio in Bologna, and Mediocredito) participated in the closed-end Italian fund IDEA, managed by Dea Capital Alternative Funds S.G.R. Spa and dedicated to the recovery of mid-size Italian companies in situations of financial tension but with solid industrial fundamentals. The transaction, which was completed in 2018, was undertaken by contributing non-performing loans with a nominal value of 59 million euro and a net exposure to the sale price of 39.2 million euro, with the price of sale offset against the subscription price, of equal amount, of the units of the IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-Fund.

These stakes were joined by the stakes of UBI Banca, which in December 2020 sold the Idea CCR II Fund - Loans Sub-fund loans relating to 7 counterparties, for a total of around 48.2 million euro (net book value at sale), in addition to PFIs and other financial instruments fully held by UBI Banca for an amount of around 1.7 million euro, obtaining Fund units as consideration for 46.8 million euro, and generating a loss on sale of around 3.1 million euro.

The sales made in 2020 by UBI Banca follow similar operations carried out from 2017 to 2019 with the IDEa Corporate Credit Recovery II Fund (Idea CCR II), managed by Dea Capital Alternative Funds SGR.

As at 31 December 2020, the Intesa Sanpaolo Group held a 38% stake in the IDEA Fund, classified among Financial assets mandatorily measured at fair value, for a book value of 135 million euro.

The IDEA CCR Corporate Credit Recovery II Fund has been valued by an independent third party, which has assigned it a fair value in line with its carrying amount as at 31 December 2020.

### **Prudential consolidation - Covered bond transactions**

Covered bond transactions where the selling Bank and the lending Bank are the same must be reported under this section. The Intesa Sanpaolo Group uses covered bonds mainly as a type of funding through securities guaranteed by assets originated by Intesa Sanpaolo or by other companies of the Group.

Over time, Intesa Sanpaolo has carried out three Covered Bond issue programmes.

The first programme, launched in 2009, has a maximum amount of 20 billion euro (the original maximum amount was 10 billion euro). The guarantor of the Covered Bonds is the vehicle ISP CB Pubblico, to which a portfolio of performing loans and securities to the public sector, originated by the former subsidiary Banca Infrastrutture Innovazione e Sviluppo, now Intesa Sanpaolo, was transferred. The Bank gradually sold the vehicle assets with a total original nominal value of 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro). The last sale (amounting to around 1 billion euro) took place in April 2013. In September 2020, the retrocession of a customer was carried out for an amount of 132 million euro.

As at 31 December 2020, loans and securities sold to the vehicle had a book value of 3.8 billion euro.

Against these sales, Covered Bonds were issued over time for a total nominal value of 24.2 billion euro (of which 17.3 billion euro relating to issues acquired in full by the Parent Company and subject to early redemption or matured and 3.5 billion euro relating to an exchange offer to investors during 2012, of which 2 billion euro that matured in the second quarter of 2017).

In 2020, the tenth series of Covered Bonds was partially redeemed in advance for a total nominal amount of 0.85 billion euro.

Therefore, as at 31 December 2020, a total nominal amount of 4.1 billion euro of issues made as part of the Covered Bond programme of the vehicle ISP CB Pubblico was outstanding, of which 4 billion subscribed by Intesa Sanpaolo and 0.1 billion placed with third-party investors.

All the securities issued under the programme are listed on the Luxembourg Stock Exchange and have a Moody's A2 rating.

In the second programme, launched in 2010, amounting to a maximum of 25 billion euro (the original maximum amount was 20 billion euro), the guarantor of the covered bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans, and initially bonds issued by Adriano Finance S.r.l., originated by Intesa Sanpaolo were transferred. The Bank gradually sold the vehicle mortgage loans with an original total nominal value of 33.8 billion euro (net of retrocessions). As at 31 December 2020, the loans sold to the vehicle had a book value of 16.4 billion euro.

Over time, against the sale of these assets, Intesa Sanpaolo has carried out issues of Covered Bonds for a total nominal value of approximately 33.2 billion euro (of which a total of 15.3 billion euro subject to early redemption or matured at December 2019).

No new sales were made under the programme in 2020. In addition:

- in January, the twenty-seventh series of Covered Bonds was issued in the form of a floating-rate bond for a nominal value of 0.75 billion euro, with an 11-year maturity, listed on the Luxembourg Stock Exchange and with a Moody's Aa3 rating. The bond was fully subscribed by the Parent Company;
- during the year, the twentieth series was redeemed in advance in two tranches, the first in July for an amount of 0.7 billion euro and the second in August for the remaining amount of 0.55 billion euro;
- the twenty-sixth series of Covered Bonds was partially redeemed in advance during the year, for a total nominal amount of 0.5 billion euro.

All the securities issued under the programme are listed on the Luxembourg Stock Exchange and have a Moody's Aa3 rating. As at 31 December 2020, a total nominal amount of 16.9 billion euro of issues made as part of the covered bond programme of the vehicle ISP CB Ipotecario was outstanding, of which 12 billion placed with third party investors and 4.9 billion subscribed by Intesa Sanpaolo. Part of the latter was subsequently used in repurchase agreements for an amount of 1.8 billion euro.

The third multi-originator Covered Bond issue programme, launched in 2012, has the vehicle ISP OBG S.r.l. as the guarantor of its securities. This programme is secured by mortgages for a maximum amount of 50 billion euro (the original maximum amount was 30 billion euro) and is aimed at realising the retained issues.

The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli, Cassa di Risparmio del Veneto, Cassa di Risparmio in Bologna and Banca CR Firenze (merged by incorporation into Intesa Sanpaolo between July 2018 and February 2019). Over time, the Intesa Sanpaolo Group sold mortgages to the vehicle for an original total nominal value of 62.4 billion euro (net of exclusions).

The following sales were carried out in 2020:

- in March 2020, for a total of 6 billion euro;
- in June 2020, for a total of 5.1 billion euro;
- in November 2020, for a total of 1.6 billion euro.

In May 2020, Intesa Sanpaolo also closed retrocessions of non-performing loans with a nominal value of 65 million euro.

As at 31 December 2020, the loans sold to the vehicle by Intesa Sanpaolo had a book value of 46.4 billion euro.

Over time, against the sales of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of 70.75 billion euro (of which 33.95 billion euro subject to early redemption and reimbursed).

During 2020:

- in February, the securities of the sixth, fifteenth and sixteenth series were redeemed in advance for a total of 3.5 billion euro;
- in February, the thirty-eighth and thirty-ninth series of Covered Bonds were issued, each amounting to a nominal value of 1.75 billion euro, at floating rate and with maturities of 13 and 14 years, respectively;
- in March, the fortieth series of Covered Bonds was issued with a nominal value of 1.8 billion euro. This is a 14-year, floating-rate bond;
- in April, securities were issued for the forty-first and forty-second series, each amounting to 2.4 billion euro, at floating rate and with maturities of 15 years;
- in June, the forty-third and forty-fourth series of Covered Bonds were issued, each amounting to 1.35 billion euro, at floating rate and with maturities of 8 and 16 years, respectively;
- in December, the seventeenth series was partially redeemed for a total of 0.2 billion euro.

All the securities issued as part of the programme are listed on the Luxembourg Stock Exchange and have a DBRS A (High) rating. The characteristics of the issues make them eligible for Eurosystem refinancing operations. As at 31 December 2020, the issues made under the programme guaranteed by the vehicle ISP OBG had a total nominal amount of 45.90 billion euro, fully subscribed by Intesa Sanpaolo and subsequently used in repurchase agreements for 50 million euro.

The companies of the former UBI Banca Group currently include two covered bond programmes, run by two special purpose vehicles named UBI Finance S.r.l. and UBI Finance CB2 S.r.l., respectively.

The first programme, UBI Finance, was launched by the former UBI Banca Group in 2008 and still provides UBI Banca with the right to issue securities, targeted to institutional investors, for a maximum amount of 15 billion euro. The programme includes a portfolio of residential mortgage loans assigned by the former UBI Group's network banks. These banks participated in the programme as Originator Banks as well as Lending Banks.

Currently, UBI Banca and IW Bank are participating in the programme. As at 31 December 2020, the loans sold to the vehicle had a total book value of 16.7 billion euro, of which 0.2 billion euro sold by IW Bank and the entire remaining amount sold by UBI Banca.

For the purpose of providing complete information, note that as part of the activities relating to the integration of the companies of the former UBI Banca Group into the Intesa Sanpaolo Group, in January 2021 an operation was finalised for the repurchase of loans totalling 5.2 billion euro (in terms of residual capital debt), of which 0.2 billion euro repurchased by IW Bank, equal to its entire portfolio at the repurchase date, and the remaining 5 billion euro repurchased by UBI Banca.

During 2020, no new issues of securities or repayments of outstanding issues were carried out. Therefore, considering the various bonds issued in the previous years, the nominal value of the securities as at 31 December 2020 totalled 12 billion euro.

At the same date, those bonds were assigned an Aa3 rating from Moody's and AA from DBRS.

The second Covered Bond programme of the former UBI Banca Group, named UBI Finance CB2, was established in 2012 and aimed at issuing new retained bonds, i.e. subscribed by UBI Banca itself and used as eligible securities for operations with the Eurosystem.

The ceiling set for this Covered Bond programme was 5 billion euro.

Also for the second programme, the securitised loans, mainly represented by commercial mortgage loans, were sold by the former UBI Group's network banks, which had participated in the Programme as Originator Banks as well as Lending Banks.

In the second half of 2020, following the entry of the companies of the former UBI Banca Group into the Intesa Sanpaolo Group, the early termination of the UBI Finance CB2 Programme was decided: in December 2020, the covered bonds issued under this Programme were recalled and eliminated, and the two originators, UBI Banca and IW Bank, repurchased all of the loans sold still outstanding, for a total amount of 2.9 billion euro (in terms of residual capital debt), of which 2.899 billion euro belonging to UBI Banca and the remaining 12.8 million euro relating to the portfolio of IW Bank.

The effective termination of the Programme is expected in January 2021.

The key figures for ISP CB Pubblico, ISP CB Ipotecario, ISP OBG, UBI Finance and UBI Finance CB2 as at 31 December 2020 are shown in the table below.

COVERED BONDS		VEHICLE DATA		SUBORDINATED LOAN <sup>(1)</sup>	(millions of euro) COVERED BONDS ISSUED	
		Total assets	Cumulated write-downs on securitised portfolio		amount	Nominal amount (2)
ISP CB PUBBLICO	Performing public sector loans and securities	5,146	7	4,968	146	153
ISP CB IPOTECARIO (3)	RMBSSs (Performing residential mortgages)	20,856	62	19,896	13,763	14,450
ISP OBG	Mortgages	54,852	233	54,756	50	50
UBI FINANCE	Residential mortgages	17,374	253	17,420	8,534	9,104
UBI FINANCE CB2	Commercial mortgages	3,004	-	2,957	-	-

(1) This caption includes the subordinated loan granted to the vehicles for the purchase of the portfolio lodged as collateral for the CB. This loan is derecognised in the IAS-compliant separate financial statements. The amount of the loan refers to the issue already executed as part of an issue programme with a higher maximum amount.

(2) The nominal amount and the book value shown in the table are to be considered net of securities repurchased.

(3) The covered bonds (CB) issued by Intesa Sanpaolo were placed on the market with institutional investors for almost the entire amount issued.

In addition to this type of Covered Bonds, provided for by Italian law (Law 80/2005), there are some mortgage bonds issued by the Slovak investee VUB. These are securities whose nominal value and returns are guaranteed by mortgage loans, i.e. loans with maturity of four to thirty years, backed by a pledge on property located in the Slovak Republic, including property under construction, at least 90% of the value of which is financed by the issue of these securities.

Each issue has specific coverage, and the entire nominal value of the issue, including interest, must be backed by mortgages on local properties on at least 90% of their nominal value, and the remaining 10% by liquidity, deposits with the National Bank of Slovakia or with other resident banks, by government securities or other mortgage bonds.

As at 31 December 2020, the subsidiary VUB had issued 3.4 billion euro in this type of securities, booked in the financial statements at a value of approximately 3.4 billion euro.

## E. PRUDENTIAL CONSOLIDATION - MODELS FOR THE MEASUREMENT OF CREDIT RISK

As at 31 December 2020, the expected loss on performing loans to customers (which takes account of cash and unsecured loan types) was 0.39%, down by around 2 basis points on the figure at the end of 2019. The decrease was mainly attributable to the exit of higher risk operations, which offset the slight increase in risk observed on counterparties across the two periods. Overall economic capital was 2.15% of drawdowns, recording a decrease compared to the 2019 figure (-0.22%), mainly resulting from the reduction in concentration risk deriving from exposures in securities, and a recomposition of the less risky portfolio.

The figures for the indicators as at 31 December 2019 were reassessed according to the ICAAP 2020 approach.

For the companies included in the roll out plan, the LGD and EAD internal rating models are subject to a second level of control by the Validation function, as described in paragraph 2.3 of this Section, and a third level of control by the Internal Auditing function. The control functions produce an annual report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also includes a verification on the deviations of the ex-ante estimates and the effective ex post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms compliance with the regulatory requirements.

### 1.2. MARKET RISKS

As already mentioned in the Introduction, the Intesa Sanpaolo Group policies on financial risk taking are defined by the Parent Company's Management Bodies, with the support of specific Committees, including the Steering Committee, chaired by the Managing Director and CEO and composed of the heads of the main corporate departments, and the Group Financial Risk Committee.

The Steering Committee, a Group body with a decision-making, reporting and consulting role, is also assigned the functions of assisting the Managing Director and CEO in the performance of his duties, strengthening the coordination and cooperation mechanisms between the various business, governance and control areas of the Bank and the Group, with a view to sharing the main business choices, and helping ensure coordinated and integrated risk management and the safeguarding of business value at Group level, including the correct functioning of the internal control system.

The Group Financial Risk Committee, chaired by the Chief Risk Officer and the Chief Financial Officer, is responsible for setting out the methodological and measurement guidelines for financial risks, establishing the operational limits and assessing the risk profile of the Group and its main operational units. The Committee also sets out the strategies for the management of the banking book to be submitted to the competent Bodies and establishes the guidelines on liquidity, interest rate and foreign exchange risk. The Committee operates on the basis of the operating and functional powers delegated by the Corporate Bodies and coordination of the Steering Committee.

The Group's overall financial risk profile and the eventual necessary changes are examined periodically by the Group Financial Risk Committee.

The Parent Company's Financial and Market Risks Head Office Department is responsible for the development of corporate risk measurement and monitoring methodologies as well as for the proposals on the Bank's and the Group's system of operational limits. It is also responsible in outsourcing for the risk measurement for certain operating units on the basis of specific service contracts.

The table below shows the items of the consolidated Balance Sheet that are subject to market risks, showing the positions for which managerial VaR is the main risk measurement metric (the managerial VaR is calculated on a wider scope than that subject to the Internal Model for market risks. For more information refer to the paragraph below) and those for which the risks are monitored with other metrics. The latter mostly include the sensitivity analysis to the different risk factors (interest rate, credit spread, etc.).

(millions of euro)

	BOOK VALUE (supervisory scope)	MAIN RISK MEASUREMENT METRICS		
		VaR	Other	Risk factors measured using metrics included under Other
<b>Assets subject to market risk</b>	<b>743,216</b>	<b>109,594</b>	<b>633,622</b>	
Financial assets held for trading	53,619	53,437	182	Interest rate risk, credit spread, equity
Financial assets designated at fair value	3	1	2	Interest rate risk, credit spread
Other financial assets mandatorily measured at fair value	5,441	2,286	3,155	Interest rate risk, credit spread
Financial assets measured at fair value through other comprehensive income (ifrs 7 par. 8 lett. h)	57,865	53,807	4,058	Interest rate risk, equity
Due from banks	110,095	-	110,095	Interest rate risk
Loans to customers	505,956	-	505,956	Interest rate risk
Hedging derivatives	1,134	63	1,071	Interest rate risk
Investments in associates and companies subject to joint control	9,103	-	9,103	Equity risk
<b>Liabilities subject to market risk</b>	<b>702,391</b>	<b>62,318</b>	<b>640,073</b>	
Due to banks	115,690	-	115,690	Interest rate risk
Due to customers	423,674	-	423,674	Interest rate risk
Securities issued	93,754	-	93,754	Interest rate risk
Financial liabilities held for trading	59,153	59,116	37	Interest rate risk
Financial liabilities designated at fair value (ifrs 7 par. 8 lett. e)	3,032	3,032	-	-
Hedging derivatives	7,088	170	6,918	Interest rate risk

## REGULATORY TRADING BOOK

### 1.2.1. INTEREST RATE RISK AND PRICE RISK

Consistent with the use of internal models and managerial models for risk management, the sections relative to interest rate and price risk have been grouped within the relevant portfolio.

#### Qualitative information

The quantification of trading risks (managerial calculation scope) is based on daily and periodic analysis of the vulnerability of the trading portfolio of Intesa Sanpaolo (including the IMI C&IB Division), which represents the main portion of the Group's market risks, to adverse market movements of the following risk factors:

- interest rates;
- equities and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

Some Group subsidiaries hold smaller trading portfolios with a marginal risk (approximately less than 1% of the Group's overall management risk). In particular, the risk factors of the international subsidiaries' trading books are local government bonds, positions in interest rates, and foreign exchange rates relating to linear pay-offs.

#### Managerial VaR

The analysis of market risk profiles relative to the trading book (managerial scope) uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS).

VaR estimates are calculated daily based on simulations of weighted historical time-series, a 99% confidence level and 1-day holding period.

In line with what has been approved by the BoD, with regard to the VaR limits for legal entities, the managerial VaR of the Trading component includes the HTCS portfolio of the IMI C&IB Division

With particular regard to the legal entity UBI Banca, following its consolidation within the Group, tactical solutions have been



implemented with regard to the managerial market risk measures in order to report those risks in Intesa Sanpaolo's portfolio. Specifically, the trading book is reported within the IMI C&IB Division, while the HTCS portfolio has been divided between the Group Treasury and Finance Department (liquidity portfolio) and the IMI C&IB Division (investment portfolio).

#### *Sensitivity and greeks*

Sensitivity measures make risk profiling more accurate, especially in the presence of option components. These measure the risk attributable to a change in the value of a financial position to predefined changes in valuation parameters including a one basis point increase in interest rates.

#### *Level measures*

Level measures are risk indicators which are based on the assumption of a direct relationship between the size of a financial position and the risk profile. These are used to monitor issuer/sector/country risk exposures for concentration analysis, through the identification of notional value, market value or conversion of the position in one or more benchmark instruments (so-called equivalent position).

#### *Stress tests*

Stress tests measure the value changes of instruments or portfolios due to changes in risk factors of unexpected intensity and correlation, or extreme events, as well as changes representative of expectations of the future evolution of market variables. Stress tests for management purposes are applied periodically to market risk exposures, typically adopting scenarios based on historical trends recorded by risk factors, for the purpose of identifying past worst-case scenarios, or defining variation grids of risk factors to highlight the direction and non-linearity of trading strategies.

#### *Internal model validation*

For some of the risk factors included in the managerial VaR measurements, with regard to the Parent Company's regulatory trading book, the Supervisory Authority has validated the internal models for the capital requirement of Intesa Sanpaolo.

More specifically, concerning market risk, the risk profiles validated are: (i) general/specific on debt securities and on equities; (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products and the hedge fund portfolios with a look through approach; (iii) position risk on dividend derivatives and (iv) commodity risk.

#### *Stressed VaR*

Capital absorption includes the requirement for stressed VaR. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel document "Revision to the Basel 2 market risk framework":

- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors for the portfolio of Intesa Sanpaolo;
- the period must allow real time series to be used for all portfolio risk factors.

While using the historical simulation approach for VaR calculation, the latter point is a discriminating condition in the selection of the holding period. Actually, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.

As at the date of preparation of this document, the period for the measurement of Stressed VaR for Intesa Sanpaolo was from 11 October 2011 to 28 September 2012.

#### *Incremental Risk Charge (IRC)*

The Incremental Risk Charge (IRC) is the maximum potential loss in the credit trading book resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level. This measure is additional to VaR and enables the correct representation of the specific risk on debt securities and credit derivatives because, in addition to idiosyncratic risk, it also captures event and default risk.

Details are provided below of the estimates and evolution of managerial VaR of Intesa Sanpaolo (including the HTCS portfolio of the IMI C&IB Division), defined as the sum of VaR and of the simulation on illiquid parameters.

## **Quantitative information**

### **Daily managerial VaR evolution**

During the fourth quarter of 2020, the managerial market risks generated by the Group decreased compared to the average values of the third quarter of 2020. These decreased from 277.6 million euro (third quarter average) to 200.2 million euro. The trend was determined mainly by the IMI C&IB Division, which recorded a decrease in total VaR from 271.6 million euro to 201.0 million euro.

That effect is mainly attributable to the rolling scenario effects given the decreased volatility of the market as well as the reduction of HTCS securities of the IMI C&IB Division.

The Trading Book component recorded a total reduction in risk from 73.3 million euro to 59.0 million euro. It is noted that the contribution as at 31 December 2020 of the trading book of the legal entity UBI Banca, merged into the IMI C&IB Division, came to 0.795 million euro.



## Daily managerial VaR of the trading book

	average 4th quarter	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	(millions of euro) average 1st quarter
Group Treasury and Finance Department	3.4	2.3	4.5	9.9	37.9	15.0
IMI C&IB Division	201.0	132.8	280.4	271.6	325.6	159.8
of which IMI C&IB Division Trading Book	52.5	35.5	72.1	59.6	47.7	26.1
<b>Total</b>	<b>200.2</b>	<b>131.0</b>	<b>278.5</b>	<b>277.6</b>	<b>363.5</b>	<b>174.8</b>
of which Group Trading Book <sup>(a)</sup>	59.0	40.9	79.8	73.3	85.6	41.1

Each line in the table sets out past estimates of daily VaR calculated on the historical quarterly time-series of the Group Treasury and Finance Department, the IMI C&IB Division and the Intesa Sanpaolo Group (including other subsidiaries) respectively; minimum and maximum values for the overall perimeter are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

(a) The Group Trading Book figure includes the managerial VaR of the Group Treasury and Finance Department, the IMI C&IB Division (Trading Book perimeter) and the other subsidiaries.

For all of 2020, the Group's average managerial VaR was 254.8 million euro, up compared to 151.5 million euro in 2019. The performance of this indicator – mainly determined by the IMI C&IB Division – derives from an increase in the risk measures, mainly due to the volatility in the markets as a result of the COVID-19 pandemic.

## Daily managerial VaR of the trading book - Comparison 2020 – 2019

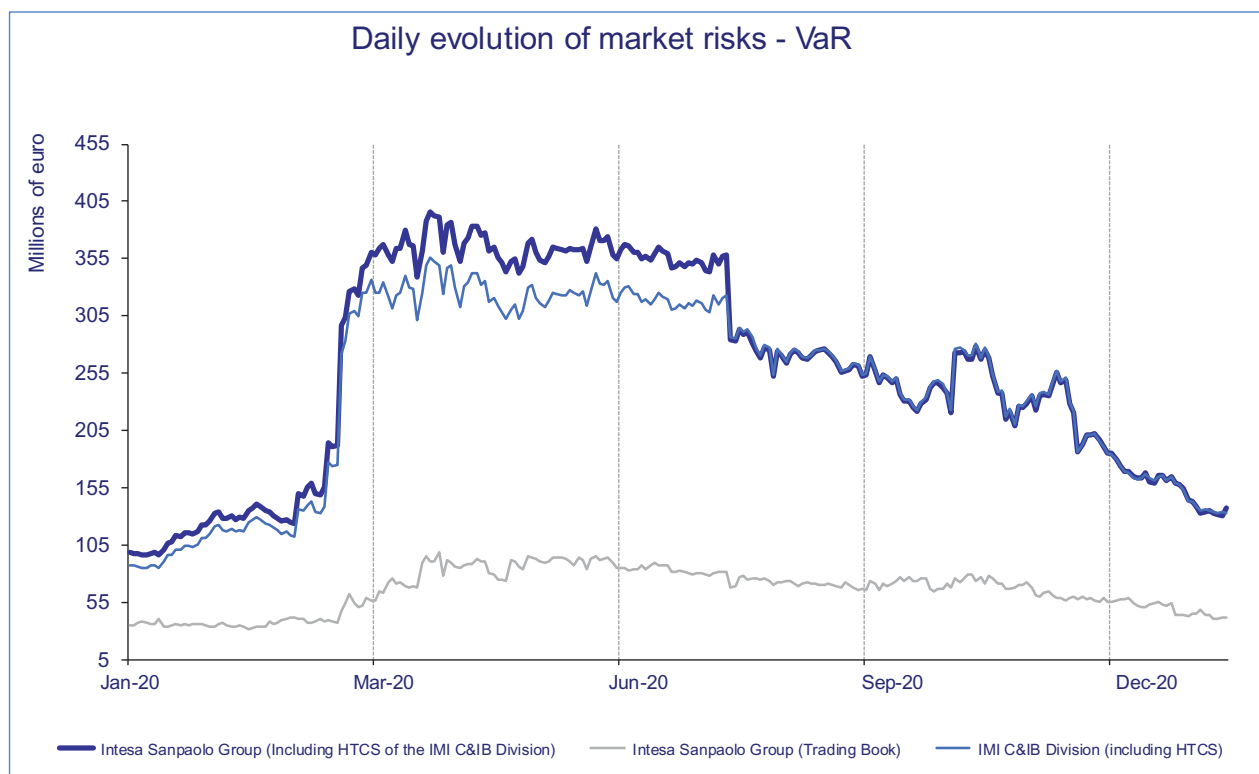
	2020				2019		
	average	minimum	maximum	last day	average	minimum	maximum
Group Treasury and Finance Department	16.5	2.3	42.6	2.7	15.4	10.7	19.0
IMI C&IB Division	239.9	85.0	356.3	133.2	136.0	84.1	192.3
of which IMI C&IB Division Trading Book	46.6	20.7	72.1	36.4	29.5	23.1	38.4
<b>Total</b>	<b>254.8</b>	<b>96.1</b>	<b>395.9</b>	<b>137.6</b>	<b>151.5</b>	<b>95.1</b>	<b>208.8</b>
of which Group Trading Book <sup>(a)</sup>	65.3	31.4	98.6	41.6	45.0	35.0	57.1

Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the year 2020 respectively of the Group Treasury and Finance Department, the IMI C&IB Division and the Intesa Sanpaolo Group (including other subsidiaries); minimum and maximum values for the overall perimeter are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

(a) The Group Trading Book figure includes the managerial VaR of the Group Treasury and Finance Department, the IMI C&IB Division (Trading Book perimeter) and the other subsidiaries.

For the Intesa Sanpaolo Group, up to June 2020 the trend in VaR in 2020 was mainly caused by the volatility on the financial markets due to the health emergency generated by the COVID-19 pandemic (the main effects were recorded on government securities in the HTCS portfolio of the IMI C&IB Division). Instead, since the third quarter, the measures have decreased due to the following:

- the merger by incorporation of Banca IMI into the Parent Company, which resulted in diversification (in July) of the Group managerial VaR (including the HTCS book);
- “rolling scenario” effect and reduction of the HTCS portfolio of the IMI C&IB Division in the following months. With reference to the rolling scenario effects, given the lower volatility of the markets, the most volatile scenarios were no longer part of the managerial VaR distributions.



The breakdown of the Group's risk profile in the fourth quarter of 2020 with regard to the different risk factors shows the prevalence of credit spread risk, which accounted for 76% of the Group's total managerial VaR (of which 65% just for the Trading Book component). As regards the single risk taking centres, a prevalence of interest rate and exchange rate risk is observed for the Group Treasury and Finance Head Office Department (48% and 42%, respectively), while the credit spread risk factor is prevalent for the IMI C&IB Division (77%).

#### Contribution of risk factors to total managerial VaR

4th quarter 2020	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Group Treasury and Finance Department	0%	0%	48%	10%	42%	0%	0%
IMI C&IB Division	3%	2%	16%	77%	0%	1%	1%
<b>Total</b>	<b>3%</b>	<b>2%</b>	<b>16%</b>	<b>76%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>

Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the fourth quarter of 2020, broken down between the Group Treasury and Finance Department and IMI C&IB Division and indicating the distribution of the Group's overall capital at risk.

Risk control with regard to the activity of the Intesa Sanpaolo Group also uses scenario analyses and stress tests. The impact of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads, foreign exchange rates and commodity prices at the end of December is summarised in the following table:

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-5%	+5%	Crash	Bullish
Total	43	-8	-247	134	690	-639	11	-6	2	-
of which HTCS of the IMI C&IB Division	-	-	-157	99	614	-586	-	-	-	-

More specifically:

- for stock market positions, there would be a loss of 8 million euro in the event of a sharp rise in equity prices and a decrease in volatility;
- for positions in interest rates, there would be a loss of 247 million euro in the event of an increase in rate curves of 40 bps (of which -157 million euro attributable to the HTCS portfolio of the IMI C&IB Division);
- for positions in credit spreads, a widening of credit spreads of 25 bps would entail a loss of 639 million euro (of which -586 million euro attributable to the HTCS portfolio of the IMI C&IB Division);
- for positions in exchange rates, there would be a loss of 6 million euro in the event of appreciation in the Euro against the other currencies;
- lastly, for positions in commodities, there would be gains both in the event of an increase (marginally positive values) and a decrease in commodity prices.

**Backtesting**

The soundness of the VaR calculation methods must be monitored daily via backtesting which, for the regulatory backtesting, compares:

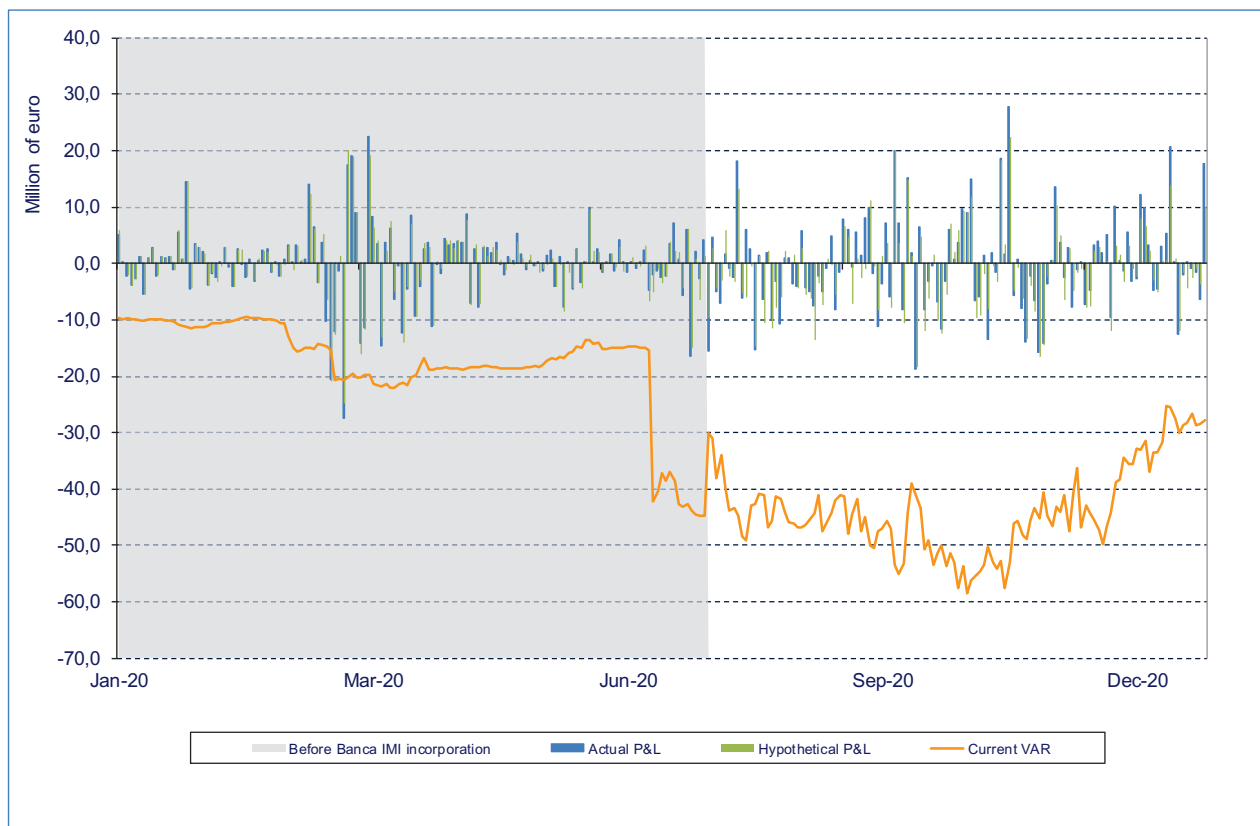
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting: these include, for example, fees and financial costs of managing the positions that are regularly reported within the managerial area.

Backtesting allows verification of the model’s capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the internal model are represented by situations in which daily profits/losses based on backtesting highlight more than four occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual and hypothetical P&L series.

At 31 December 2020, the Intesa Sanpaolo Group did not benefit from the exclusion of overshootings from the calculation of the backtesting addend in view of the COVID-19 pandemic (Reg. 2020/873, Art. 500c). The exceptions set out below are the only cases recorded by Intesa Sanpaolo over the last twelve months.

The increase in the Parent Company’s VaR shown in the graph below starting in July is attributable to the effects of the Banca IMI trading book integration.

During the fourth quarter<sup>47</sup>, no backtesting exceptions were recorded. The two overshoots shown in the graph for the period January 2020 – December 2020 refer to the legal entity Intesa Sanpaolo before the Banca IMI integration. In the same period, Banca IMI recorded three exceptions. The most recent breaches were linked to the turmoil on the markets as a result of the COVID-19 crisis.



<sup>47</sup> The estimates do not include UBI’s trading book.

**Issuer risk**

Issuer risk in the trading portfolio is analysed through level measures, i.e. in terms of mark to market, with exposures aggregated by rating class and sector, and is monitored through a system of operating limits based on both sector/rating classes and concentration indexes.

*Breakdown of exposures by type of issuer*

	TOTAL	OF WHICH					
		Corporate	Financial	Emerging	Covered	Government	Securitis.
Group Treasury and Finance Department	9%	1%	0%	0%	4%	95%	0%
IMI C&IB Division	91%	14%	38%	7%	2%	23%	16%
<b>Total</b>	<b>100%</b>	<b>13%</b>	<b>35%</b>	<b>6%</b>	<b>2%</b>	<b>29%</b>	<b>15%</b>

The table sets out in the Total column the contribution of the Group Treasury and Finance Department and the IMI C&IB Division to overall issuer risk exposures, breaking down the exposure by type of issuer. The scope corresponds to the trading portfolio with an issuer ceiling (excluding Italian Government bonds, AAA and own bonds) and including CDS (absolute value).

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities in the government segment for the Group Treasury and Finance Department and in the financial and government segments for the IMI C&IB Division.

**Operating limits**

The structure of limits reflects the risk level deemed to be acceptable with reference to single business areas, consistent with operating and strategic guidelines defined by top management. The attribution and control of limits at the various hierarchical levels implies the assignment of delegated powers to the heads of business areas, aimed at achieving the best trade-off between a controlled risk environment and the need for operating flexibility. The functioning of the system of limits and delegated powers is underpinned by the basic concepts of hierarchy and interaction.

The application of such principles led to the definition of a structure of limits in which the distinction between first level and second level limits is particularly important:

- first level limits (VaR): at the level of individual legal entities, these are approved by the Board of Directors, concurrently with approval of the RAF. Limit absorption trends and the relative congruity analysis are periodically assessed by the Group Financial Risk Committee. Following approval, these limits are then allocated to the desks of the individual legal entities, considering the proposals by the business units;
- second level limits (sensitivity and greeks): they have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures;
- other significant limits: they have the objective of monitoring particular transactions (e.g. ceiling for transactions with issuer risk, Incremental Risk Charge limit).

Some of these limits may be covered by the RAF rules.

The use of the IRC limits was 35.3% at year-end for Intesa Sanpaolo (limit of 600 million euro).

**Impacts from the COVID-19 pandemic**

As regards the impacts generated by the COVID-19 pandemic on the trends in market risks, the exceptional circumstances that characterised the financial markets in the first and second quarter of 2020 resulted in the revision of the RAF framework in May, with regard to both the Trading measures and the HTCS component.

In particular, in light of the changed context:

- from a managerial perspective, the Group continued the reduction of its securities portfolio in the fourth quarter. The fourth quarter saw a reduction in managerial VaR compared to the previous quarter, from 277.6 million euro to 200.2 million euro, mainly due to rolling scenario effects and a reduction in the HTCS portfolio of the IMI C&IB Division;
- as for Market Risk capital requirement, despite the increase in volatility, the trading book experienced a slight increase in its prudential requirement compared to the previous quarter. Despite an increase in the cyclical measure (VaR), the hedging strategies have limited the exposure to the risk factors most affected by the pandemic (sovereign and financial spreads). Furthermore, the Intesa Sanpaolo Group's market risk weighted assets at 31 December 2020, calculated according to the internal model, amounted to 17 billion euro. This figure was in line with December 2019 despite the increased volatility that affected the financial markets during 2020.

**BANKING BOOK****1.2.2 INTEREST RATE RISK AND PRICE RISK****Qualitative information****General aspects, interest rate risk and price risk management processes and measurement methods**

Market risk originated by the banking book arises primarily from the exposure to assets, liabilities and off-balance sheet transactions sensitive to interest rates (interest rate risk) assumed by the Parent Company and the other main Group companies involved in credit activity (retail and corporate banking). The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mainly held by the Parent Company.

The internal system for measuring interest rate risk assesses and describes the effect of changes in interest rates on the economic value and the net interest income and identifies all significant sources of risk that affect the banking book:

- repricing risk: risk arising from maturity mismatches (for fixed-rate positions) and interest rate revision date mismatches (for floating-rate positions) of financial items due to parallel movements in the yield curve;
- yield curve risk: risk arising from maturity mismatches and interest rate revision date mismatches due to changes in the inclination and shape of the yield curve;
- basis risk: risk arising from imperfect correlation in the adjustment of lending and deposit rates of floating-rate instruments which may differ according to indexing parameters, rate revision method, indexing algorithm, etc. This risk arises as a result of non-parallel changes in market rates;
- option risk: risk due to the presence of automatic options or options that depend on the behaviour of the counterparty to the assets, liabilities and off-balance sheet instruments of the Group.

Interest rate risk is managed by setting limits and an early warning level for the exposure, approved within the Risk Appetite Framework (RAF). In particular, the early warning level allows monitoring of the exposure to the risk of bends in the curve. The Financial and Market Risks Head Office Department performs monthly checks that the limits and early warning level approved in the Risk Appetite Framework (RAF) are observed at the consolidated and individual level.

In addition, the Group has adopted a specific internal policy document regarding interest rate risk (the IRRBB Guidelines) subject to approval by the BoD, which governs the Group's entire interest rate risk management framework and in particular the aspects of governance, methods of use and formulation of scenarios.

The following metrics are used to measure the interest rate risk generated by the banking book:

1. with regard to economic value:
  - fair value shift sensitivity ( $\Delta\text{EVE}$ );
  - fair value basis risk (BR);
  - value at risk (VaR).
2. with regard to net interest income:
  - net interest income sensitivity ( $\Delta\text{NII}$ );
  - net interest income basis risk.

The shift sensitivity of the economic value (or fair value shift sensitivity) measures the change in the economic value of the banking book and is calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks and based on historical stress simulations aimed at identifying the worst and best cases. It reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet). The cash flows used to determine the present value are developed at the contractual rate, FTP (internal fund transfer price) or risk-free rate (Euribor/Libor) and discounted according to risk-free discount curves. When calculating the present value of loans, the expected loss component is considered; it represents the amount of cash flow that the bank does not expect to recover on a given exposure and that thus reduces its value. The present value of the loan adjusted for credit risk is calculated for this purpose by deducting the corresponding level of expected loss from expected cash flows according to the "cash flow adjustment" ("CFA") method.

To control the exposure and monitor the limits, the calculation involves determining the algebraic sum of the equivalent in euro of the shift sensitivities of the positions in the various currencies by applying a parallel shock of +100 bps to the interest rate curves in the various currencies. The calculation for non-parallel shocks for the purposes of controlling the exposure and monitoring the early warning level is performed similarly. The sensitivity of the relevant currencies is then corrected, according to a "currency aggregation" management technique, to take account of the imperfect correlation with the rates of the main currency (the euro).

The fair value basis risk (BR) is a risk measure designed to capture the effect on the floating-rate banking book caused by the imperfect correlation of changes in market indices. The method of estimating fair value basis risk is based on applying shocks, diversified by the curve of reference of the main risk factors. The specific shock level is calculated as a change in the base of each reference rate compared to a designated pivot rate in the same currency.

Value at Risk (VaR) measures the maximum loss that could occur within a given time horizon (holding period) and with a given confidence level. VaR is determined by adopting a 99% confidence level and a holding period of ten days. VaR is estimated using a method based on the historical simulation of the risk factors, represented by the risk-free market interest rate curves, in which the bank's exposure is revalued (full evaluation) on the basis of the curves observed over the last 250 days prior to the evaluation date.

The sensitivity of net interest income quantifies the impact on interest income of shock to the interest rate curve. For managerial monitoring of the limits, the sensitivity of net income is measured over a short-term horizon (12 months), excluding potential effects due to new transactions and future changes in the mix of assets and liabilities, by applying parallel, instantaneous interest rate shocks. The method implicitly assumes that the principal amounts of transactions upon reaching maturity or repricing are reinvested or refinanced through transactions with the same financial characteristics as those that have reached maturity (constant balance sheet assumption), within 12 months of the date of the analysis (date of the end-of-month situation). In addition, for the purposes of prospective simulation of interest income, dynamic analyses are performed,

involving a change in the composition and volumes of assets and liabilities, by also applying non-parallel, non-instantaneous shocks, over medium-term time horizons (up to 3 years).

In calculating the above risk measures, Intesa Sanpaolo adopts behavioural models for representing capital items based on their contractual profile, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:

- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding). The method developed estimates prepayment coefficients diversified according to the type of customer and the financial characteristics of the transaction, such as the loan rate type (fixed or floating), the original term of the loan and the seasoning, understood as the age of the loan on the date of the prepayment event. The analysis refers to partial repayments, full repayments and refinancing. The prepayment model also examines the reasons that lead customers to make prepayments. With regard to this aspect, the phenomenon may be divided into a structural component ("Core Prepayment") and a scenario component ("Coupon Incentive"), primarily linked to market variations. Prepayment phenomena are monitored monthly and the prepayment coefficients to be applied to the model are re-estimated at least annually and are subject to periodic backtesting, in accordance with the specific model change document;
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise the value and net interest income both in absolute terms and in terms of variability over time.

In addition, within the framework of the dynamic simulation of net interest income, an additional behavioural model is adopted to simulate the effects of potential renegotiations of the contractual conditions of medium-/long-term assets. In terms of risks, renegotiations modify the duration of the portfolio of medium-/long-term loans and entail a decline in net interest income due to the revision of the contractual rates/spreads to include conditions more advantageous to customers. Specific models have been estimated to ensure a proper representation of the renegotiations phenomenon in terms of the percentages of mortgage loans renegotiated and their financial characteristics.

#### Impacts from the COVID-19 pandemic

During 2020 management measures intervened in the banking book - such as cash flow hedging - to mitigate the potential negative impacts of COVID-19.

### Quantitative information

#### Banking book: internal models and other sensitivity analysis methodologies

In 2020, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, averaged -1,074 million euro, with a minimum value of -1,815 million euro and a maximum value of 297 million euro, reaching a figure of -1,305 million euro at the end of 2020 (394 million euro at the end of 2019).

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 1,312 million euro, -1,011 million euro and 2,581 million euro, respectively, at the end of 2020. The last of these figures was up on the 1,837 million euro recorded at the end of 2019.

Interest rate risk, measured in terms of VaR, averaged 626 million euro in 2020, with a maximum value of 869 million euro and a minimum value of 271 million euro, reaching a figure of 492 million euro at the end of 2020 (227 million euro at the end of 2019).

Foreign exchange risk expressed by equity investments in foreign currency (banking book) and measured in terms of VaR averaged 73 million euro in 2020, with a maximum value of 96 million euro and a minimum value of 35 million euro, standing at 78 million euro at the end of 2020 (35 million euro at the end of 2019).

Price risk generated by minority stakes in listed companies, mostly held in the HTCS category and measured in terms of VaR, recorded an average level during 2020 of 255 million euro, with maximum and minimum values of 419 million euro and 45 million euro, respectively, amounting to 304 million euro at the end of 2020 (43 million euro at the end of 2019).

The table below shows the changes in the main risk measures.

	(millions of euro)				
		2020		31.12.2020	31.12.2019
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	-1,074	-1,815	297	-1,305	394
Shift Sensitivity of Net Interest Income -50bp	-944	-1,016	-847	-1,011	-1,037
Shift Sensitivity of Net Interest Income +50bp	1,076	847	1,362	1,312	939
Shift Sensitivity of Net Interest Income +100bp	2,102	1,634	2,692	2,581	1,837
Value at Risk - Interest Rate	626	271	869	492	227
Value at Risk Exchange	73	35	96	78	35
Value at Risk - Equity investments in listed companies	255	45	419	304	43

Exposures as at 31 December 2020 shown in the table include the metrics of the UBI Group harmonised using the methodologies used by Intesa Sanpaolo, which provide a slight contribution to the overall risk of the Intesa Sanpaolo Group.



Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock of  $\pm 10\%$  for the abovementioned quoted assets recorded in the HTCS category.

*Price risk: impact on Shareholders' Equity*

		1st quarter 2020 impact on shareholders' equity at 31.03.2020	2nd quarter 2020 impact on shareholders' equity at 30.06.2020	3rd quarter 2020 impact on shareholders' equity at 30.09.2020	4th quarter 2020 impact on shareholders' equity at 31.12.2020	(millions of euro) Impact on shareholders' equity at 31.12.2019
Price shock	10%	49	141	159	155	50
Price shock	-10%	-49	-141	-159	-155	-50

## 1.2.3. FOREIGN EXCHANGE RISK

### Qualitative information

#### **A. General aspects, foreign exchange risk management processes and measurement methods**

"Foreign exchange risk" is defined as the potential loss resulting from changes in the exchange rate that could have a negative impact on the valuation of the assets and liabilities in the financial statements and on earnings and capital ratios.

Two types of Foreign Exchange Risk are identified: *Structural* and *Transaction risk*.

*Structural Foreign Exchange Risk* is defined as the potential loss resulting from changes in the exchange rate that could have a negative impact on the foreign exchange reserves that are part of the Group's consolidated shareholders' equity, and also includes the foreign exchange risk associated with hybrid capital instruments. The key sources of structural foreign exchange risk are therefore the investments in associates and companies subject to joint control. The Intesa Sanpaolo Group's management of the Structural Foreign Exchange Risk assigns the Parent Company the related management and coordination powers in order to achieve a consistent Group strategy.

This choice, which is consistent with the Parent Company's role as the liaison with the Supervisory Authority, allows the activities to be performed based on the specific responsibilities set out in the prudential supervision regulations, in addition to suitably mitigating and/or managing this type of risk.

*Transaction Foreign Exchange Risk* is defined as the potential loss resulting from changes in the exchange rate that may have a negative impact both on the valuation of the assets and liabilities in the financial statements and on the earnings from funding and lending transactions in currencies other than the euro. The main sources of this foreign exchange risk consist of: non-euro loans and deposits held by corporate and/or retail customers; conversion into domestic currency of assets, liabilities and income of the international branches; trading of foreign currencies; collection and/or payment of interest, commissions, dividends and administrative expenses in foreign currencies; purchase and sale of securities and financial instruments for the purpose of resale in the short term; etc. Transaction foreign exchange risk also includes the risk related to transactions connected to operations that generate the type of structural foreign exchange risk represented, for example, by dividends, earnings in the process of being generated, and corporate events.

#### **B. Foreign exchange risk hedging activities**

The monitoring and hedging of the Transaction Foreign Exchange Risk are carried out at central level by the Group Treasury and Finance Head Office Department of the Parent Company and at local level by the individual treasury functions of the Group Companies and Banks.

According to the general principle underlying the management of the Structural Foreign Exchange Rate Risk, the related exposures are not normally subject to microhedging. This is because the foreign exchange risk arising from the investments in countries where the Group has investments in associates and companies subject to joint control reflects the long-term strategic view of investing in the macroeconomic growth of those countries and any hedging would mean giving up the additional profit arising from the rate spread against the euro rates. In addition, over the long term, the diversification of the Group's portfolio among different currencies optimises its risk/return and mitigates the Group's exposure to Italy country risk, albeit to a limited extent. These investments, due to their nature, also enable the stability of the capital ratios, within certain limits.

The exposures to foreign exchange risk are measured by the Financial and Market Risks Department and, for Transaction Foreign Exchange Risk, are subject to daily VaR limits and stress tests with the rest of the trading book.

As at the date of preparation of the financial statements, there were no transactions hedging shareholders' equity, whereas there were operational hedges of the foreign exchange risk of the assets and liabilities in the financial statements related to the Banking Book.

#### **Impacts from the COVID-19 pandemic**

The strategies and controls in place for the purpose of managing exchange rate risk did not require changes or specific actions during the period of the COVID-19 pandemic.

**Quantitative information****1. Breakdown by currency of assets and liabilities and of derivatives**

(millions of euro)

	CURRENCIES							
	US dollar	GB pound	Swiss franc	Hungarian forint	Egyptian pound	Croatian kuna	Yen	Other currencies
<b>A. FINANCIAL ASSETS</b>	<b>33,853</b>	<b>3,084</b>	<b>1,484</b>	<b>4,610</b>	<b>4,479</b>	<b>7,273</b>	<b>3,365</b>	<b>10,280</b>
A.1 Debt securities	12,278	613	13	918	1,668	922	2,431	2,039
A.2 Equities	437	3	8	-	34	1	-	318
A.3 Loans to banks	5,104	186	276	1,183	662	2,559	132	2,279
A.4 Loans to customers	16,023	2,280	962	2,369	2,115	3,790	802	5,533
A.5 Other financial assets	11	2	225	140	-	1	-	111
<b>B. OTHER ASSETS</b>	<b>2,927</b>	<b>88</b>	<b>54</b>	<b>100</b>	<b>157</b>	<b>250</b>	<b>72</b>	<b>241</b>
<b>C. FINANCIAL LIABILITIES</b>	<b>35,257</b>	<b>1,960</b>	<b>676</b>	<b>4,420</b>	<b>3,917</b>	<b>5,234</b>	<b>767</b>	<b>6,246</b>
C.1 Due to banks	12,635	203	49	710	16	241	5	1,079
C.2 Due to customers	10,306	644	388	3,638	1,942	4,991	205	4,862
C.3 Debt securities	12,311	1,112	231	-	1,959	-	557	271
C.4 Other financial liabilities	5	1	8	72	-	2	-	34
<b>D. OTHER LIABILITIES</b>	<b>294</b>	<b>13</b>	<b>3</b>	<b>26</b>	<b>106</b>	<b>175</b>	<b>1</b>	<b>90</b>
<b>E. FINANCIAL DERIVATIVES</b>								
- Options								
<i>long positions</i>	111	6	30	2	-	-	1	12
<i>short positions</i>	227	3	6	-	-	-	6	22
- Other derivatives								
<i>long positions</i>	65,582	10,845	4,778	1,819	-	7	5,655	11,069
<i>short positions</i>	66,768	11,853	5,460	1,390	-	130	8,415	13,440
<b>TOTAL ASSETS</b>	<b>102,473</b>	<b>14,023</b>	<b>6,346</b>	<b>6,531</b>	<b>4,636</b>	<b>7,530</b>	<b>9,093</b>	<b>21,602</b>
<b>TOTAL LIABILITIES</b>	<b>102,546</b>	<b>13,829</b>	<b>6,145</b>	<b>5,836</b>	<b>4,023</b>	<b>5,539</b>	<b>9,189</b>	<b>19,798</b>
<b>DIFFERENCE (+/-)</b>	<b>-73</b>	<b>194</b>	<b>201</b>	<b>695</b>	<b>613</b>	<b>1,991</b>	<b>-96</b>	<b>1,804</b>

**2. Internal models and other sensitivity analysis methodologies**

As already noted, the management of Transaction Foreign Exchange Risk relating to trading activities is included in the operating procedures and in the estimation methodologies of the internal model based on VaR calculations, as already illustrated.

The (structural) foreign exchange risk expressed by equity investments in foreign currency (banking book), including Group companies, originated a VaR (99% confidence level, 10-day holding period) amounting to 78 million euro as at 31 December 2020. This potential impact would only be reflected in the Shareholders' Equity.

### 1.3. DERIVATIVES AND HEDGING POLICIES

Starting from 2014, the Parent Company has been authorised to use EPE (Expected Positive Exposure) internal models to determine the capital requirement for counterparty risk. This approach is applicable to almost the entire derivatives portfolio (as shown in the table below, as at 31 December 2020 approximately 96% of the total EAD of financial and credit derivatives is measured using EPE models). Derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 31 December 2020 accounting for approximately 4% of overall EAD) and refer to:

- residual contracts of Intesa Sanpaolo to which EPE is not applied (in compliance with the immateriality of the EBA thresholds);
  - EAD generated by all other banks and companies in the Group which report using the mark-to-market approach.
- As envisaged by Basel 3, also CCPs generate a capital requirement and are thus included in the EPE scope and in the evidence stated below.

The table below shows the overall EAD of exposures in financial and credit derivatives, broken down by measurement approach (EPE internal models or mark-to-market approach).

Transaction categories	31.12.2020		31.12.2019	
	Mark-to-market approach	EPE Internal Method	Mark-to-market approach	EPE Internal Method
Derivative contracts	829	19,999	402	17,138

The EPE internal model considers the collateral collected to mitigate credit exposure and any excess collateral paid. The value of the guarantees received and included in the calculation of the EAD amounts to approximately 5 billion euro for the Parent Company, while the collateral paid equals 22 billion euro (including the collateral connected with transactions with central counterparties).

## 1.3.1. Trading derivatives

## A. FINANCIAL DERIVATIVES

## A.1. Financial trading derivatives: period-end notional amounts

(millions of euro)

Underlying asset/Type of derivatives	31.12.2020				31.12.2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	without central counterparties			Central Counterparties	without central counterparties		
		With netting agreements	Without netting agreements	With netting agreements		Without netting agreements		
<b>1. Debt securities and interest rate</b>	<b>1,850,843</b>	<b>277,526</b>	<b>75,307</b>	<b>162,222</b>	<b>1,638,170</b>	<b>171,607</b>	<b>56,717</b>	<b>211,811</b>
a) Options	-	81,269	7,722	54,385	-	83,974	7,429	63,006
b) Swaps	1,850,843	196,257	64,170	-	1,638,170	87,633	47,391	-
c) Forwards	-	-	2,484	-	-	-	1,897	-
d) Futures	-	-	931	107,837	-	-	-	148,805
e) Other	-	-	-	-	-	-	-	-
<b>2. Equities and stock indices</b>	<b>-</b>	<b>6,828</b>	<b>31,621</b>	<b>1,897</b>	<b>-</b>	<b>9,152</b>	<b>16,504</b>	<b>23,392</b>
a) Options	-	6,515	31,608	401	-	9,152	16,491	21,046
b) Swaps	-	313	13	-	-	-	13	-
c) Forwards	-	-	-	7	-	-	-	-
d) Futures	-	-	-	1,489	-	-	-	2,346
e) Other	-	-	-	-	-	-	-	-
<b>3. Foreign exchange rates and gold</b>	<b>-</b>	<b>158,342</b>	<b>20,387</b>	<b>375</b>	<b>-</b>	<b>189,826</b>	<b>19,479</b>	<b>339</b>
a) Options	-	17,135	1,232	117	-	26,439	888	80
b) Swaps	-	52,006	5,701	16	-	55,590	6,355	-
c) Forwards	-	88,952	12,860	-	-	107,501	11,815	8
d) Futures	-	-	-	242	-	-	-	250
e) Other	-	249	594	-	-	296	421	1
<b>4. Commodities</b>	<b>-</b>	<b>2,993</b>	<b>740</b>	<b>1,685</b>	<b>-</b>	<b>7,342</b>	<b>912</b>	<b>1,637</b>
<b>5. Other</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>1,850,843</b>	<b>445,689</b>	<b>128,055</b>	<b>166,179</b>	<b>1,638,170</b>	<b>377,927</b>	<b>93,612</b>	<b>237,179</b>

## A.2. Financial trading derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	31.12.2020				31.12.2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements	With netting agreements		Without netting agreements		
<b>1. Positive fair value</b>								
a) Options	-	2,426	774	45	-	2,466	95	581
b) Interest rate swaps	51,707	14,225	7,368	-	36,322	12,697	6,724	-
c) Cross currency swaps	-	1,254	353	-	-	1,379	262	-
d) Equity swaps	-	3	6	-	-	-	4	-
e) Forwards	-	1,282	153	-	-	917	82	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	173	60	1	-	257	68	1
<b>Total</b>	<b>51,707</b>	<b>19,363</b>	<b>8,714</b>	<b>46</b>	<b>36,322</b>	<b>17,716</b>	<b>7,235</b>	<b>582</b>
<b>2. Negative fair value</b>								
a) Options	-	2,393	6,404	18	-	2,499	4,772	1,155
b) Interest rate swaps	52,369	19,447	1,124	-	41,748	12,633	789	-
c) Cross currency swaps	-	1,542	778	-	-	1,421	840	-
d) Equity swaps	-	1	-	-	-	-	1	-
e) Forwards	-	1,120	260	-	-	847	93	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	173	62	1	-	262	70	-
<b>Total</b>	<b>52,369</b>	<b>24,676</b>	<b>8,628</b>	<b>19</b>	<b>41,748</b>	<b>17,662</b>	<b>6,565</b>	<b>1,155</b>

**A.3. Over the counter financial trading derivatives: notional values, gross positive and negative fair value by counterparty**

Underlying asset	(millions of euro)			
	Central Counterparties	Banks	Other financial companies	Other counterparties
<b>Contracts not included under netting agreements</b>				
<b>1) Debt securities and interest rates</b>				
- notional amount	X	8,908	12,988	53,411
- positive fair value	X	1,233	236	5,989
- negative fair value	X	-767	-228	-257
<b>2) Equities and stock indices</b>				
- notional amount	X	15,893	9,689	6,039
- positive fair value	X	549	132	9
- negative fair value	X	-1,511	-167	-4,690
<b>3) Foreign exchange rates and gold</b>				
- notional amount	X	2,002	8,205	10,180
- positive fair value	X	7	105	416
- negative fair value	X	-654	-78	-216
<b>4) Commodities</b>				
- notional amount	X	2	49	689
- positive fair value	X	-	-	38
- negative fair value	X	-	-4	-56
<b>5) Other</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<b>Contracts included under netting agreements</b>				
<b>1) Debt securities and interest rates</b>				
- notional amount	1,850,843	207,570	53,533	16,423
- positive fair value	51,707	12,089	2,335	1,855
- negative fair value	-52,369	-17,356	-3,543	-426
<b>2) Equities and stock indices</b>				
- notional amount	-	2,831	3,974	23
- positive fair value	-	77	35	1
- negative fair value	-	-140	-90	-
<b>3) Foreign exchange rates and gold</b>				
- notional amount	-	116,127	30,332	11,883
- positive fair value	-	1,845	480	482
- negative fair value	-	-1,814	-640	-472
<b>4) Commodities</b>				
- notional amount	-	697	987	1,309
- positive fair value	-	17	74	73
- negative fair value	-	-18	-71	-106
<b>5) Other</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

**A.4. Residual maturity of over the counter financial derivatives: notional amounts**

Underlying/Residual maturity	(millions of euro)			
	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	610,662	847,456	745,558	2,203,676
A.2 Financial derivatives on equities and stock indices	10,235	26,200	2,014	38,449
A.3 Financial derivatives on foreign exchange rates and gold	124,341	36,995	17,393	178,729
A.4 Financial derivatives on commodities	2,302	1,431	-	3,733
A.5 Other financial derivatives	-	-	-	-
<b>Total 31.12.2020</b>	<b>747,540</b>	<b>912,082</b>	<b>764,965</b>	<b>2,424,587</b>
<b>Total 31.12.2019</b>	<b>654,445</b>	<b>776,275</b>	<b>678,989</b>	<b>2,109,709</b>

**B. CREDIT DERIVATIVES****B.1. Credit trading derivatives: period-end notional amounts**

Categories of transactions	(millions of euro)	
	Trading derivatives	
	single counterparty	more counterparties (basket)
<b>1. Protection purchases</b>		
a) Credit default products	7,072	58,781
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
<b>Total 31.12.2020</b>	<b>7,072</b>	<b>58,781</b>
<b>Total 31.12.2019</b>	<b>9,019</b>	<b>50,385</b>
<b>2. Protection sales</b>		
a) Credit default products	7,253	51,887
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
<b>Total 31.12.2020</b>	<b>7,253</b>	<b>51,887</b>
<b>Total 31.12.2019</b>	<b>10,559</b>	<b>46,581</b>

As at 31 December 2020, none of the contracts shown in the table above have been included within the structured credit products.

**B.2. Credit trading derivatives: gross positive and negative fair value – breakdown by product**

Type of derivative	(millions of euro)	
	Total 31.12.2020	Total 31.12.2019
<b>1. Positive fair value</b>		
a) Credit default products	1,616	1,770
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
<b>Total</b>	<b>1,616</b>	<b>1,770</b>
<b>2. Negative fair value</b>		
a) Credit default products	1,759	1,942
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
<b>Total</b>	<b>1,759</b>	<b>1,942</b>



As at 31 December 2020, none of the contracts shown in the table above have been included within the structured credit products.

### B.3. Over the counter credit trading derivatives: notional values, gross positive and negative fair value by counterparty

	(millions of euro)			
	Central counterparties	Banks	Other financial companies	Other counterparties
<b>Contracts not included under netting agreements</b>				
<b>1) Protection purchases</b>				
- notional amount	X	-	-	218
- positive fair value	X	-	-	40
- negative fair value	X	-	-	-
<b>2) Protection sales</b>				
- notional amount	X	-	35	13
- positive fair value	X	-	-	-
- negative fair value	X	-	-1	-15
<b>Contracts included under netting agreements</b>				
<b>1) Protection purchases</b>				
- notional amount	40,675	14,151	10,809	-
- positive fair value	1	61	35	-
- negative fair value	-1,113	-234	-258	-
<b>2) Protection sales</b>				
- notional amount	37,301	12,225	9,566	-
- positive fair value	1,003	211	265	-
- negative fair value	-1	-42	-95	-

As at 31 December 2020, none of the contracts shown in the table above have been included within the structured credit products.

### B.4. Residual maturity of over the counter credit trading derivatives: notional amounts

	(millions of euro)			
Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
1. Protection sales	4,508	53,829	803	59,140
2. Protection purchases	4,842	60,220	791	65,853
<b>Total 31.12.2020</b>	<b>9,350</b>	<b>114,049</b>	<b>1,594</b>	<b>124,993</b>
<b>Total 31.12.2019</b>	<b>17,496</b>	<b>97,073</b>	<b>1,975</b>	<b>116,544</b>

### B.5. Credit derivatives associated with the fair value option: annual changes

The Intesa Sanpaolo Group does not hold credit derivatives associated with the fair value option.

### 1.3.2. Accounting hedges

#### Qualitative information

On first-time adoption of IFRS 9, the Intesa Sanpaolo Group exercised its option under the standard to continue to fully apply the rules of IAS 39 for all types of hedges (micro and macro hedges). As a result, the provisions of IFRS 9 on hedging do not apply.

#### **A. Fair value hedging**

The hedging carried out by the Intesa Sanpaolo Group is aimed at protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve (interest rate risk).

The Group uses both micro fair value hedges and macro fair value hedges.

The micro fair value hedges mainly hedge bonds issued, securities under assets and loans to customers.

The macro fair value hedges are used for:

- core deposits, based on the applicable standards in the carved-out version of IAS 39 in accordance with the option provided by IFRS 9 to make use of the possibility of fully applying the provisions of IAS 39 on hedges;
- the already fixed portion of floating-rate loans, in which the macro fair value hedge is used to hedge the interest rate risk inherent in the floating-rate coupons of the loans granted, when the coupon rate is set;
- a portion of the fixed-rate loans. For this type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.
- a portion of the embedded options on loans to customers. For this type, a macrohedging model was adopted on a static portfolio of hedged underlyings.

The main types of derivative contracts used are plain and structured interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates concluded with third parties or with other Group companies. The latter, in turn, hedge the risk in the market to meet the requirements for the outsourcing of the hedges to third-party counterparties required to qualify the hedges as IAS-compliant in the consolidated financial statements.

The derivatives are not listed on regulated markets but are traded in OTC circuits. The OTC contracts also include contracts brokered through clearing houses.

#### **B. Cash flow hedging**

The hedging carried out by the Intesa Sanpaolo Group is aimed at protecting the Group from the exposure to changes in future cash flows attributable to movements in the interest rate curve, associated with a particular asset/liability, such as variable future interest payments on a debt/loan or a highly probable expected future transaction.

The Group uses both micro cash flow hedges and macro cash flow hedges.

The micro cash flow hedges mainly hedge bonds issued.

The macro cash flow hedges are used for:

- floating-rate funding when it is used to finance fixed-rate loans;
- floating-rate loans to hedge the fixed-rate funding.

The derivatives used are interest rate swaps (IRS) with third parties or with other Group companies, which, in turn, hedge the risk in the market to meet the requirements for the outsourcing of the hedges to third-party counterparties required to qualify the hedges as IAS-compliant in the consolidated financial statements.

The derivatives are not listed on regulated markets but are traded in OTC circuits. The OTC contracts also include contracts brokered through clearing houses.

#### **C. Hedging of foreign investments**

In 2020, foreign exchange hedges were implemented against transaction foreign exchange risk.

#### **D. Hedging instruments**

The main causes of ineffectiveness of the model adopted by the Group for verifying the effectiveness of the hedges are attributable to the following:

- misalignment between the notional value of the derivative and the hedged underlying recognised at the time of initial designation or generated subsequently, such as in the case of partial repayments of loans or the repurchase of bonds;
- application of different curves on the hedging derivative and hedged item for the purpose of carrying out the effectiveness test on fair value hedges. The derivatives, which are normally collateralised or intermediated through clearing houses, are discounted on the Eonia/Ester curve, while the hedged items are discounted on the indexing curve of the hedging instrument;
- inclusion in the effectiveness test of the value of the variable leg of the hedging derivative, in the case of fair value hedges.

The ineffectiveness of the hedge is promptly recognised for the purposes of:

- the determination of the effect on the income statement;
- the assessment of the possibility of continuing to apply the hedge accounting rules.

The Group does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

## E. Hedged items

The main types of hedged items are:

- debt securities under assets;
- debt securities issued and non-securities funding;
- fixed-rate loans;
- floating-rate loans;
- optional embedded component of floating-rate mortgages;
- already fixed coupon of floating rate-loans;
- modelled on demand deposits.

### E.1 Debt securities under assets

These are hedged by micro fair value hedges, using IRS, OIS and CCS as hedging instruments.

The interest rate risk is hedged for the entire duration of the obligation.

The Dollar Offset Method is used to verify the hedge effectiveness. This method is based on the ratio between the cumulative changes (from the inception of the hedge) in the fair value of the hedging instrument, attributable to the hedged risk, and past changes in the fair value of the hedged item (fair value change), net of accrued interest.

Micro fair value hedges also include forward sales on securities in the HTCS portfolio, carried out to hedge fair value risks from movements in credit spreads and interest rate curves. With regard to the forward sale contract, which is a derivative because it is a non-regular way transaction, the spot component is separated from the interest component by designating only the spot component as the hedging instrument in a fair value hedging relationship.

### E.2 Debt securities issued and non-securities funding

The Group currently has micro fair value hedges in place on fixed- or structured-rate funding and micro cash flow hedges or macro cash flow hedges on floating-rate funding, using IRS, OIS and CCS as hedging instruments.

The interest rate risk is hedged for the entire duration of the obligation.

For the micro hedges, the hedge effectiveness is verified using the Dollar Offset Method. This method is based on the ratio between the cumulative changes (from the inception of the hedge) in the fair value or the cash flows of the hedging instrument, attributable to the hedged risk, and past changes in the fair value or the cash flows of the hedged item (fair value change), net of accrued interest.

For the macro hedges, the hedge effectiveness is verified by means of a capacity test. This test involves a comparison of the consistency between the hedged items, referring to existing and expected floating-rate funding (so-called highly probable future transactions), and the hedging instruments, which must always be confirmed throughout the life of the hedging relationship and for each time band. In this case, the hedged item is represented by the expected cash flows from funding that will arise over the life of the issues.

### E.3 Fixed-rate loans

The Group has designated micro fair value hedges for fixed-rate loans and macro fair value hedges for mortgage loans in the retail segment of the Parent Company and the Network Banks, mainly using IRS as hedging instruments.

The interest rate risk is hedged throughout the life of the underlying.

For the micro hedges, the hedge effectiveness is verified using the Dollar Offset Method.

For the macro hedges, the loan portfolio hedged is open, i.e. it is dynamically composed of fixed-rate instruments managed at aggregate level through hedging derivatives entered into over time.

The effectiveness of the macro hedges on fixed-rate loans is periodically verified through specific prospective and retrospective tests aimed at demonstrating that the hedged portfolio contains an amount of assets whose sensitivity profile and changes in fair value due to interest rate risk reflect those of the derivatives used for the hedge.

### E.4 Floating-rate loans

The Group currently has macro cash flow hedges in place on floating-rate loans, mainly using IRS as hedging instruments.

The hedge effectiveness is verified by means of a capacity test. This test involves a comparison of the consistency between the hedged items, referring to the floating-rate loans outstanding, and the hedging instruments, which must always be confirmed throughout the life of the hedging relationship and for each time band. In this case, the hedged item is represented by the expected cash flows originating from the loans that will arise over the life of the assets.

### E.5 Optional embedded component of floating-rate mortgages

The optional embedded components (interest rate options) of floating-rate mortgages are hedged by both micro and macro fair value hedges, using options (cap, floor, collar) as hedging instruments.

The underlying assets may be partially or totally hedged, over time and in terms of amount.

For the macro hedges, the loan portfolio hedged is static, i.e. it is defined at the start of the hedge without the possibility of adding new hedged elements over time.

The Dollar Offset Method is used to verify the hedge effectiveness.

**E.6 Already fixed coupon of floating-rate loans**

This is hedged by macro fair value hedges, using OIS as hedging instruments.

The purpose of this type of hedge is to neutralise the interest rate risk generated by the coupons already set for floating-rate loans.

The Dollar Offset Method is used to verify the hedge effectiveness, while the actual consistency of the hedged items is verified by a capacity test.

**E.7 Modelled on demand deposits.**

Modelled on demand deposits are hedged by macro fair value hedges, as required by the “carve out” of IAS 39, using IRS and OIS as hedging instruments.

The purpose of this type of hedge is to protect the net interest income from possible falls in interest rates that reduce the spread generated by core deposits.

The model is subject to continuous monitoring and verification by the Financial and Market Risks Head Office Department, in order to promptly incorporate changes in the main characteristics (volumes, stability, reactivity) and make the necessary adjustments where necessary. The Dollar Offset Method is used to verify the hedge effectiveness.

**Quantitative information****A. Financial hedging derivatives***A.1 Financial hedging derivatives: period-end notional amounts*

(millions of euro)

Underlying asset/Type of derivative	31.12.2020				31.12.2019			
	Over the counter			Organised markets	Over the counter			Organized markets
	Central Counterparties	Without central counterparties			Central Counterparts	Without central counterparties		
		With netting agreements	Without netting agreements	With netting agreements		Without netting agreements		
<b>1. Debt securities and interest rates</b>	<b>225,066</b>	<b>25,626</b>	<b>5,617</b>	-	<b>21,477</b>	<b>184,377</b>	<b>6,235</b>	-
a) Options	-	2,229	-	-	-	2,689	-	-
b) Swaps	225,066	22,827	4,173	-	21,477	181,668	4,645	-
c) Forwards	-	550	1,444	-	-	-	1,590	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	20	-	-	-	20	-	-
<b>2. Equities and stock indices</b>	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
<b>3. Foreign exchange rates and gold</b>	-	<b>7,425</b>	<b>31</b>	<b>59</b>	-	<b>6,682</b>	<b>36</b>	<b>136</b>
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	7,425	31	59	-	6,682	36	136
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
<b>4. Commodities</b>	-	-	-	-	-	-	-	-
<b>5. Other</b>	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>225,066</b>	<b>33,051</b>	<b>5,648</b>	<b>59</b>	<b>21,477</b>	<b>191,059</b>	<b>6,271</b>	<b>136</b>

The average notional amount in the year of the financial hedging derivatives was 184,802 million euro.

## A.2 Financial hedging derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	Positive and negative fair value								Change in value used to calculate hedge effectiveness	
	Total 31.12.2020				Total 31.12.2019				Total 31.12.2020	Total 31.12.2019
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties				
With netting agreements		Without netting agreements	With netting agreements	Without netting agreements						
<b>Positive fair value</b>										
a) Options	-	10	-	-	-	19	-	-	-155	-183
b) Interest rate swap	3,082	834	1	-	392	2,583	11	-	2,682	2,127
c) Cross currency swap	-	287	-	-	-	385	-	-	103	116
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	1	-	-	-	28	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	1	-	-	-	1	-	-	-	-
<b>Total</b>	<b>3,082</b>	<b>1,132</b>	<b>2</b>	<b>-</b>	<b>392</b>	<b>2,988</b>	<b>39</b>	<b>-</b>	<b>2,630</b>	<b>2,060</b>
<b>Negative fair value</b>										
a) Options	-	3	-	-	-	4	-	-	3	1
b) Interest rate swap	9,455	2,626	161	-	907	8,039	141	-	8,871	6,242
c) Cross currency swap	-	407	5	-	-	397	1	-	204	356
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	12	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	2	-	-	-	3	-	-
<b>Total</b>	<b>9,455</b>	<b>3,036</b>	<b>178</b>	<b>2</b>	<b>907</b>	<b>8,440</b>	<b>142</b>	<b>3</b>	<b>9,078</b>	<b>6,599</b>

## A.3 Over the counter financial hedging derivatives: notional values, gross positive and negative fair values by counterparty

Underlying asset	(millions of euro)			
	Central counterparties	Banks	Other financial companies	Other counterparties
<b>Contracts not included under netting agreements</b>				
<b>1) Debt securities and interest rates</b>				
- notional amount	X	3,509	2,108	-
- positive fair value	X	-	2	-
- negative fair value	X	-129	-44	-
<b>2) Equities and stock indices</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<b>3) Foreign exchange rates and gold</b>				
- notional amount	X	31	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-5	-	-
<b>4) Commodities</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<b>5) Other</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<b>Contracts included under netting agreements</b>				
<b>1) Debt securities and interest rates</b>				
- notional amount	225,066	23,972	1,654	-
- positive fair value	3,082	781	64	-
- negative fair value	-9,455	-1,845	-784	-
<b>2) Equities and stock indices</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
<b>3) Foreign exchange rates and gold</b>				
- notional amount	-	6,555	870	-
- positive fair value	-	282	5	-
- negative fair value	-	-235	-172	-
<b>4) Commodities</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
<b>5) Other</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

## A.4 Residual maturity of over the counter financial hedging derivatives: notional amounts

Underlying/Residual maturity	(millions of euro)			
	Up to 1 year	Between 1 and 5 years	Over 5 year	Total
A.1 Financial derivatives on debt securities and interest rates	59,252	96,968	100,089	256,309
A.2 Financial derivatives on equities and stock indices	-	-	-	-
A.3 Financial derivatives on foreign exchange rates and gold	1,208	3,405	2,843	7,456
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
<b>Total 31.12.2020</b>	<b>60,460</b>	<b>100,373</b>	<b>102,932</b>	<b>263,765</b>
<b>Total 31.12.2019</b>	<b>70,476</b>	<b>63,507</b>	<b>84,824</b>	<b>218,807</b>



## B. Credit hedging derivatives

### B.1 Credit hedging derivatives: period-end notional amounts

### B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by product

### B.3 Over the counter credit hedging derivatives: notional values, gross positive and negative fair values by counterparty

### B.4 Residual maturity of over the counter credit hedging derivatives: notional amounts

The Intesa Sanpaolo Group does not hold credit derivatives classified as hedges in its portfolio.

## C. Non-derivative hedging instruments

### C.1 Non-derivative hedging instruments: breakdown by accounting portfolio and type of hedge

The Intesa Sanpaolo Group has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

For this reason, the Intesa Sanpaolo Group does not hold financial instruments to be shown in table “C.1 Non-derivative hedging instruments: breakdown by accounting portfolio and type of hedge”.

## INFORMATION ON THE UNCERTAINTY DERIVING FROM HEDGING DERIVATIVE BENCHMARK INDICES

As illustrated in Part A – Accounting policies, the Intesa Sanpaolo Group, from the 2019 Financial Statements, has applied Regulation (EU) 34/2020 of 15 January 2020, which adopted the document issued by the IASB in September 2019 on “Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)”. This regulation introduced several amendments regarding hedges (hedge accounting) designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform resulting in the discontinuation of existing hedges and difficulties in designating new hedging relationships. Therefore, the analysis of hedge effectiveness was carried out considering the flows and timing of outstanding hedging derivatives, assuming that the interest rate benchmarks used to set existing interest rates will not be changed as a result of the Interest Rate Benchmark Reform (IBOR Reform).

The disclosure required by IFRS 7, paragraph 24H, on the uncertainty arising from interest rate benchmark reform on hedging relationships and the nominal amount of hedging instruments potentially impacted by the benchmark rate reform is provided below.

### Fair value hedge derivatives

Fair value hedge derivatives of the Group are mainly index-linked to the Euribor, whose calculation method was revised during 2019 to be able to continue using that parameter also after 1 January 2022, both for outstanding contracts and new contracts. To make the Euribor compliant with the EU Benchmarks Regulation (BMR - Regulation 2016/1011/EU) the EMMI - European Money Markets Institute - implemented the change to a new “hybrid” calculation method. The current calculation system – which was completed at the end of November 2019 – does not change the economic variable that the benchmark measures: the Euribor expresses the actual cost of funding for contributing European banks, and is always available and consultable.

Therefore, the Group does not deem that there is uncertainty on the timing or cash flows of the Euribor, and does not consider the fair value hedges linked to the Euribor to be impacted by the reform as at 31 December 2020, in line with the approach already adopted for the Financial Statements as at 31 December 2019.

The fair value hedges also include derivatives index-linked to benchmarks impacted by the reform, specifically to the EONIA and the LIBOR, for the various currencies, which will be replaced in the future with new risk-free interest rates. In Europe, the EONIA fixing, calculated starting from October 2019 based on the new risk-free rate €STR, will be published until the end of 2021 and then permanently replaced by €STR. The publication of the LIBOR is also expected to be discontinued at the end of 2021 and there are already alternative risk-free rates available in the individual nations, which will gradually replace the LIBOR.

Specifically, as at 31 December 2020, there were fair value hedges linked to parameters impacted by the reform, with a notional value of 48,175 million euro which, net of the contribution of the UBI Group of 2,621 million euro, came to 45,554 million euro (83,808 million euro as at 31 December 2019), relating to the following parameters:

- EONIA for a notional value of 32,461 million euro which, excluding the UBI Group (1,693 million euro), would come to 30,768 million euro (67,651 million euro as at 31 December 2019), of which 17,947 million euro (18,529 million euro as at 31 December 2019) with maturity after 31 December 2021, to which 1,693 million euro of the UBI Group with the same maturity must be added;
- LIBOR USD for a notional value of 15,266 million euro which, excluding the UBI Group (902 million euro), would come to 14,364 million euro (15,535 million euro as at 31 December 2019), of which 14,144 million euro (14,857 million euro as at 31 December 2019) with maturity after 31 December 2021, to which 493 million euro of the UBI Group with the same maturity must be added;
- other rates impacted by the reform, represented by LIBOR in other currencies for a notional value of 448 million euro which, excluding the UBI Group (26 million euro), would come to 422 million euro (622 million euro as at 31 December 2019), of which 416 million euro (469 million euro as at 31 December 2019) with maturity after 31 December 2021, to which 21 million euro of the UBI Group with the same maturity must be added.

The total notional value of the fair value hedge derivatives impacted by the reform, including the UBI Group, represents 19% of the total of fair value hedge derivatives of the Group (39% as at 31 December 2019) and 18% considering only derivatives maturing after 31 December 2021 (16% as at 31 December 2019). In 2020, there was also a progressive increase in the use of derivatives indexed to the €STR in the hedging subject to hedge accounting.

#### Cash flow hedge derivatives

Cash flow hedge derivatives are index-linked to the Euribor. As illustrated for fair value hedges, the Group does not deem that there is uncertainty on the timing or cash flows of the Euribor, and, therefore does not consider the cash flow hedges linked to the Euribor to be impacted by the reform as at 31 December 2020.

## D. Hedged items

The Intesa Sanpaolo Group has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

### D.1 Fair value hedges

		(millions of euro)				
	Micro-hedges: book value	Micro-hedges – net positions: book value of assets and liabilities (prior to netting)	Cumulative fair value changes (hedged instrument)	Termination of hedging: residual cumulative fair value changes	Changes in value used to assess hedge ineffectiveness	Macro- hedges: book value
<b>A. Assets</b>						
<b>1. Financial assets designated at fair value through other comprehensive income – hedging of:</b>						
	36,859	-	1,390	607	1,265	-
1.1 Debt securities and interest rates	34,915	-	1,402	607	1,232	X
1.2 Equities and stock indices	-	-	-	-	-	X
1.3 Foreign exchange rates and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	1,944	-	-12	-	33	X
<b>2. Financial assets measured at amortised cost - hedging of:</b>						
	41,054	-	4,797	27	3,981	77,305
1.1 Debt securities and interest rates	40,399	-	4,484	27	3,665	X
1.2 Equities and stock indices	-	-	-	-	-	X
1.3 Foreign exchange rates and gold	120	-	-3	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	535	-	316	-	316	X
<b>Total 31.12.2020</b>	<b>77,913</b>	<b>-</b>	<b>6,187</b>	<b>634</b>	<b>5,246</b>	<b>77,305</b>
<b>Total 31.12.2019</b>	<b>69,968</b>	<b>-</b>	<b>4,462</b>	<b>107</b>	<b>3,207</b>	<b>68,055</b>
<b>B. Liabilities</b>						
<b>1. Financial liabilities measured at amortised cost - hedging of:</b>						
	60,506	-	1,949	-5	2,084	34,996
1.1 Debt securities and interest rates	55,132	-	1,711	-5	1,827	X
1.2 Foreign exchange rates and gold	-	-	-	-	-	X
1.3 Other	5,374	-	238	-	257	X
<b>Total 31.12.2020</b>	<b>60,506</b>	<b>-</b>	<b>1,949</b>	<b>-5</b>	<b>2,084</b>	<b>34,996</b>
<b>Total 31.12.2019</b>	<b>40,312</b>	<b>-</b>	<b>1,391</b>	<b>264</b>	<b>1,641</b>	<b>20,016</b>

## D.2 Cash flow hedges and hedges of foreign investments

		Change in value used to assess hedge ineffectiveness	Hedging reserves	(millions of euro) Termination of hedging: residual cumulative value of the hedging reserves
<b>A. Cash flow hedge</b>				
<b>1. Assets</b>				
1.1	Debt securities and interest rates	37	37	-
1.2	Equities and stock indices	-	-	-
1.3	Foreign exchange rates and gold	-	-	-
1.4	Loans	-	-	-
1.5	Other	-	-	-
<b>2. Liabilities</b>				
1.1	Debt securities and interest rates	-1,075	-818	-
1.2	Foreign exchange rates and gold	-	-	-
1.3	Other	-	-	-
<b>Total (A) 31.12.2020</b>		<b>-1,038</b>	<b>-781</b>	<b>-</b>
<b>Total (A) 31.12.2019</b>		<b>-1,216</b>	<b>-1,259</b>	<b>-</b>
<b>B. Hedges of foreign investments</b>				
<b>Total (A+B) 31.12.2020</b>		<b>-1,038</b>	<b>-781</b>	<b>-</b>
<b>Total (A+B) 31.12.2019</b>		<b>-1,216</b>	<b>-1,259</b>	<b>-</b>

## E. Effects of hedging on shareholders' equity

## E.1 Reconciliation of components of shareholders' equity

	Cash flow hedging reserve					Reserve for hedging of foreign investments				
	Debt securities and interest rates	Equities and stock indices	Foreign exchange rates and gold	Loans	Other	Debt securities and interest rates	Equities and stock indices	Foreign exchange rates and gold	Loans	Other
<b>Initial amount</b>	<b>-1,259</b>	-	-	-	-	-	-	-	-	-
Fair value changes (effective portion)	478	-	-	-	-	-	-	-	-	-
Reclassification to the income statement	-	-	-	-	-	-	-	-	-	-
<i>of which: future transaction not expected</i>	-	-	-	-	-	X	X	X	X	X
Other changes	-	-	-	-	-	-	-	-	-	-
<i>of which: transfer to initial book value</i>	-	-	-	-	-	X	X	X	X	X
<b>Final amount</b>	<b>-781</b>	-	-	-	-	-	-	-	-	-

The category "Hedging instruments (non-designated items)" is not present, because the Intesa Sanpaolo Group has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

### 1.3.3. Other information on derivative instruments (trading and hedging)

#### A. Credit and financial derivatives

##### A.1 Over the counter credit and financial derivatives: net fair values by counterparty

	Central counterparties	Banks	Other financial companies	(millions of euro) Other counterparties
<b>A. Financial derivatives</b>				
<b>1) Debt securities and interest rates</b>				
- notional amount	2,042,697	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-5,579	-	-	-
<b>2) Equities and stock indices</b>				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
<b>3) Foreign exchange rates and gold</b>				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
<b>4) Commodities</b>				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
<b>5) Other</b>				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
<b>B. Credit derivatives</b>				
<b>1) Protection purchases</b>				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
<b>2) Protection sales</b>				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-

The table shows the values resulting from the offsetting in the balance sheet for the derivatives whose netting agreements meet the criteria set out in IAS 32 paragraph 42.

In particular, the above refers to OTC trading and hedging financial and credit in place with the legal clearing agent LCH Ltd, for which the fair values attributable to transactions on own account and transactions on behalf of customers have been offset separately in the financial statements.

The overall negative result of 5,579 million euro (negative fair value of 60,224 million euro and positive fair value of 54,645 million euro) is reported in Part B of the Notes to the financial statements under financial liabilities held for trading at 2,168 million euro for the first transaction type and under hedging derivatives liabilities at 3,411 million euro for the second transaction types.

## 1.4 LIQUIDITY RISK

### QUALITATIVE INFORMATION

#### **A. General aspects, liquidity risk management processes and measurement methods**

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).

The arrangement of a suitable control and management system for that specific risk has a fundamental role in maintaining stability, not only at the level of each individual bank, but also of the market as a whole, given that imbalances within a single financial institution may have systemic repercussions. Such a system must be integrated into the overall risk management system and provide for incisive controls consistent with developments in the context of reference.

Intesa Sanpaolo's internal control and management system for liquidity risk is implemented within the Group Risk Appetite Framework and in compliance with the tolerance thresholds for liquidity risk approved in the system, which establish that the Group must maintain an adequate liquidity position in order to cope with periods of strain, including prolonged periods, on the various funding supply markets, also by establishing adequate liquidity reserves consisting of marketable securities and refinancing at Central Banks. To this end, a balance needs to be maintained between incoming and outgoing funds, both in the short and medium-long term. This goal is implemented by the Group Liquidity Risk Management Guidelines approved by the Corporate Bodies of Intesa Sanpaolo, in implementation of the applicable regulatory provisions.

The provisions on liquidity introduced by the European Union in June 2013 and subsequently updated establish that banks are required to comply with the short-term liquidity coverage ratio (LCR), as set out in Art. 38 of Delegated Regulation (EU) 2015/61, as supplemented and amended (minimum level of 100% from 1 January 2018). The entry into force of the net stable funding ratio (100%) is, instead, planned to start in June 2021, following final approval and subsequent publication in the Official Journal in May 2019 of the package of banking reforms containing EU Directive 2019/878 (CRD V) and Regulation 2019/876 (CRR2).

The Intesa Sanpaolo Group Liquidity Risk Management Guidelines, which already referred to Bank of Italy Circulars 263 and 285, and Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), have reflected all of the related regulatory provisions step-by-step, adjusting the composition of the liquid assets eligible for liquidity reserves and the definition of the 30-day liquidity flows valid for the calculation of the LCR. With respect to structural liquidity, the most recent regulatory provisions issued concerning the Net Stable Funding Ratio (NSFR) have been adopted, in view of the upcoming entry into force of the latest European regulations mentioned above.

The Group Liquidity Risk Management Guidelines approved by Intesa Sanpaolo's Corporate Bodies illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. To this end, they include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies.

The key principles guiding the internal control and management system for liquidity risk defined by those Guidelines are as follows:

- the existence of a liquidity management policy approved by senior management and clearly disseminated throughout the Bank;
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- the constant availability of adequate liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions;
- liquidity management in crisis situations that takes into account the guidelines on the governance of crisis management processes within the Recovery Plan and the Resolution Plan.

The Group Liquidity Risk Management Guidelines set out the task assigned to the Corporate Bodies and allocate several important responsibilities to senior management, including approving measurement indicators, defining the main assumptions underlying the stress scenarios and composing the early warning thresholds used to activate emergency plans.

In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company's Corporate Bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group's overall transactions and the liquidity risk to which it is exposed.

The corporate functions of the Parent Company responsible for ensuring the correct application of the Guidelines and the sufficiency of the Group's liquidity position are the Group Treasury and Finance Head Office Department, the Planning and Control Department, responsible, within the Chief Financial Officer (CFO) Area, for liquidity management, and the Financial and Market Risks Head Office Department, which is directly responsible, within the Chief Risk Officer (CRO) Area, for measuring liquidity risk on a consolidated basis.

The Group's liquidity is managed by the aforesaid structures of the CFO area through continuous liaison with the Business Units, within the framework of the relevant business plans drawn up in accordance with the following guidelines:

- constant attention to the level of customer loyalty, aimed at maintaining a high stock of stable deposits;
- monitoring of the deposit-lending gap of the Business Units, with respect to plan and budget targets;
- balanced use of the institutional market, with particular attention to diversification of segments and instruments;
- selective use of refinancing operations by Central Banks.

The Financial and Market Risks Head Office Department is directly responsible for level two controls and, as an active member of the Managerial Committees, it performs a primary role in the management and dissemination of information on liquidity risk, helping improve the Group's overall awareness of the existing position. In particular, it ensures the measurement of the Group's current and future exposure to liquidity risks under normal and stressed conditions, verifying compliance with

the limits and, if those limits are exceeded, implementing the reporting to the competent Corporate Bodies and monitoring the agreed correction actions in the event of any excesses.

The Chief Audit Officer assesses the functioning of the overall structure of the control system monitoring the process for measuring, managing and controlling the Group's exposure to liquidity risk and verifies the adequacy and compliance of the process with the requirements established by the regulations. The results of the controls carried out are submitted to the Corporate Bodies, at least once a year.

The liquidity risk measurement metrics and mitigation tools are formalised by the Group Liquidity Risk Management Guidelines which establish the methodology used for both the short-term and structural liquidity indicators.

The short-term liquidity is aimed at providing an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, while ensuring a sufficient liquidity buffer, available for use as the main mitigation tool for liquidity risk. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of specific short-term indicators, both of a regulatory nature with a holding a period of one month (Liquidity Coverage Ratio - LCR) and internally defined (Survival Period indicators).

The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high-quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in an acute liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by Delegated Regulation (EU) 2015/61.

The Survival Period is an internal indicator designed to measure the first day on which the net liquidity position (calculated as the difference between available liquidity reserves and net outflows) becomes negative, i.e. when additional liquidity is no longer available to cover simulated net outflows. To this end, two different scenario hypotheses are considered, baseline and stressed, designed to measure, respectively: (i) the Group's independence from interbank funding on the financial markets and (ii) the survival period in the event of further tensions of a market and idiosyncratic nature, of medium-high severity, managed without envisaging restrictions on credit activity involving customers. For the Survival Period indicator, in stress conditions it is established that a minimum survival period must be maintained with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions.

The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions - the Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. In addition, the internal policy on structural liquidity also includes early warning indicators for maturities of more than 1 year, with particular attention to long-term gaps (> 5 years).

The Group Liquidity Risk Management Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, also indicating the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Financial and Market Risks Head Office Department. Within this framework, the Group Treasury and Finance Department was officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term.

### Impacts from the COVID-19 pandemic

The health emergency generated by the COVID-19 pandemic has laid out unique challenges also at the level of liquidity risk, and since the outbreak of the emergency the Group has preventively adopted all necessary management and monitoring measures to mitigate the potential worsening of the Bank's liquidity conditions.

The Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained within the risk limits set out in the current Group Liquidity Policy for all of 2020. Both regulatory indicators, LCR and NSFR, which also benefited from the positive contribution from the UBI Group from the end of August, were largely above the regulatory requirements. During 2020, the Intesa Sanpaolo Group's Liquidity Coverage Ratio (LCR), measured according to Delegated Regulation (EU) 2015/61, also consolidating the UBI Group from August, amounted to an average of 159.1%<sup>48</sup>. The NSFR also remained significantly higher than 100%, supported by a solid base of stable deposits from customers, adequate wholesale medium/long-term securities funding and the TLTRO funding from the ECB. The Group's NSFR is also significantly higher than 100%, even excluding the positive contribution from the TLTRO funding.

At the end of December 2020, the value of total unencumbered HQLA reserves at the various Group Treasuries, including the UBI Group, totalled 170 billion euro and was more than 47% comprised of cash and deposits held with Central Banks. Adding the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, the Group's unencumbered liquidity reserves amounted to a total of 195 billion euro.

<sup>48</sup> The figure presented refers to the simple average of the last 12 monthly observations, as per the EBA guidelines, "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) 575/2013", June 2017.



	(millions of euro)	
	<b>Unencumbered (net of haircut)</b>	
	31.12.2020 *	31.12.2019
<b>HQLA Liquidity Reserves</b>	<b>170,264</b>	<b>95,762</b>
Cash and Deposits held with Central Banks (HQLA)	80,698	22,326
Highly liquid securities (HQLA)	89,566	73,436
<b>Other eligible and/or marketable reserves</b>	<b>24,403</b>	<b>22,594</b>
<b>Total Group's Liquidity Buffer</b>	<b>194,667</b>	<b>118,356</b>

\*The figures include the UBI Group's contribution

Considering the high amounts of unencumbered liquidity reserves (liquid or eligible), also the stress tests, in a combined scenario of market and specific crises (with significant loss in customer deposits), yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.

Intesa Sanpaolo's funding strategy is based on maintaining diversity in terms of customers, products, maturities and currencies. Intesa Sanpaolo's main sources of funding consist of: (i) deposits from the domestic Retail and Corporate market, which represent the stable portion of funding, (ii) short-term funding on wholesale markets, largely consisting of repurchase agreements and CD/CP funding, and (iii) medium/long-term funding, mainly composed of own issues (covered bonds/ABS and other senior debt securities in the euro and US markets, in addition to subordinated securities) and refinancing operations with the Eurosystem (TLTRO). The Group Liquidity Risk Management Guidelines require the regular monitoring of the concentration analyses for the funding (by counterparty/product) and for the liquidity reserves (by issuer/counterparty).

Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was regularly provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the risk factors. This report includes an assessment of the liquidity risk exposure, also determined based on the adverse scenarios. The Board of Directors of Intesa Sanpaolo is regularly involved in defining the strategy for maintaining an adequate liquidity position at the level of the entire Group.

The corporate assessment on the adequacy of Intesa Sanpaolo's position is reported in the ILAAP (Internal Liquidity Adequacy Assessment Process), which also includes the Group's Funding Plan. Within the annual approval process for this report by the Governing Bodies of Intesa Sanpaolo, the Liquidity Adequacy Statement (LAS) of the Members of the Board of Directors, which also presents the main findings from the self-assessment of the adequacy of the liquidity position, taking into account the results and values shown by the main indicators, confirms that the management of the liquidity position is considered to be adequate and deeply rooted in the Group's culture and business processes. It also notes, including from a prospective standpoint, that the current system of rules and procedures appears adequate to ensure a prompt and effective reaction should the risks and challenges actually materialise in severe and adverse stress scenarios.

**QUANTITATIVE INFORMATION****1. Breakdown by contractual residual maturity of financial assets and liabilities**

The breakdown by maturity of financial assets and liabilities is shown in the tables below according to the rules set forth in the financial statement regulations (Bank of Italy Circular 262 and related clarifications issued by the Supervisory Authority), using accounting information organised by contractual residual maturity. Therefore, no operational data was used that would require, for example, the modelling of core deposits and the representation of on-balance sheet items according to their level of liquidity.

*Currency of denomination: Euro*

Type/Residual maturity	(millions of euro)									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
<b>A. Cash assets</b>	<b>68,766</b>	<b>12,637</b>	<b>7,360</b>	<b>11,453</b>	<b>23,998</b>	<b>26,664</b>	<b>38,397</b>	<b>197,438</b>	<b>200,220</b>	<b>71,918</b>
A.1 Government bonds	38	11	153	526	1,495	5,445	2,980	15,103	43,066	-
A.2 Other debt securities	168	311	715	3,063	141	377	696	8,967	18,344	-
A.3 Quotas of UCI	2,944	-	-	-	-	-	-	-	-	10
A.4 Loans	65,616	12,315	6,492	7,864	22,362	20,842	34,721	173,368	138,810	71,908
- Banks	16,518	3,382	854	200	1,138	664	2,612	936	290	71,659
- Customers	49,098	8,933	5,638	7,664	21,224	20,178	32,109	172,432	138,520	249
<b>B. Cash liabilities</b>	<b>427,627</b>	<b>3,087</b>	<b>1,496</b>	<b>4,734</b>	<b>10,496</b>	<b>7,730</b>	<b>9,301</b>	<b>137,774</b>	<b>27,639</b>	<b>-</b>
B.1 Deposits and current accounts	400,833	1,251	825	1,625	3,262	3,842	3,652	7,499	746	-
- Banks	4,364	247	30	45	126	248	150	1,114	342	-
- Customers	396,469	1,004	795	1,580	3,136	3,594	3,502	6,385	404	-
B.2 Debt securities	140	128	493	3,075	6,633	3,084	4,712	42,722	22,715	-
B.3 Other liabilities	26,654	1,708	178	34	601	804	937	87,553	4,178	-
<b>C. Off-balance sheet transactions</b>										
C.1 Financial derivatives with exchange of capital										
- Long positions	2,087	13,199	5,439	7,082	25,102	10,669	9,710	17,795	8,970	-
- Short positions	3,774	12,286	4,152	6,053	21,722	7,754	6,922	16,909	12,231	-
C.2 Financial derivatives without exchange of capital										
- Long positions	23,036	139	9	63	207	304	662	147	159	-
- Short positions	31,146	44	18	104	206	441	743	147	159	-
C.3 Deposits and loans to be settled										
- Long positions	63,628	-	-	-	-	-	-	-	-	-
- Short positions	-	63,628	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	14,471	22,214	67	222	230	1,122	1,675	16,208	3,548	-
- Short positions	59,065	9	7	40	26	76	91	221	10	-
C.5 Financial guarantees given	856	5	2	7	92	81	168	285	112	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	17	53	325	1,042	-
- Short positions	-	-	-	-	-	17	53	325	1,042	-
C.8 Credit derivatives without exchange of capital										
- Long positions	1,193	-	-	-	-	-	-	-	-	-
- Short positions	1,246	-	-	-	-	-	-	-	-	-

## Currency of denomination: Other currencies

Type/Residual maturity	(millions of euro)									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
<b>A. Cash assets</b>	<b>5,221</b>	<b>3,467</b>	<b>4,370</b>	<b>2,476</b>	<b>4,942</b>	<b>3,529</b>	<b>6,718</b>	<b>21,437</b>	<b>12,677</b>	<b>1,780</b>
A.1 Government bonds	35	240	130	287	1,290	738	1,578	4,037	5,909	-
A.2 Other debt securities	42	73	16	99	141	315	317	2,676	2,162	4
A.3 Quotas of UCI	277	-	-	-	-	-	-	-	-	-
A.4 Loans	4,867	3,154	4,224	2,090	3,511	2,476	4,823	14,724	4,606	1,776
- Banks	1,867	2,223	2,839	413	698	141	1,868	268	182	1,745
- Customers	3,000	931	1,385	1,677	2,813	2,335	2,955	14,456	4,424	31
<b>B. Cash liabilities</b>	<b>21,047</b>	<b>3,697</b>	<b>3,437</b>	<b>4,414</b>	<b>6,446</b>	<b>1,377</b>	<b>1,701</b>	<b>10,172</b>	<b>6,022</b>	-
B.1 Deposits and current accounts	19,434	1,593	809	2,238	1,696	873	972	1,690	210	-
- Banks	987	625	230	976	482	42	50	783	68	-
- Customers	18,447	968	579	1,262	1,214	831	922	907	142	-
B.2 Debt securities	14	436	191	315	1,466	365	630	7,969	4,865	-
B.3 Other liabilities	1,599	1,668	2,437	1,861	3,284	139	99	513	947	-
<b>C. Off-balance sheet transactions</b>										
C.1 Financial derivatives with exchange of capital										
- Long positions	856	14,306	5,969	9,180	19,964	9,983	10,636	18,378	11,513	-
- Short positions	739	15,144	7,549	10,243	21,605	12,359	14,019	19,638	8,122	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,744	6	151	37	80	142	328	102	-	-
- Short positions	1,902	93	88	28	78	73	193	102	1	-
C.3 Deposits and loans to be settled										
- Long positions	1,212	-	-	-	-	-	-	-	-	-
- Short positions	4	-	641	1	7	530	-	29	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	298	35	7	190	631	1,008	1,521	9,706	522	-
- Short positions	12,280	138	1	1	38	56	155	158	168	-
C.5 Financial guarantees given	535	11	6	20	74	125	221	547	35	-
C.6 Financial guarantees received	-	1	-	-	-	-	-	10	2	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	37	-	-
- Short positions	-	-	-	-	-	-	-	37	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	414	-	-	-	-	-	-	-	-	-
- Short positions	432	-	-	-	-	-	-	-	-	-

## 2. Self-securitisations

The Intesa Sanpaolo Group has carried out securitisations in which all the liabilities issued by the vehicle companies involved were subscribed by Group companies.

A brief description of the existing transactions as at 31 December 2020 is provided below.

### Adriano Lease SEC S.r.l.

This is a securitisation that was carried out in December 2017, which took the form of the sale by Mediocredito Italiano S.p.A. of a loan portfolio selected on the basis of pre-defined criteria and arising from performing property, equipment and car lease contracts to Adriano Lease Sec S.r.l. for a total amount of approximately 4.2 billion euro. The purpose of the transaction is to expand the liquidity reserve that can be used by the bank for refinancing operations on the Eurosystem.

The vehicle Adriano Lease Sec S.r.l. originally issued two series of notes:

- a senior tranche (Class A), with a nominal amount of 2.9 billion euro, listed and assigned an A1 rating by Moody's and an A rating by DBRS Morningstar;
- a junior tranche (Class B), with a nominal amount of 1.4 billion euro, unlisted and unrated.

Following the merger by incorporation, the securities originally purchased by Mediocredito Italiano S.p.A. were included in Intesa Sanpaolo. As at 31 December 2020, the senior securities came to 1,062 million euro and junior securities to 1,351 million euro.

The senior securities are eligible for use in the Eurosystem.

*Apulia Finance N. 4 S.r.l.*

In May 2008, Banca Apulia S.p.A. (now merged into Intesa Sanpaolo), completed a securitisation of residential and commercial mortgages, sold to the vehicle company Apulia Finance N. 4 S.r.l.

With respect to the portfolio sold, in July 2008, Apulia Finance 2008 S.r.l., the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 378.4 million euro, broken down as follows:

- a class A senior tranche for 319.8 million euro, placed on the market and with a AAA rating assigned to the issue by Moody's. The security was fully redeemed in December 2020.
- a junior tranche (class B) for 58.6 million euro, retained and unrated.

The class A senior securities, denominated in euro, paid a floating-rate six-monthly coupon indexed to the 6-month Euribor plus a spread of 0.70% and were listed on the Luxembourg Stock Exchange.

The junior securities, also denominated in euro, were fully subscribed by Banca Apulia S.p.A. (now merged into Intesa Sanpaolo). The redemption of the nominal amount is subject to the full redemption of the higher-class securities.

As at 31 December 2020, the value of the outstanding subscribed securities was 59 million euro consisting solely of junior securities.

*Brera Sec S.r.l.*

In October 2017, a self-securitisation was structured, carried out through the sale of five loan portfolios to the vehicle company Brera Sec S.r.l. and originated by the Parent Company and by four banks of the Group subsequently incorporated into Intesa Sanpaolo (Banco di Napoli, Cassa di Risparmio di Forlì e della Romagna and Cassa di Risparmio del Friuli Venezia Giulia, incorporated in the second half of 2018 and Cassa di Risparmio in Bologna, incorporated in the first half of 2019). The underlying consisted of residential mortgage loans held by households and/or family businesses. This transaction was the Group's first Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation.

The transaction involved the issuance by the vehicle company of two tranches of securities:

- a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility;
- and an unlisted junior tranche without rating. Both the senior and junior securities were subscribed *pro rata* by each individual selling bank based on the sale price of each portfolio, so that the loans could remain in the balance sheets of each selling bank without derecognition.

The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.

Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with a corporate entity outside the Group (Dutch-registered foundation known as a Stichting). Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.

The total sale consideration was 7.1 billion euro. The sale price of the portfolio sold was settled through the issuance of securities on 11 December 2017 for a total of 7.1 billion euro.

The senior securities, which are listed with an Aa3 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and have been subscribed by Intesa Sanpaolo.

As at 31 December 2020, the value of the outstanding subscribed securities for Intesa Sanpaolo was 4,081 million euro for senior securities and 1,067 million euro for junior securities.

*Brera Sec S.r.l. (SME)*

In October 2018, a self-securitisation was structured, implemented through the sale of three loan portfolios to the vehicle company Brera Sec S.r.l. and originated by the Parent Company and three of the Group banks subsequently incorporated by Intesa Sanpaolo (Banco di Napoli, incorporated in the second half of 2018 and Cassa di Risparmio di Bologna and Cassa di Risparmio di Firenze, incorporated in the first half of 2019). The underlying is made up of mortgage loans and other loans to small and medium enterprises and corporates (the latter only if the group turnover is less than 100 million euro).

This is the Group's second multi-Originator Asset Backed Security ("ABS") securitisation and the first with an underlying of SME loans. The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating. Both the senior and junior securities were subscribed *pro rata* by each individual selling bank based on the sale price of each portfolio, so that the loans could remain in the balance sheets of each selling bank without derecognition.

The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.

Following the merger by incorporation of Cassa di Risparmio in Bologna and Cassa di Risparmio di Firenze into Intesa Sanpaolo on 25 February 2019, the respective loans sold were transferred to the Intesa Sanpaolo portfolio.

On origination, the total sale consideration was 5.3 billion euro. The sale price was settled through the issuance of securities on 14 December 2018 for a total of 5.3 billion euro.

The senior securities, which are listed with an A1 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and were subscribed by Intesa Sanpaolo.

As at 31 December 2020, the value of the outstanding securities subscribed by Intesa Sanpaolo was 1,031 million euro for senior securities and 1,530 million euro for junior securities.

*Brera Sec S.r.l. (SEC 2)*

In September 2019, a new self-securitisation was structured, implemented through the sale of a loan portfolio originated by Intesa Sanpaolo to the vehicle company Brera Sec S.r.l. This transaction is the Group's third Residential Mortgage Backed Security ("RMBS") securitisation.

The transaction involved the issuance by the vehicle company of two tranches of securities on 27 November 2019: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating.

Both the senior and junior securities were subscribed by Intesa Sanpaolo, so that the loans could remain in the balance sheet of Intesa Sanpaolo without derecognition.

The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem. The total sale consideration was 7.5 billion euro. The sale price of the portfolio was settled through the issuance of securities on 27 November 2019 for a total of 7.5 billion euro.

The senior securities, which are listed with an A1 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and have been fully subscribed by Intesa Sanpaolo.

As at 31 December 2020, the value of the outstanding securities subscribed by Intesa Sanpaolo was 5,834 million euro for senior securities and 860 million euro for junior securities.

#### *Clara Sec S.r.l.*

In 2020, a new revolving self-securitisation was structured involving receivables arising from performing personal loans within the consumer credit area and disbursed to consumer households, a transaction subject to periodic repurchase of the loans.

The transaction took place with the sale, in two tranches (April and May), of the portfolio of loans originated by Intesa Sanpaolo to the vehicle company Clara Sec S.r.l. and is the Group's fourth Asset Backed Security ("ABS") securitisation.

Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with an entity from outside the Group (Dutch-registered foundation known as a Stichting).

Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.

The transaction involved the issuance by the vehicle company of two tranches of securities on 23 June 2020: a listed senior tranche with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without a rating.

Both the senior and junior securities were subscribed by Intesa Sanpaolo, so that the loans could remain in the balance sheet of Intesa Sanpaolo without derecognition.

The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.

The total sale consideration was 7.6 billion euro. As part of that transaction, securities were issued on 23 June 2020 for 7.2 billion euro. The senior securities, which are listed with an A1 Moody's and an A (High) DBRS rating, are eligible for the Eurosystem and have been fully subscribed by Intesa Sanpaolo.

As at 31 December 2020, the value of the outstanding securities subscribed by Intesa Sanpaolo remained unchanged at 6,350 million euro for senior securities and 824 million euro for junior securities.

#### *Giada Sec S.r.l.*

In November 2020, a new self-securitisation was structured, implemented through the sale of a portfolio of loans, disbursed to companies belonging to the small business, SME and Corporate segment and originated by Intesa Sanpaolo, to the vehicle company Giada Sec S.r.l.. This is the Group's fifth Asset Backed Security ("ABS") securitisation and the second with an underlying of SME loans.

Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with a corporate entity outside the Group (Dutch-registered foundation known as a Stichting).

The securitisation is a revolving transaction and ISP will have the option to sell the vehicle further portfolios of loans with similar characteristics and quality, which the Vehicle will purchase by drawing on the receipts generated by the portfolio segregated over time.

The total sale consideration was 10.1 billion euro. The sale price of the portfolio was settled through the issuance of securities on 21 December 2020 for a total of 10.1 billion euro.

The transaction involved the issuance by the vehicle company of two tranches of securities on 21 December 2020: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating.

Both the senior and junior securities were subscribed by Intesa Sanpaolo, so that the loans could remain in the balance sheet of Intesa Sanpaolo without derecognition.

The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.

The senior securities, which are listed with an A1 Moody's and an A DBRS Morningstar rating, are eligible for the Eurosystem and have been fully subscribed by Intesa Sanpaolo.

As at 31 December 2020, the value of the outstanding securities subscribed by Intesa Sanpaolo remained unchanged at 6,610 million euro for senior securities and 3,485 million euro for junior securities.

#### *UBI SPV Lease 2016*

The UBI SPV Lease 2016 self-securitisation derives from the business combination of the former UBI Banca Group into the Intesa Sanpaolo Group in the third quarter of 2020. The self-securitisation was carried out on portfolios of UBI Leasing in 2016, for the purpose of generating eligible assets for refinancing operations with the European Central Bank.

For the transaction, a special purpose vehicle was established, UBI SPV Lease 2016 Srl, to which performing loans were transferred along with the related leases for 3,065 million euro (in terms of principal). The assignment was finalised on 23 June 2016, with accounting and economic effectiveness on the previous 31 May.

The transaction involved the issuance by the vehicle company of two tranches of securities on 28 July 2016:

- Class A securities (senior tranches): nominal value of 2,100 million euro, floating rate, maturity in 2050, assigned an A1 rating by Moody's and an A (low) by DBRS;
- Class B securities (junior tranches): nominal value of 1,001 million euro, maturity in 2050, unrated, with yield equal to the additional return of the operation.

The subscription of the junior notes also enabled the creation of a Cash Reserve within the operation of 31.5 million euro, still fully available at the reference date of these Notes.

Repayment of the securities has not yet begun, and, therefore, the situation as at 31 December 2020 remained unchanged.

As at 31 December 2020, the securitised portfolio, which continued to be posted under the originator's assets, amounted to 2,616 million euro of residual capital debt.

The table below shows the characteristics of the securities issued by the vehicles and subscribed by the Group companies.

Vehicle	Type of security issued	Type of asset securitised	External rating	(millions of euro) Principal as at 31.12.2020
<b>ADRIANO LEASE SEC SRL</b>				
<i>of which issued in euro</i>				
	Class A	Senior	Moody's A1 / DBRS Morningstar A	2,413
	Class B	Junior	no rating	1,062
				1,351
<b>APULIA FINANCE 4 SRL</b>				
<i>of which issued in euro</i>				
	Class A	Senior	Residential mortgage loans	no rating
	Class B	Junior	Residential mortgage loans	no rating
				59
				-
				59
<b>BRERA SEC S.r.l.</b>				
<i>of which issued in euro</i>				
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa3 / DBRS Morningstar AH
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating
				4,081
				1,067
<b>BRERA SEC S.r.l. (SME)</b>				
<i>of which issued in euro</i>				
	Class A RMBS F/R Notes	Senior	Receivables from SME and large corporate customers	Moody's A1 / DBRS Morningstar AH
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Receivables from SME and large corporate customers	no rating
				2,561
				1,031
				1,530
<b>BRERA SEC SRL (SEC 2)</b>				
<i>of which issued in euro</i>				
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's A1 / DBRS Morningstar AH
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating
				6,694
				5,834
				860
<b>CLARA SEC S.r.l.</b>				
<i>of which issued in euro</i>				
	Class A RMBS F/R Notes	Senior	Personal loans	Moody's A1 / DBRS Morningstar AH
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Personal loans	no rating
				7,174
				6,350
				824
<b>GIADA SEC S.r.l.</b>				
<i>of which issued in euro</i>				
	Class A RMBS F/R Notes	Senior	Receivables from Small business, SME and corporate customers	Moody's A1 / DBRS Morningstar A
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Receivables from Small business, SME and corporate customers	no rating
				10,095
				6,610
				3,485
<b>UBI SPV LEASE 2016 S.r.l.</b>				
<i>of which issued in euro</i>				
	Class A	Senior	Leasing	Moody's A2 / DBRS Morningstar A
	Class B	Junior	Leasing	no rating
				3,101
				2,100
				1,001
<b>TOTAL</b>				<b>37,245</b>

The following self-securitisations were terminated in 2020: Berica ABS 5 S.r.l., Claris RMBS 2016 S.r.l. and Claris RMBS 2014 S.r.l.



## OTHER INFORMATION ON FINANCIAL RISKS

## SOVEREIGN RISK EXPOSURE BY COUNTRY OF RESIDENCE OF THE COUNTERPARTY

The following table illustrates the value of the main exposures of the Intesa Sanpaolo Group to sovereign risk, based on management data.

	DEBT SECURITIES				(millions of euro)	
	Financial assets measured at amortised cost	BANKING GROUP		INSURANCE COMPANIES	TOTAL	LOANS
		Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss			
<b>EU Countries</b>	<b>28,506</b>	<b>30,557</b>	<b>3,034</b>	<b>60,526</b>	<b>122,623</b>	<b>12,099</b>
Austria	-	41	-76	2	-33	-
Belgium	793	531	-23	4	1,305	-
Bulgaria	-	-	10	64	74	-
Croatia	11	1,205	171	164	1,551	1,227
Cyprus	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	-
Denmark	-	-	-	-	-	-
Estonia	-	-	-	-	-	-
Finland	-	13	2	3	18	-
France	2,564	3,555	388	2,081	8,588	4
Germany	515	1,053	1,551	298	3,417	-
Greece	-	12	47	-	59	-
Hungary	23	829	11	37	900	249
Ireland	145	516	-3	57	715	-
Italy	20,210	13,206	1,791	54,963	90,170	10,237
Latvia	-	-	-	-	-	32
Lithuania	6	-	-	-	6	-
Luxembourg	-	-	3	-	3	-
Malta	-	-	-	-	-	-
The Netherlands	52	323	77	77	529	-
Poland	50	61	-	18	129	-
Portugal	84	356	-22	39	457	-
Romania	66	314	17	288	685	6
Slovakia	-	672	-	-	672	86
Slovenia	1	186	2	-	189	196
Spain	3,986	7,657	-936	2,431	13,138	62
Sweden	-	27	24	-	51	-
<b>Non-EU Countries</b>						
Albania	267	270	1	-	538	1
Egypt	-	1,723	2	63	1,788	240
Japan	-	2,020	410	-	2,430	-
Russia	-	94	-	-	94	-
Serbia	2	718	8	-	728	93
United Kingdom	-	-	-	101	101	-
U.S.A.	1,258	3,566	613	72	5,509	-

Management accounts

As illustrated in the table, the exposure to Italian government securities at the end of 2020 totalled approximately 90 billion euro (86 billion euro at the end of 2019, which did not include UBI Banca), in addition to around 10 billion euro represented by loans (11 billion euro at the end of 2019).

**INFORMATION ON STRUCTURED CREDIT PRODUCTS**

The risk exposure in structured credit products came to 2,729 million euro as at 31 December 2020, showing a net decrease of 1,065 million euro compared to the stock of 3,794 million euro as at 31 December 2019. The exposure includes investments in ABSs (asset-backed securities) of 1,449 million euro, in CLOs (collateralised loan obligations) of 1,207 million euro and, to a residual extent, in CDOs (collateralised debt obligations) of 73 million euro, for which there was substantially marginal activity during the year.

Accounting categories	31.12.2020			31.12.2019		(millions of euro) changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	380	469	-	849	1,514	-665	-43.9
Financial assets mandatorily measured at fair value	-	4	-	4	20	-16	-80.0
Financial assets measured at fair value through other comprehensive income	444	675	-	1,119	1,485	-366	-24.6
Financial assets measured at amortised cost	383	301	73	757	775	-18	-2.3
<b>Total</b>	<b>1,207</b>	<b>1,449</b>	<b>73</b>	<b>2,729</b>	<b>3,794</b>	<b>-1,065</b>	<b>-28.1</b>

In this disclosure, structured credit products include debt securities held by the Group divided into tranches upon issue consisting of various degrees of subordination and not issued within the framework of transactions originated by entities of the Intesa Sanpaolo Group or by public entities, in addition to transactions whereby the Group finances its corporate and financial institution customers (operations implemented by the Group through the subsidiary Duomo Funding Plc).

The strategy for transactions in structured credit products involved investments aimed at exploiting market opportunities, on the one hand, and continuous disposals of the portfolio, also referring to positions which at the time were affected by the financial crisis, on the other hand.

The exposure in ABSs and CLOs measured at fair value went from 3,019 million euro in December 2019 to 1,972 million euro in December 2020, a net decrease of 1,047 million euro, mainly attributable to operations on positions of the IMI Corporate & Investment Banking Division, in the financial assets held for trading portfolio and, to a lesser extent, in the assets measured at fair value through other comprehensive income portfolio.

The exposure to debt securities classified as assets measured at amortised cost amounted to 775 million euro in December 2019, compared with an exposure of 757 million euro in December 2020.

From profit or loss perspective, a loss of -5 million euro was posted for 2020, down compared to the +27 million euro recorded in the previous year.

This loss from trading activities – caption 80 of the income statement – of -6 million euro (+15 million euro in 2019) was fully due to exposures in ABSs, substantially the result of valuation effects.

Though that performance reflects a decline if compared with the previous year, it marks a recovery on the negative impact regarding the unrealised component in the previous quarters of the year (-18 million euro as at 30 September, -34 million euro as at 30 June and -39 million euro as at 31 March), attributable to the downturn in the markets in the period due to the COVID-19 health emergency.

The loss from financial assets mandatorily measured at fair value was -1 million euro, compared to a profit of +10 million euro recorded as at 31 December 2019 (the latter resulting from +16 million euro in realised gains and -6 million euro in valuation components).

The exposures in debt securities classified as assets measured at fair value through other comprehensive income recorded a decrease in fair value of -6 million euro in 2020 through a shareholders' equity reserve (from a positive reserve of +2 million euro in December 2019 to a negative reserve of -4 million euro in December 2020). There was also an impact of +4 million euro from sales during the year (+1 million euro in 2019).

Adjustments recognised on the debt securities classified as assets measured at amortised cost amounted to -2 million euro as at 31 December 2020, compared to an impact of +1 million euro in 2019.

With regard to the monoline and non-monoline packages, in line with the situation as at the end of 2019, there were no positions held as at 31 December 2020.

Note that there are no structured credit products within the scope of the former UBI Group.

Income statement results broken down by accounting category	31.12.2020				31.12.2019		(millions of euro) changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total			absolute	%
Financial assets held for sale	-	-6	-	-6	15		-21	
Financial assets mandatorily measured at fair value	-	-1	-	-1	10		-11	
Financial assets measured at fair value through other comprehensive income	-	4	-	4	1		3	
Financial assets measured at amortised cost	-	-2	-	-2	1		-3	
<b>Total</b>	-	-5	-	-5	27		-32	

## INFORMATION ON LEVERAGED TRANSACTIONS

In 2017, the ECB published specific Guidance on Leveraged Transactions, which applies to all significant entities subject to direct supervision by the ECB. The declared purpose of the regulations is to strengthen company controls over “leveraged” transactions, where such transactions increased globally and in the context of a highly competitive market, characterised by a long period of low interest rates and the resulting search for yields.

The perimeter in scope of the ECB Guidance includes exposures in which the borrower’s level of leverage, measured as the ratio of total financial debt to EBITDA, is greater than 4, in addition to exposures to entities whose majority of capital is held by one or more financial sponsors. Moreover, counterparties with Investment Grade ratings, Private individuals, credit institutions, financial institutions and companies in the financial sector in general, public entities, non-profit entities, as well as counterparties with credit facilities below a certain materiality threshold (5 million euro), Retail SME counterparties and Corporate SME counterparties (the latter if not owned by financial sponsors) are explicitly excluded from the scope of Leveraged Transactions. Specialised lending transactions (project finance, real estate and object financing) and certain other types of credit, such as trade finance operations, are also excluded.

As of 31 December 2020, for the Intesa Sanpaolo Group, including the UBI Group, the transactions that meet the definition of Leveraged Transactions as per the ECB Guidance amounted to almost 33 billion euro (31 billion euro- net of the UBI positions classified as leveraged transactions sold to BPER), of which 22 billion euro relating to the ISP Group and referred to to 1,674 credit lines. As of 31 December 2019, the amount of Leverage Transactions for the ISP Group was 21 billion euro, relating to 1,912 credit lines.

In accordance with the requirements of the ECB Guidance, as part of the Credit Risk Appetite a specific limit for the outstanding stock of leveraged transactions and limits on new transaction flows were submitted for approval to the Board of Directors, in line with the Bank’s risk appetite on these types of operations.

## INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Hedge Fund portfolio as at 31 December 2020 amounted to 39 million euro in the trading book and 277 million euro in the banking book, compared to 115 million euro and 194 million euro respectively in December 2019.

The investments in the banking book are recognised under financial assets mandatorily measured at fair value, pertaining to funds that adopt medium/long-term investment strategies and redemption times that are longer than those of UCITS (Undertakings for Collective Investment in Transferable Securities) funds.

During 2020, stocks increased by 7 million euro compared to 31 December 2019, due to diversified strategies based on the portfolio of allocation of the instruments.

Specifically, the increase is due to new investments for 83 million euro in the banking book, considering a renewed stability of the international financial markets, due to both an economic recovery and the robust support measures implemented by the various monetary and fiscal authorities for COVID-19.

That impact was partially offset by sales in the trading books for 76 million euro, which occurred mainly in the first quarter of the year as an action to reduce the intrinsic risk of this portfolio in a situation of extreme volatility and downturn in the markets, as a result of the health emergency, by using the greater dynamism allowed for trading books.

In terms of profit or loss effect, the profits (losses) on trading – caption 80 of the income statement (trading book) – showed a loss of 21 million euro as at 31 December 2020 compared to a profit of +2 million euro in December 2019. The balance for the period included valuation losses of 5 million euro and losses on disposals of 16 million euro, the latter substantially relating to the de-risking decision adopted by the Investment Committee on 12 March 2020, which resulted in a reduction of the trading book.

The net profit (loss) on financial assets mandatorily measured at fair value – caption 110 of the income statement (banking book) – recorded a profit of 18 million euro (compared to +5 million euro in December 2019), attributable to valuation components, which confirm the recovery trend from the valuations recorded in the previous quarters of 2020.

There are no investments in hedge funds within the scope of the former UBI Group.

## INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 31 December 2020, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 8,934 million euro which, net of the contribution of the UBI Group for 234 million euro, came to 8,700 million euro (7,694 million euro as at 31 December 2019). The notional value of these derivatives totalled 75,296 million euro which, net of the contribution of the UBI Group (6,783 million euro), came to 68,513 million euro (62,528 million euro as at 31 December 2019).

In particular, the notional value of plain vanilla contracts was 69,636 million euro, which, net of the contribution of the UBI Group (6,783 million euro), came to 62,853 million euro (58,403 million euro as at 31 December 2019), while that of structured contracts was 5,660 million euro (4,125 million euro as at 31 December 2019).

Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures came to 5,802 million euro (5,269 million euro as at 31 December 2019), of which 543 million euro (476 million euro as at 31 December 2019) referred to structured contracts.

Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, was 1,460 million euro as at 31 December 2020 which, net of the contribution of the UBI Group (2 million euro), came to 1,458 million euro (1,410 million euro as at 31 December 2019). The notional value of these derivatives totalled 19,222 million euro which, net of the contribution of the UBI Group (712 million euro), came to 18,510 million euro (20,334 million euro as at 31 December 2019).

In particular, the notional value of plain vanilla contracts was 23,649 million euro (17,392 million euro as at 31 December 2019), while that of structured contracts was 1,413 million euro (2,942 million euro as at 31 December 2019).

The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 31 December 2020, this led to a negative effect of 50 million euro being recorded under "Profits (Losses) on trading" in the income statement.

As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs of the section on accounting policies in the Notes to the consolidated financial statements. Please note that contracts made up of combinations of more elementary derivative instruments have been considered "structured" and that the aforesaid figures do not include fair value of derivatives embedded in structured bond issues as well as the relative hedges agreed by the Group.

## 1.5. OPERATIONAL RISK

### QUALITATIVE INFORMATION

#### A. General aspects, operational risk management processes and measurement methods

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events<sup>49</sup>.

The Intesa Sanpaolo Group adopts an undertaking and management strategy of operational risk based on prudent management principles and aimed at guaranteeing long-term solidity and continuity for the company. In addition, the Group pays particular attention to achieving an optimal balance between growth and profitability and the resulting risks.

In line with these objectives, the Intesa Sanpaolo Group has long since established an overall operational risk management framework, by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

For regulatory purposes, the Group adopts the Advanced Measurement Approach (below also AMA or internal model), in partial use with the standardised (TSA) and basic approaches (BIA), to determine the capital requirement. The AMA approach is adopted by Intesa Sanpaolo SpA and the main banks and companies in the Private Banking and Asset Management Divisions, as well as by VUB Banka, VUB Leasing and PBZ Banka.

Following the acquisition of UBI by Intesa Sanpaolo, the former UBI Group companies also participate in determining the Intesa Sanpaolo Group's capital requirements<sup>50</sup>.

#### Governance Model

An effective and efficient framework for managing operational risks must be fully integrated into decision-making processes and management of business operations. Accordingly, the Intesa Sanpaolo Group has chosen to involve the organisational units (business units, central/support structures) of the Parent Company, the Banks and Group companies with direct responsibility in the operational risk management process.

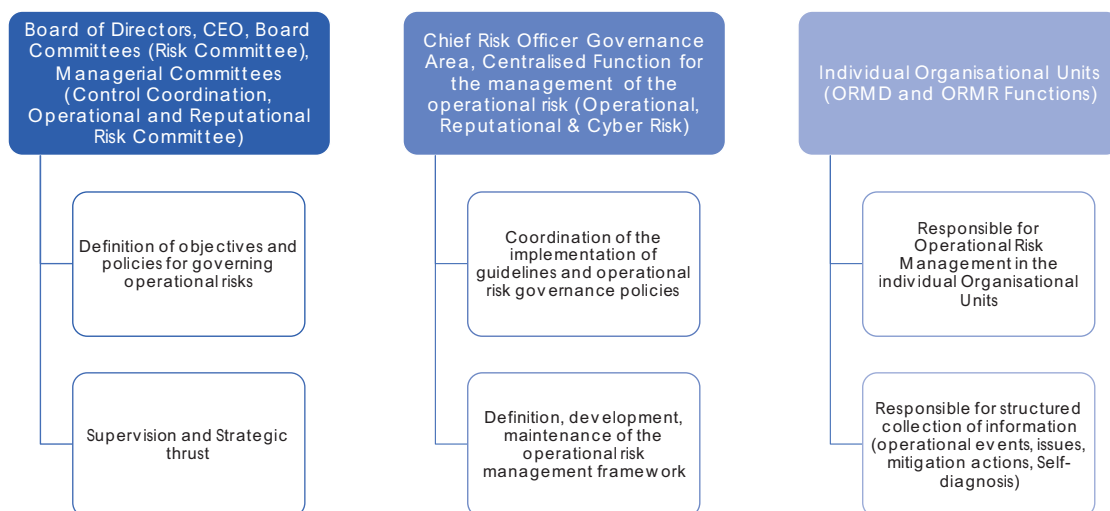
The operational risk governance model has been developed in view of:

- optimising and maximising organisational safeguards, interrelations and information flows between the existing organisational units and integration of the operational risk management approach with other company models developed for specific risks (business continuity, IT security, etc.);
- guaranteeing transparency and spread of the models, methods and criteria of analysis, assessment and measurement

<sup>49</sup> As far as the financial losses component is concerned, the Operational risk includes: legal and compliance risk, conduct risk, IT and Cyber risk, physical security risk, business continuity risk, financial crime and financial reporting risk, third-party and model risk. Strategic risk and reputational risk are not included.

<sup>50</sup> In particular, the former UBI Group adopts the Advanced Measurement Approach in partial use with the standardised approach (TSA) and basic indicator approach (BIA) to determine its regulatory capital requirement for operational risks. The former UBI Banca Group was authorised to use its AMA model with effect from the June 2012 regulatory calculation for the following companies: UBI Banca, UBI Sistemi e Servizi and IW Bank Private Investments.

criteria used to facilitate the process of cultural diffusion and comprehension of the logic underlying the choices made.



### ICT risk

In line with the methodological framework established for the governance of operational risks, the ICT Risk management framework has been developed with a view to integrating and coordinating the specific expertise of the structures involved.

ICT (Information and Communication Technology) risk means the risk of economic, reputational or market share losses related to the use of information and communication technology. In the integrated view of corporate risk for supervisory purposes, this risk is considered, according to specific aspects, as operational, reputational and strategic risk.

ICT risk includes:

- cyber risk: the risk of sustaining economic loss, reputational damage or loss of market shares due to:
  - any unauthorised access or attempt to access the IT system of the Group or the data or digital information it contains;
  - any event (intentional or unintentional), favoured or caused by the use of technology or related to it that has or could have a negative impact on the integrity, availability, confidentiality and/or authenticity of company data and information, or on the continuity of business processes;
  - the improper use and/or dissemination of data and digital information also not directly produced and managed by the ISP Group.

Cyber risk includes information security risk.

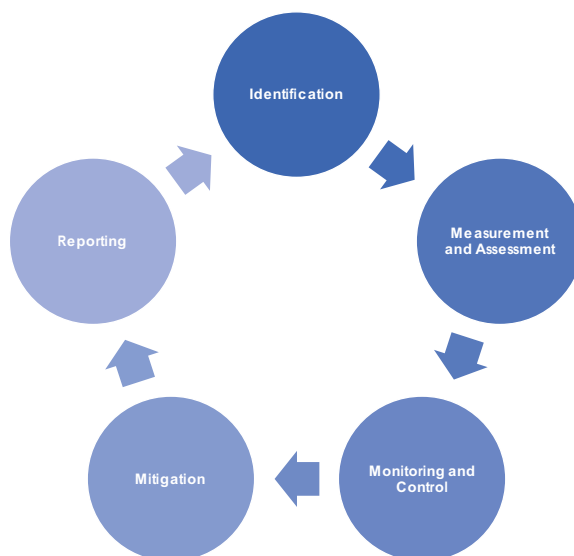
- IT risk: the risk of sustaining economic loss, reputational damage or loss of market shares in relation to the use of the corporate IT systems and related to malfunctioning hardware, software and networks.

The Intesa Sanpaolo Group considers its information system a tool of primary importance to the achievement of its strategic, business and social responsibility objectives, including in the light of the critical nature of the company processes that depend on it. Accordingly, it undertakes to create a resilient environment and to invest in assets and infrastructure designed to minimise the potential impact of ICT events and to protect its business, image, customers and employees.

The Group has therefore adopted a system of principles and rules intended to identify and measure the ICT risk to which company assets are exposed, assess the existing safeguards and identify adequate methods of managing such risks, in accordance with the operational risk management process.

### Group Operational Risk Management Process

The Intesa Sanpaolo Group's operational risk management process is divided into the following phases:



#### Identification

The identification phase includes the collection and classification of qualitative and quantitative information that allows to identify and describe the Group's potential areas of operational risk. In particular, it involves:

- the collection and updating of data on operational events (Loss Data Collection), decentralised to the Organisational Units;
- identification of the company processes and components of the IT system at highest potential risk;
- determination of the applicability and relevance of the operational risk factors defined;
- identification of projects that will involve relevant changes to the IT system or changes to critical components of the IT system;
- identification of significant risk scenarios, also based on the external context (e.g., external loss data, regulatory development, emerging trends, strategic and threat intelligence);
- identification and analysis of issues affecting the Group's areas of operation.

#### Measurement and assessment

The measurement and assessment phase includes the process of qualitative and quantitative determination of the Group's exposure to operational risks.

It includes:

- at least annual performance of the process of assessing the exposure to operational and ICT risk (self-diagnosis: combination of the Operational and ICT Risk Assessment processes);
- performance of preventive analyses of operational and ICT risks deriving from agreements with third parties (e.g., outsourcing of activities), business operations or project initiatives, introduction or revision of new products and services, launch of new activities and entry into new markets;
- the definition of the relevance of identified issues;
- transformation of the evaluations collected (e.g., internal and external operational loss data, management levels of risk factors, probability and impact in the event of occurrence of risk scenarios) into synthetic risk measures;
- determination of economic and regulatory capital for operational risk, through the internal model and the simplified methods defined by the regulations.

#### Monitoring and control

The purpose of the monitoring phase is to analyse and monitor on an ongoing basis the development of the exposure to operational risks on the basis of the structured organisation of the results of the identification, assessment and measurement processes and the observation of indicators that represent a valid proxy of the exposure to operational risks (e.g., limits, early warnings and indicators established within the RAF).

#### Mitigation

The mitigation phase includes activities aimed at containing the exposure to operational risks, defined on the basis of the results of the identification, measurement, assessment and monitoring phases. It includes:

- identification, definition and implementation of the corrective measures (mitigation actions) necessary to solve the identified gaps or to bring back the relevance of the identified issues within the defined risk tolerance;
- promotion of initiatives designed to spread a culture of operational risk within the Group;
- definition of strategies for transferring operational risks, in terms of optimisation of insurance coverage and any other forms of risk transfer adopted by the Group from time to time.

In this regard, in addition to a traditional insurance programme (to protect against offences such as employee infidelity, theft and damage, transport of valuables, computer fraud, forgery, cyber-crimes, fire and earthquake, and third-party liability), the



Group has taken out an insurance coverage policy named Operational Risk Insurance Programme, in compliance with the requirements established by the regulations and to have access to the capital benefits provided for by the policy, which provides specific cover, significantly increasing the limits and transferring the risk of significant operational losses to the insurance market.

In addition, with respect to risks relating to real estate and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

#### Reporting

The communication phase includes the preparation of appropriate information flows associated with operational risk management, designed to provide disclosures useful, for example, for:

- analysis and understanding of any dynamics underlying the trend in the level of exposure to operational risks;
- analysis and understanding of the main issues identified;
- defining the mitigation actions and intervention priorities.

#### Self-diagnosis

Self-diagnosis is the annual process through which the Organisational Units identify their level of exposure to operational and ICT risk. It includes the Operational Risk Assessment and ICT Risk Assessment, in turn consisting of:

- Business Environment Evaluation (VCO): activities used to identify significant risk factors and assess the related management level<sup>51</sup>.
- Scenario analysis (SA): a method of prospective analysis that takes the form of a systematic process, which is typically repeated at predefined intervals, but which may also be conducted on an ad hoc basis, and which consists in imagining the occurrence of particular situations (or scenarios) and imagining their consequences. Once scenarios have been identified and appropriately characterised, they must be assessed: i.e., one must determine the probability of occurrence (frequency) and potential impact (average impact and worse case) in the event of occurrence of the situation described in the scenario.

#### Internal model for the measurement of operational risk

The Intesa Sanpaolo Group's internal model for calculating capital absorption is designed to combine all the main sources of quantitative information (operational losses: internal and external events, estimates deriving from the Scenario Analysis) and qualitative information (Business Environment Evaluation).

Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case). It is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%. The methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the operational environment (VCO), to take into account the effectiveness of internal controls in the various Organisational Units.

The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

#### Impacts from the COVID-19 pandemic

From the outset of the emergency the Group decided to adopt preventive initiatives to ensure business continuity, while also maintaining the maximum level of safety for its customers and employees. This was also done in the light of the rapid development seen in the realm of cyber-threats, which seek to exploit for fraudulent purposes the fears and sense of urgency of individuals and the opportunities offered by the remote-banking solutions adopted by financial institutions. In particular, the business continuity plan was activated and additional actions were immediately identified to respond effectively to the extensive spread of the pandemic (e.g., extension of remote working to almost all head office personnel, online branch personnel and part of the physical branch personnel, enhancement of IT infrastructure for remote connectivity), the digital transformation process was expedited, moving forward significant investments intended to develop methods of interaction with customers (e.g., expansion of the services offered via Internet and mobile banking), security infrastructure for access to the company network and data and information protection measures were progressively enhanced to increase the ability to respond to the sharp rise in cyber-threats and attacks (e.g., distributed denial of service and malware), and numerous training and communications initiatives were launched to raise awareness amongst customers and employees of growing social-engineering and phishing campaigns. The long-term sustainability of the solutions of the most critical suppliers was also verified.

With regard to measures to protect the health of employees and customers, protective devices such as masks and gloves were purchased and distributed, sanitising gel was supplied and company premises were periodically sanitised. Among the various mitigation measures described above, only this latter component was considered for the purposes of calculating the operational risk capital requirement.

In addition, from the very outset of the emergency, access to the branches has been organised in accordance with precise rules on social distancing and the number of employees and customers in the premises, to ensure the protection of their health. This approach was adapted over time based on the different government measures and the course of the contagion.

A contagion risk model was also developed to protect personnel; it supports the decision-making for the measures to be adopted, such as plans for the return of head office personnel able to perform their duties remotely to company offices in accordance with safe distance regulations. A medical questionnaire was developed for employees to complete before they are authorised to return to the office, in addition to a tool that can be used to plan the presence of personnel in the office; this tool ensures centralised monitoring of total presences in the head offices.

At the end of 2020 a voluntary vaccination campaign was launched to provide flu and pneumococcal vaccines to employees.

<sup>51</sup> The applicability and significance of risk factors are assessed, in the case of ICT risk, by the technical functions, cybersecurity functions and business continuity functions, and, with regard to operational risk, by the Decentralised Operational Risk Management functions.

**QUANTITATIVE INFORMATION**

To determine its capital requirements, the Group uses a combination of the methods (AMA, TSA and BIA) allowed under applicable regulations.

The capital requirement amounted to 2,205 million euro as of 31 December 2020, up from 1,697 million euro of 31 December 2019. The increase in the requirement is mainly due to the addition of the UBI Group’s operational risk requirements (417 million euro at 31 December 2020).

The following shows the breakdown of the capital requirement relating to the Advanced Measurement Approach (Intesa Sanpaolo and UBI AMA) by type of operational event (Event Type).

**Breakdown of capital requirement (Advanced Measurement Approach - AMA) by event type**



With regard to the sources of operational risk, the chart below shows the impact of the operational losses recorded during the year, based on event type.

In 2020, the most significant event type was *Clients, Products and Business Practices*, which included losses related to defaults connected with professional obligations towards customers, suppliers or outsourcers and to the provision of services and products to customers performed improperly or negligently.

**Breakdown of operational losses recorded in 2020, by event type**



## LEGAL RISKS

As at 31 December 2020, there were a total of about 26,300 disputes (of which 3,300 pertaining to the UBI Group), other than tax disputes, pending at Group level (excluding those involving Risanamento, not subject to management and coordination by Intesa Sanpaolo) with a total remedy<sup>52</sup> sought of around 4,100 million euro (of which 1,224 million euro for the UBI Group). This amount includes all outstanding disputes, for which the risk of a disbursement of financial resources resulting from a potential negative outcome has been deemed possible or probable and therefore does not include disputes for which risk has been deemed remote.

The risks associated with these disputes are thoroughly and individually analysed by the Parent Company and Group companies. Specific and appropriate provisions have been made to the Allowances for Risks and Charges in the event of disputes for which there is an estimated probability of a disbursement of more than 50% and where the amount of the disbursement may be reliably estimated (disputes with likely risk). Without prejudice to the uncertainty inherent in all litigation, the estimate of the obligations that could arise from the disputes and hence the amount of any provisions recognised are based on the forward-looking assessments of the outcome of the trial. These forward-looking assessments are, in any event, prepared on the basis of all information available at the time of the estimate.

Disputes with probable risk amount to around 18,300 (of which 2,100 for the UBI Group) with a remedy sought of 2,250 million euro (of which 348 million euro for the UBI Group) and provisions of 765 million euro (of which 144 million euro for the UBI Group). The part relating to the Parent Company Intesa Sanpaolo is around 4,950 disputes with a remedy sought of 1,500 million euro and provisions of 469 million euro, the part relating to other Italian subsidiaries is around 2,540 disputes (of which 2,100 for the UBI Group) with a remedy sought of 619 million euro (of which 348 million euro for the UBI Group) and provisions of 233 million euro (of which 144 million euro for the UBI Group), and the part relating to the international subsidiaries is around 10,850 disputes<sup>53</sup> with a remedy sought of 129 million euro and provisions of 63 million euro.

The breakdown according to the main categories of disputes with likely risk shows the prevalence of cases related to the Group's ordinary banking and credit activities: disputes involving claims relating to banking and investment products and services or on credit positions and revocatory actions account for about 77% of the remedy sought and 71% of the provisions. The remaining disputes mainly consist of other civil and administrative proceedings and labour disputes or criminal proceedings or proceedings related to operational violations. The number of ongoing disputes is strongly affected by several cases of "mass" disputes present in Italy with regard to issues relating to anatocism and other conditions of accounts/credit facilities and investment services and at the international level, also relating to conditions of accounts/credit facilities and loans in currencies other than the local currency. Such disputes total more than 14,000.

The paragraphs below provide summary information on the significant disputes (mainly those with a remedy sought of more than 20 million euro and where the risk of a disbursement is currently considered likely or possible), together with the cases considered significant.

### *Disputes relating to anatocism and other current account and credit facility conditions, as well as usury*

During 2020, the disputes of this type – which for many years have been a significant part of the civil disputes brought against the Italian banking industry – did not change significantly either in number or in total value of claims made compared to the previous year. Overall, the number of disputes, including mediations, with likely risk amounted to around approximately 3,800 (of which 900 for the UBI Group). The remedy sought amounted to around 637 million euro (of which 108 million euro for the UBI Group), with provisions of 199 million euro (of which 47 million euro for the UBI Group). As is the case for the other civil disputes, the assessment of the risk related to this type of litigation is carried out individually, taking into account the claims made, the defences submitted, the progress of the proceedings and case-law decisions, for each dispute.

You are reminded that in 2014 and 2016, Article 120 of the Consolidated Law on Banking, which governs the compounding of interest in banking transactions, was amended with the establishment of the ban on anatocism and the delegation of the CICR (Interdepartmental Committee for Credit and Savings) to regulate this matter. In February 2017, the Italian Antitrust Authority initiated proceedings against Intesa Sanpaolo for alleged unfair business practices involving, among other things, the methods used to request the above-mentioned authorisation from customers for the charging of the interest to the account imposed by the new regulations introduced in 2016. The Authority completed the proceedings in October 2017, ruling that Intesa Sanpaolo had implemented an "aggressive" policy aimed at acquiring the authorisation, by soliciting customers to provide it through various means of communications and without putting them in a position to consider the consequences of that choice in terms of the interest calculation on the compounded debt interest. As a result, the Authority issued a fine of 2 million euro against Intesa Sanpaolo. Intesa Sanpaolo has submitted an appeal with the Lazio Regional Administrative Court, on the grounds that the ruling was unfounded. The proceedings are still pending.

### *Disputes relating to investment services*

Also in this area, the disputes showed a slight downtrend in terms of number compared to the previous year. The most significant sub-group was disputes concerning derivatives, which remained substantially stable in number and value, but were nevertheless not significant in amount overall. The total number of disputes with likely risk for this type of litigation amounted to around 580 (of which 180 for the UBI Group). The total remedy sought amounted to around 272 million euro (of which 87 million euro for the UBI Group) with provisions of 129 million euro (of which 49 million euro for the UBI Group). As is the case for the other civil disputes, the assessment of the risk related to this type of litigation is carried out individually, taking into account the claims made, the defences submitted, the progress of the proceedings and the case-law guidance, for each dispute. The disputes to which the UBI Group is a party also include approximately 173 disputes with a remedy sought of 146 million euro initiated by "wiped out" shareholders and subordinated bondholders of the former "Old Banks" of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio and Cassa di Risparmio della Provincia di Chieti, deemed to be of

<sup>52</sup> The figures for the remedy sought do not include claims of indeterminate value, i.e. those that do not contain a specific financial claim when the dispute is initiated; the value of these disputes is determined during the course of the proceedings when sufficient information emerges for the valuation.

<sup>53</sup> These include approximately 8,300 disputes (of which approximately 6,000 arising in 2020) relating to the subsidiary Banca Intesa Beograd and concerning actions brought by customers challenging the validity (1) of certain charges provided for in loan agreements and (2) of charges relating to insurance for real-estate loans (both types of dispute are common with other banks in the country). Although numerically significant, the average value of the claims is quite modest: overall, the remedy sought relating to the two types of disputes is slightly more than 1 million euro.

possible risk<sup>54</sup>.

*Judgement of the Court of Cassation on derivatives with local entities* – By way of judgement no. 8770/2020, handed down by its Joint Sections on 12 May 2020, the Court of Cassation affirmed the nullity of several OTC derivative contracts (Interest Rate Swaps with upfront payments) entered into by an Italian bank and a Municipality, essentially establishing that: 1) the upfront payment was a type of new debt resulting in long-term expenditure borne by the entity and, therefore, derivative contracts that comprise an upfront payment require the authorisation of the Municipal Council (not the Municipal Executive Committee), which, if lacking, shall invalidate the derivatives; 2) swap contracts constitute a “*legal bet*”, permitted only in the amount in which these contracts acquire the form of a “*rational bet*”, concluded in terms which enable both parties to understand the risks underlying the contract, which thus, must indicate the mark to market, implicit costs and probabilistic scenario.

The decision has been criticised by many authors and several lower courts have already deviated from the principles confirmed by the Court of Cassation.

Nonetheless, in September, two decisions unfavourable to the Bank in this sense were issued: 1) the Court of Pavia ordered the Bank to refund approximately 9.3 million euro, in addition to ancillary charges, to the Province of Pavia, stating the grounds for the ruling of the Court of Cassation, word-for-word; 2) the Court of Appeal of Milan rejected the appeal lodged by the Bank in the proceedings promoted by the Municipality of Mogliano Veneto. That ruling (which is only partially based on the arguments of the Court of Cassation) confirmed the first instance ruling which had ordered the Bank to refund the Municipality 5.8 million euro, a payment made in 2018. Both decisions were appealed.

Moreover, despite referring to a Municipality, the decision contains some general principles on the case and the subject-matter of the swaps, which could be deemed applicable to all derivative contracts.

Within this framework, in order to assess the impact of the decision of ongoing disputes in light of the evolution of case-law, a specific reassessment was conducted of risks connected with the proceedings regarding derivative contracts entered into with local entities, companies controlled by entities and private parties and, where deemed appropriate, specific provisions were allocated.

*Disputes relating to loans in CHF against the Croatian subsidiary Privredna Banka Zagreb Dd* – As already noted in the previous financial statements, Privredna Banka Zagreb (“PBZ”) and seven other Croatian banks were jointly sued by the plaintiff Potrošač (Croatian Union of the Consumer Protection Association), which claimed - in relation to loans denominated or indexed in Swiss francs granted in the past - that the defendants engaged in an unfair practice by allegedly using unfair contractual provisions on variable interest rate changed unilaterally by the banks and by linking payments in local currency to Swiss franc, without (allegedly) appropriately informing the consumers of all the risks prior to entering into a loan agreement.

In September 2019, the Croatian Supreme Court rendered a ruling in the collective action proceedings, rejecting the appeals filed by the sued banks against the High Commercial Court ruling from 2018 and confirming the position of courts of lower instance that banks had breached collective interests and rights of consumers by incorporating unfair and null and void provisions on CHF currency clause. The decision of the Supreme Court was challenged by PBZ before the Constitutional Court, which rejected the claim at the beginning of 2021.

In connection with the mentioned proceedings for the protection of the collective interests of consumers, numerous individual proceedings have been brought by clients against PBZ, despite the fact that most of them voluntarily accepted the offer to convert their CHF loans into EUR denominated loans retroactively, in accordance with the Act on the Amendments to the Consumer Credit Act (Croatian Official Gazette 102/2015).

In March 2020, the Croatian Supreme Court, within model case proceedings (a Supreme Court proceedings with obligatory effect on lower instance courts with the aim of unifying/harmonising case law), ruled that the conversion agreements concluded between banks and borrowers under the Croatian Conversion Law of 2015 produce legal effects and are valid even in the case when the provisions of the underlying loan agreements on variable interest rate and currency clause are null and void. Such decision will positively impact the individual proceedings related to converted loans in Swiss francs (or indexed to that currency), which should ultimately be settled, then, in favour of the Croatian subsidiary.

In 2020 the number of individual lawsuits filed against PBZ increased; anyhow, at the end of 2020 the total pending cases still amounted to a few thousand. It cannot be excluded the possibility that additional lawsuits might be filed against PBZ in the future in connection with CHF loans.

The amount of provisions recognized as at 31 December 2020 is reasonably adequate – according to available information - to meet the obligations arising from the claims filed against the subsidiary so far. The evolution of the overall matter is anyhow carefully monitored in order to take appropriate initiatives, if necessary, in consistence with any future developments.

*ENPAM* – In June 2015 Fondazione ENPAM – Ente Nazionale di Previdenza ed Assistenza dei Medici e degli Odontoiatri (ENPAM) sued Cassa di Risparmio di Firenze (subsequently merged into Intesa Sanpaolo), along with other defendants including JP Morgan Chase & Co and BNP Paribas, before the Court of Milan. ENPAM’s claims related to the trading (in 2005) of several complex financial products, and the subsequent “*swap*” (in 2006) of those products with other similar products; the latter were credit linked notes, i.e. securities whose repayment of principal at maturity was tied to the credit risk associated with a tranche of a synthetic CDO. Due to the defaults on the CDO portfolio, the investment allegedly resulted in significant losses.

In the writ of summons, ENPAM submitted several petitions for enquiries and rulings, in particular for contractual and tort liability and breach of Articles 23, 24 and 30 of the Consolidated Law on Finance, asking for the repayment of an amount of around 222 million euro and compensation for damages on an equitable basis; the part relating to Cassa di Risparmio di

<sup>54</sup> It should be noted that the acquisition agreement for the New Banks provided for certain representations, warranties and obligations to indemnify by the Seller (National Resolution Fund) for the benefit of UBI Banca [the warranty and indemnity provisions also refer to the period prior to the date of establishment of the “Bridge Entities” (23 November 2015) and therefore also cover any liabilities arising from the activities carried out by the Banks (the “Old Banks”) before they were subject to the resolution procedure], in relation to, inter alia, relations with REV Gestioni Crediti Spa and the Atlante II Fund [as transferees of the loans of the Banks classified as bad loans and unlikely-to-pay exposures (the loans were transferred without recourse and the transferee therefore assumes all risks and rewards of the transferred loan, IAS 39 – Derecognition)], risks of a legal nature or generally related to ongoing or threatened disputes, violations of the law and any potential liabilities.



Firenze's position should be around 103 million euro (plus interest and purported additional damages).

Cassa di Risparmio di Firenze was sued as the transferee of the Italian branch of Cortal Consorts S.A. (subsequently merged into BNP Paribas), which had provided ENPAM with the investment services within which the above-mentioned securities had been subscribed.

Cassa di Risparmio di Firenze raised various objections at the preliminary stage (including a lack of standing to be sued and the time bar). On the merits, it argued, among other positions, that the provisions of the Consolidated Law on Finance cited were not applicable and that there was no evidence of the damages. If an unfavourable judgement is rendered, Cassa di Risparmio di Firenze has requested that the court determine its internal share of the total liability of the defendants and that the other defendants be ordered to hold it harmless.

In February 2018, the judge ordered a court-appointed expert's review aimed at determining, among other matters:

- whether the securities were fit for the purpose indicated in the entity's Charter and Investment Guidelines;
- the difference, if any, between the performance achieved by ENPAM and the performance that would have resulted if other investments consistent with the entity's Charter and Investment Guidelines had been undertaken (also considering the need for diversification of the risk).

At the end of the expert review process the judge advocated the settlement of the dispute. A settlement agreement involving payment to ENPAM was finalised between the parties in November 2020; Intesa Sanpaolo's share was fully covered by the amount that had been set aside the previous year precisely in view of a possible settlement. The case was declared dismissed at the hearing on 2 December 2020.

*Florida 2000* – In 2018, Florida 2000 s.r.l. (together with two directors of the company) challenged the legitimacy of the contractual terms and conditions applied to the accounts held with the Bank, requesting that the latter be ordered to pay back 22.6 million euro in interest and fees that were not due, plus compensation for damages quantified as an additional amount of 22.6 million euro.

In the technical document filed recently by the court-appointed expert, the sum to be reimbursed with regard to the claim relating to the contractual terms was quantified as modest in amount. On the other hand, it is unlikely that the claim for compensation for the damages in question will be granted as it is devoid of evidence. The case was declared ready for decision in December 2020 after the final expert's report filed was examined.

*Alitalia Group: Claw-back actions* – In August 2011, companies of the Alitalia Group – namely Alitalia Linee Aeree, Alitalia Servizi, Alitalia Airport and Alitalia Express – brought five bankruptcy claw-back proceedings against the Bank before the Court of Rome (of which one against the former Cassa di Risparmio di Firenze), requesting the repayment of a total of 44.6 million euro.

When the proceedings were initiated, a line of defence was adopted based mainly on the grounds that the actions were invalid due to the vagueness of the claims, that the condition of knowledge of the Alitalia Group's state of insolvency (subject first of the Air France plan and then of the subsequent rescue conducted by the Italian Government) did not apply, and that the credited items were not eligible for claw back, due to the specific nature of the account movements.

In March 2016, the Court of Rome upheld Alitalia Servizi's petition and ordered the Bank to repay around 17 million euro, plus accessory costs.

In addition to being contestable on the merits, the ruling was issued before the deadline for filing of the final arguments. Accordingly, in the appeal subsequently lodged, a preliminary objection was made regarding the invalidity of the judgment, together with an application for suspension of its provisional enforceability, which was upheld by order of 15 July 2016 of the Court of Appeal. The final arguments have been filed in the case and the judgment is pending.

The lawsuit brought by Alitalia Linee Aeree was won in the first instance and is in the appeal phase, whereas the lawsuits brought by Alitalia Express and Alitalia Servizi against the former C.R. di Firenze were favourably concluded in the first two instances and a time period has been set for appealing to the Court of Cassation.

For Alitalia Airport, which was also won at first instance, the favourable judgment has become final.

*Tirrenia di Navigazione in A.S. (Extraordinary Administration): Claw-back actions* – In July 2013, Tirrenia di Navigazione in A.S. filed two bankruptcy claw-back actions before the Court of Rome against the former Cassa di Risparmio di Venezia for 2.7 million euro and against the former Banco di Napoli for 33.8 million euro.

In both cases, the plaintiff claimed that there was knowledge of the state of insolvency for the entire half year prior to admission to extraordinary administration on the basis of media reports, the non-renewal of shipping concessions, the absence of state subsidies (because they were considered state aid), and the information from the central credit register.

The claim was quantified on the same basis as the so-called "return of profits" earned on Tirrenia's accounts, corresponding to the difference between the maximum debt exposure and the final balance of the accounts generated in the half year prior to the declaration of insolvency.

The case against the former CR Venezia was concluded at first instance in 2016 with an order for payment of 2.8 million euro and is pending an appeal brought by the Bank.

In the trial involving the former Banco di Napoli, on the other hand, the final arguments were filed in December and the judgment is pending.

*Selarl Bruno Raulet (formerly Dargent Tirmant Raulet) dispute* – The claim was filed before a French Court in 2001 by the trustee in bankruptcy for the bankruptcy of the real estate entrepreneur Philippe Vincent, which made a request to the Bank for compensation of 56.6 million euro for the alleged "improper financial support" provided to the entrepreneur. The claim of the trustee in bankruptcy has consistently been rejected by the courts of different instance which dealt with the case over 17 years, until the Court of Colmar, in May 2018, ordered the Bank to pay compensation of around 23 million euro. The Colmar judgment was appealed before French Supreme Court of Cassation, which in January 2020 overturned and quashed the decision of the Court of Appeal of Colmar and referred the matter to the Court of Appeal of Metz.

Consequently, in the first quarter of 2020, the Bank obtained the refund of the around 23 million euro paid according to the ruling of the Court of Appeal of Colmar in 2018.

At the end of July, the bankruptcy receiver referred the dispute to the Court of Appeal of Metz, requesting payment of 55.6

million euro (equal to the entire amount of insolvency liabilities, minus the amount obtained from the sale of the property whose purchase was financed by the Bank). In turn, the Bank filed an appearance and challenged the opposing party's claims. Last November, the Court set the date of the hearing for March 2021, to be preceded by an additional exchange of filings, and the court will then decide the case (estimated to occur by summer 2021).

*Disputes regarding tax-collection companies* - In the context of the government's decision to re-assume responsibility for tax collection, Intesa Sanpaolo sold to Equitalia S.p.A., now the Italian Revenue Agency - Collections Division, full ownership of Gest Line and ETR/ESATRI, companies that managed tax-collection activities, undertaking to indemnify the buyer against any expenses associated with the collection activity carried out up to the time of purchase of the equity interests.

In particular, such expenses refer to liabilities for disputes (with tax authorities, taxpayers and employees) and out-of-period expenses and capital losses with respect to the financial situation at the time of the sale. Overall, the claims made amount to approximately 80 million euro. A technical roundtable has been formed with the Italian Revenue Agency - Collections Division in order to assess the parties' claims.

*Fondazione Monte dei Paschi di Siena (FMPS)* – In 2014, FMPS brought an action for compensation for the damages allegedly suffered as a result of a loan granted in 2011 by a pool of 13 banks and intended to provide it with the resources to subscribe for a capital increase of MPS. The damages claimed were allegedly due to the reduction in the market value of the MPS shares purchased with the sums disbursed by the banks. In the proceedings, FMPS summoned 8 former directors of the Foundation that were in office in 2011 and the 13 banks in the pool (including Intesa Sanpaolo and Banca IMI). The banks have been charged with non-contractual liability due to their participation in the alleged violation by the former directors of the debt-equity ratio limit set in the charter. The claim for damages has been quantified at around 286 million euro, jointly and severally for all the defendants.

The defence adopted by the banks included the argument that the alleged breach of the aforementioned charter limit did not apply, because it was based on an incorrect valuation of the Foundation's balance sheet items. In addition, in the loan agreement, FMPS itself assured the banks that the charter limit had not been breached and, therefore, any breach of the charter would at most give rise to the sole responsibility of the former directors of the Foundation.

In November 2019, the Court of Florence, before which the trial is currently pending, handed down a non-definitive judgment rejecting some preliminary arguments/arguments as to jurisdiction raised by the banks, while reserving the parties' preliminary applications for decision. The banks appealed the judgment before the Florence Court of Appeal in respect of the rejection of the argument as to lack of jurisdiction, finding there to be solid arguments for the judgment in question to be overturned; the first hearing for appearance has been set for May 2021.

The judge of the first instance lifted the reserve to decide the preliminary applications and admitted the court-appointed expert witness testimony requested by the Foundation on exceeding the debt limit set by the Articles of Association when the loan was granted. The trial was then declared stayed due to the death of one of the defendants; the hearing for continuation of the trial has been set for April 2021. The expert witness testimony is necessary for a thorough assessment of the risk of the case. At present, the risk may be considered possible.

*Gruppo Elifani* – Lawsuit brought in 2009 by Edilizia Immobiliare San Giorgio 89 S.r.l., San Paolo Edilizia S.r.l., Hotel Cristallo S.r.l. and the guarantor-shareholder Mario Elifani seeking compensation for damages suffered due to alleged unlawful conduct by the Bank for having requested guarantees disproportionate to the credit granted, enforced pledge guarantees, applied usurious interest to mortgage loans and submitted erroneous reports to the Central Credit Register. The initially claimed amount was approximately 116 million euro and the dispute refers to the same circumstances mostly already cited in the disputes regarding anatocism and interest in excess of the legal amount brought by the aforementioned companies in 2004 and settled in early 2014. The lawsuit had a favourable outcome for the Bank in both the first and second instances. By order of 27 December 2019, the Court of Cassation partially granted the adverse parties' petition, with referral of the matter. The adverse parties resumed the lawsuit before the Milan Court of Appeal, quantifying the claim at approximately 72 million euro, in addition to interest and inflation, and thus at a total of approximately 100 million euro. The hearing for the submission of final arguments has been set for June 2021. The Bank also has a valid basis for its defence in this stage of the dispute, given that in the previous instances of the trial the disputed conduct was essentially found to be correct. At present, the risk of a lawsuit is deemed possible, whereas further elements may emerge from the upcoming hearing.

*Energy s.r.l.* – Energy s.r.l., to which the bankruptcy receiver of C.I.S.I. s.r.l. transferred all its rights towards third parties, brought a claim before the Court of Rome against Intesa Sanpaolo seeking to quash the revocation of the subsidised loan of approximately 22 million euro granted to C.I.S.I. s.r.l. in 1997 pursuant to Law 488/92 and a judgment ordering the Ministry of Economic Development, Intesa Sanpaolo (as the concessionaire for the procedural application process) and Vittoria Assicurazioni (guarantor of the payment of the second instalment of the loan), jointly and severally between them, to provide compensation for damages allegedly incurred, quantified at a total of approximately 53 million euro. The company justified its claim by citing a favourable judgment rendered in criminal proceedings originating from a complaint filed against C.I.S.I. and its director alleging grave irregularities and breach in the execution of the business plan to which the loan referred – proceedings that had led to the revocation of the subsidised loan. Intesa Sanpaolo entered its appearance, denying that there was any basis for the adverse parties' claims, arguing that all claims for compensation against the Bank had become time barred, the claims were groundless on the merits and the damages had been represented inappropriately. The first hearing was held and the preliminary statements were exchanged; the hearing for the entry of conclusions has been set for March 2021. Previous legal initiatives taken by C.I.S.I. and then by its bankruptcy receiver before the administrative and ordinary courts were rejected with regard to Intesa Sanpaolo's position (in particular, a claim for compensation against the Bank for alleged damages). Despite the favourable outcome of the previous disputes and the defences presented, the risk of the lawsuit is currently deemed possible.



*Private banker (Sanpaolo Invest)* – An inspection conducted by the Audit function identified serious irregularities by a private banker of Sanpaolo Invest.

The checks carried out revealed serious irregularities affecting several customers, including misappropriation of funds and reports with false incremental amounts. On 28 June 2019, the Company terminated the agency contract with the private banker due to just cause and communicated the findings to the Judicial Authority and the Supervisory Body for financial advisors, which first suspended and then removed the private banker from the Register of Financial Advisors in December 2019.

Following the unlawful actions, the company received a total of 276 compensation claims (including complaints, mediation proceedings and lawsuits), for a total amount of approximately 62 million euro, mostly based on alleged embezzlement, losses due to disavowed transactions in financial instruments, false account statements and the debiting of fees relating to advisory service.

There are currently 173 pending claims, with a present value of approximately 51 million euro, following the resolution of 103 positions (34 settled and 69 withdrawn or resolved by virtue of commercial agreements).

The total amount of 4.2 million euro was recovered from the improperly credited customers (and already returned to the customers harmed) and there are pending attachments of approximately 4 million euro.

A precautionary attachment was ordered against the private banker for an amount equal to the balance found in the accounts and deposits held with credit institutions and the social-security position with Enasarco. In the ensuing case on the merits, the former private banker filed a counterclaim in the total amount of 0.6 million euro by way of non-payment of indemnity for termination of the relationship.

Another lawsuit was also brought against former private bankers to recover the claims arising from withdrawal from the agency contract, in the total amount of 1.6 million euro, in addition to interest by way of indemnity in lieu of notice, penalty relating to a loan agreement and reimbursement of advances of bonuses.

The company has set aside adequate provisions for the risks associated with the unlawful conduct discussed above, in the light of its foreseeable outlays, without considering the cover provided for in the specific insurance policy.

*Ruling of the EU Court of Justice of 11 September 2019 on credit agreements for consumers - so-called Lexitor ruling* – Article 16, paragraph 1, of Directive 2008/48 on credit agreements for consumers states that in the event of early repayment of the loan the consumer is “entitled to a reduction in the total cost of the credit, such reduction consisting of the interest and the costs for the remaining duration of the contract”. According to the Lexitor ruling, this provision must be interpreted as meaning that the right to a reduction in the total cost of the credit includes all the costs incurred by the consumer and therefore also includes the costs relating to services prior to or connected with the signing of the contract (upfront costs such as processing costs or agency fees).

Article 16, paragraph 1 of Directive 2008/48 has been transposed in Italy through Article 125 sexies of the Consolidated Law on Banking, according to which in the event of early repayment “the consumer is entitled to a reduction in the total cost of the credit, equal to the amount of interest and costs due for the remaining life of the contract”. On the basis of this rule, the Bank of Italy, the Financial Banking Arbitrator and case law have held that the obligation to repay only relates to the charges that have accrued during the course of the relationship (recurring costs) and have been paid in advance by the customer to the lender. In the event of early repayment, these costs must be repaid in the amount not yet accrued and the obligation to repay does not include the upfront costs.

Following the Lexitor judgment, the question has arisen as to whether Article 125 sexies of the Consolidated Law on Banking should be interpreted in accordance with the principle laid down therein or whether the new principle requires a legislative amendment.

According to the EU principle of “consistent interpretation”, national courts are required to interpret the rules in their own jurisdiction in a manner consistent with the European provisions. However, if the national rule has an unambiguous interpretation, it cannot be (re)interpreted by the court in order to bring it into line with the various provisions of a European directive: the principles recognised by European Union law prevent the national court from being required to make an interpretation that goes against the provisions of the domestic law. In this regard, we note that Article 125 sexies of the Consolidated Law on Banking is clear in its wording and its scope: it states that, in the event of early repayment, the obligation to repay relates only to recurring costs and therefore does not include upfront costs. The unambiguity of the scope of the provision is confirmed by the fact that – as stated above – it has always been interpreted and applied in this way.

However, in December 2019 the Bank of Italy issued “guidance” for the implementation of the principle established by the EU Court of Justice, to the effect that all costs (including upfront costs) should be included among the costs to be refunded in the event of early repayment, both for new relationships and for existing relationships.

Intesa Sanpaolo has decided to follow the Bank of Italy “guidance”, even though it believes that the legal arguments set out above regarding the fact that Article 125 sexies of the Consolidated Law on Banking cannot be interpreted in a manner that complies with the Lexitor ruling are well founded. Accordingly, Intesa Sanpaolo reserves the right to reconsider this operational stance in the light of future developments. A provision has therefore been made in the Allowance for Risks and Charges corresponding to the estimated higher charges resulting from the decision to follow the Bank of Italy “guidance”.

With regard, on the other hand, to disputes relating to terminated relationships, in 2020 the court decisions have been discordant and no prevailing case-law has emerged. In view of this and in the light of the legal arguments set out above (which will be broadened and included in the defences presented in the above-mentioned disputes), at this stage there is no evidence to consider that a general negative outcome of this type of disputes will be likely.

In 2020, 1,062 suits were brought concerning early termination of salary-backed loans (417 for the UBI Group), for a total remedy sought of 2.6 million euro (of which 1.1 million euro for the UBI Group). In 2019, 924 suits were brought (382 for the UBI Group), for a total remedy sought of 2.4 million euro (of which 1.1 million euro for the UBI Group).

*Offering of diamonds* – In October 2015, the Bank signed a partnership agreement with Diamond Private Investment (DPI) governing how diamond offerings were made by DPI to the customers of Intesa Sanpaolo. The aim of this initiative was to provide customers with a diversification solution with the characteristics of a “safe haven asset” in which to allocate a marginal part of their assets over the long-term. Diamonds had already been sold for several years by other leading national banking networks.

This recommendation activity was carried out primarily in 2016, with a significant decline starting from the end of that year.

A total of around 8,000 customers purchased diamonds, for a total of around 130 million euro. The marketing process was based on criteria of transparency, with safeguards progressively enhanced over time, including quality controls on the diamonds and the fairness of the prices applied by DPI.

In February 2017, the AGCM (the Italian Competition Authority) brought proceedings against companies that marketed diamonds, (DPI and other companies), for alleged conduct in breach of the provisions on unfair business practices.

In April, those proceedings were extended to the banks that carried out the recommendation of the services of those companies.

At the end of those proceedings, on 30 October 2017, the AGCM notified the penalties imposed for the alleged breach of the Consumer Code through the conduct of DPI and of the banks which the proceedings had been extended to, consisting - in short - of having provided partial, deceptive and misleading information on the characteristics of the diamond purchases, the methods used to calculate the price - presented as being the market price - and the performance of the market. The Authority issued a fine of 3 million euro against Intesa Sanpaolo, reduced from the initial fine of 3.5 million euro, after the Authority had recognised the value of the measures taken by the Bank from 2016 to strengthen the safeguards on the offering process aimed, in particular, at ensuring proper information to customers.

Following the order by the AGCM, the Bank paid the amount of the fine and filed an appeal with the Lazio Regional Administrative Court against the order. There were no developments regarding this appeal during 2020.

From November 2017, the Bank:

- terminated the partnership agreement with Diamond Private Investment (DPI) and ceased the activity, which had already been suspended in October 2017;
- started a process that provides for the payment to customers of the original cost incurred for the purchase of the diamonds and the withdrawal of the stones, in order to satisfy the customers' resale needs which, due to the illiquidity that had arisen in the market, are not met by DPI;
- sent a communication in January 2018 to the diamond-holding customers reiterating the nature of the stones as durable goods, and also confirming the Bank's willingness to intervene directly in relation to any realisation needs expressed by the customers and not met by DPI.

As at 31 December 2020, a total of 6,725 repurchase requests had been received from customers and met by the Bank, for a total value of 114.3 million euro, with the flow of requests steadily decreasing in 2020. The valuation of the repurchased diamonds is carried out using the values provided by the IDEX Diamond Retail Benchmark, one of the main online trading platforms used in the main markets by over 7,000 traders.

In February 2019, an order for preventive criminal seizure of 11.1 million euro was served, corresponding to the fee and commission income paid by DPI to the Bank.

The preliminary investigations initiated by the Public Prosecutor's Office of Milan also concern four other banks (more involved) and two companies that sell diamonds.

In October 2019, the notice of conclusion of the investigation was served, which stated that two of the Bank's operators were currently under investigation for alleged aggravated fraud (in collusion with other parties to be identified) and other persons are being identified for allegations of self-laundering, while ISP is being charged with the administrative offence pursuant to Italian Legislative Decree 231/2001 in relation to this latter predicate offence.

In September 2020 the Bank learned from press sources of the conclusion of the preliminary investigations by the Milan Public Prosecutor's Office within the framework of an additional pending criminal proceeding relating to this affair, in which neither the Bank nor its management board members and key function holders/employees have been involved to date.

*Disputes arising from the acquisition of certain assets, liabilities and legal relationships of Banca Popolare di Vicenza S.p.A. in compulsory administrative liquidation and Veneto Banca S.p.A. in compulsory administrative liquidation* – We remind you first of all that:

- a) based on the agreements between the two Banks in compulsory administrative liquidation and Intesa Sanpaolo (Sale Contract of 26 June 2017 and Second Acknowledgement Agreement of 17 January 2018), two distinct categories of disputes have been identified (also relating to the subsidiaries of the former Venetian banks included in the sale):
  - o the Previous Disputes, included among the liabilities of the Aggregate Set transferred to Intesa Sanpaolo, which include civil disputes relating to judgements already pending at 26 June 2017, with some exceptions, and in any case different from those included under the Excluded Disputes (see the point below);
  - o the Excluded Disputes, which remain under the responsibility of the Banks in compulsory administrative liquidation and which concern, among other things, disputes brought (also before 26 June 2017) by shareholders and convertible and/or subordinate bondholders of one of the two former Venetian banks, disputes relating to non-performing loans, disputes relating to relationships terminated at the date of the transfer, and all disputes (whatever their subject) arising after the sale and relating to acts or events occurring prior to the sale;
- b) the relevant allowances were transferred to Intesa Sanpaolo along with the Previous Disputes; in any case, if the allowances transferred prove insufficient, Intesa Sanpaolo will be entitled to be indemnified by the Banks in compulsory administrative liquidation, at the terms provided for in the Sale Contract of 26 June 2017;
- c) after 26 June 2017, a number of lawsuits included within the Excluded Disputes were initiated or resumed against Intesa Sanpaolo. With regard to these lawsuits:
  - o Intesa Sanpaolo is pleading and will plead its non-involvement and lack of capacity to be sued, both on the basis of the provisions of Law Decree 99/2017 (Article 3) and the agreements signed with the Banks in compulsory administrative liquidation and in compliance with the European Commission provisions on State Aid (Decision C(2017) 4501 final and Attachment B to the Sale Contract of 26 June 2017), which prohibit Intesa Sanpaolo from taking responsibility for any claims made by the shareholders and subordinated bondholders of the former Venetian Banks;
  - o if there were to be a ruling against Intesa Sanpaolo (and in any event for the charges incurred by Intesa Sanpaolo for any reason in relation to its involvement in any Excluded Disputes), it would have the right to be fully reimbursed by the Banks in compulsory administrative liquidation;

- o the Banks in compulsory administrative liquidation have contractually acknowledged their capacity to be sued with respect to the Excluded Disputes, such that they have entered appearances in various proceedings initiated (or re-initiated) by various shareholders and convertible and/or subordinate bondholders against Intesa Sanpaolo (or in any case included in the category of Excluded Disputes), asking for the declaration of their exclusive capacity to be sued and the consequent exclusion of Intesa Sanpaolo from those proceedings;
- d) pursuant to the agreements between the two Banks in compulsory administrative liquidation and Intesa Sanpaolo, the disputes regarding the marketing of shares/convertible and/or subordinated bonds initiated against Banca Nuova and Banca Apulia (subsequently merged by incorporation into Intesa Sanpaolo) are also included in the Excluded Disputes (and therefore have the same treatment as described above, as a result of the above-mentioned provisions and based on the criteria set out in the retransfer agreements signed on 10 July 2017, as subsequently supplemented).

The above-mentioned disputes in the Excluded Disputes include 90 disputes (for a total remedy sought of around 94 million euro) involving claims relating to loans sold to Intesa Sanpaolo and deriving from so-called “operazioni bacciate”; this term refers to loans granted by the former Venetian banks (or their Italian subsidiaries Banca Nuova/Banca Apulia) for the purpose of, or in any case related to, investments in shares or convertible and/or subordinated bonds of the two former Venetian Banks.

The most recurrent claims relate to:

- the violation by the former Venetian banks (or their subsidiaries) of the requirements of the rules on investment services; the customers claim that they were induced to purchase the shares on the basis of false or misleading information on the product's risk characteristics;
- the invalidity of the “*bacciata*” transaction due to the breach of Article 2358 of the Italian Civil Code, which prohibits companies from granting loans for the purchase of treasury shares, except in certain limited cases.

The case law regarding such transactions is still very limited and does not provide a basis for inferring the destiny of the loans in question for Intesa Sanpaolo. Among the few judgments that have been rendered to date, four voided the loan sold to Intesa Sanpaolo in respect of the part intended for the purchase of shares and were or will be appealed. In six cases, the decision was favourable to Intesa Sanpaolo, which proved that there was no effective correlation between the loan and equity investment, or successfully claimed that it was not liable, since the disputes began after the sale but referred to events pre-dating it.

With regard to the risks arising from these disputes, it should be borne in mind that the Sale Contract establishes the following:

- that any liability, charge and/or negative effect that may arise to Intesa Sanpaolo from actions, disputes or claims made by shareholders and subordinated bondholders constitutes an Excluded Liability under the Contract and, as such, must be subject to indemnification by the Banks in compulsory administrative liquidation;
- the obligation of each Bank in compulsory administrative liquidation to indemnify Intesa Sanpaolo against any damage arising from, or connected to, the violation or non-compliance of the Representations and Warranties issued by the two Banks in compulsory administrative liquidation with respect to the Aggregate Set transferred to Intesa Sanpaolo, and, in particular, those relating to the full propriety, validity and effectiveness of the loans and contracts transferred.

On the basis of these provisions, Intesa Sanpaolo is entitled to be indemnified by the Banks in compulsory administrative liquidation against any negative effect incurred if these loans are totally or partially invalid, unrecoverable, or in any case not repaid as a result of legal disputes.

Intesa Sanpaolo has already made a formal reservation in this regard to the two Banks in compulsory administrative liquidation for all the loans acquired and arising from loans potentially qualifying as “*operazioni bacciate*”, even if they have not (yet) been formally contested by customers (see below “Initiatives undertaken with respect to the compulsory administrative liquidations”).

In 2019, Intesa Sanpaolo sent several claims to the Banks in compulsory administrative liquidation containing requests (or reservations of the right to make subsequent requests) for reimbursement/indemnification of damages already incurred or potentially incurred and violations of the above-mentioned Representations and Warranties, in relation to Previous Disputes and Excluded Disputes, as well as in relation to the value and recoverability of several assets transferred to Intesa Sanpaolo.

To enable the Banks in compulsory administrative liquidation to perform a more thorough examination of the claims made, on several occasions, at the request of the Banks in compulsory administrative liquidation, Intesa Sanpaolo granted extension (with respect to the contractual provisions) of the deadline for contesting the claims made. The period is currently set to end on 30 September 2021.

The indemnity claims relating to the Previous Disputes and Excluded Disputes, for the charges accrued through 30 June 2020, were submitted to the Banks in compulsory administrative liquidation on 22 January 2021.

No disputes have emerged with regard to the claims already served, nor is there any reason to fear that the passage of time will weaken our claims

In this regard, it should also be noted that Paragraph 11.1.9 of the Sale Contract establishes that “*the precise and timely payment of any obligations and liabilities assumed in favour of the ISP by BPVi and/or VB shall be guaranteed by the Issuing Body [i.e. the Ministry of the Economy and Finance]: (i) with regard to the indemnification obligations assumed by BPVi and/or VB and relating to the Previous Disputes, up to the maximum amount of the remedy sought for each of the Previous Disputes as indicated in the case documents, net of the specific risk allowances transferred to ISP with the Aggregate Set; and (ii) with regard to the remaining obligations and liabilities assumed by BPVi and/or VB, up to the maximum amount of 1.5 billion euro*” (the “Indemnification Guarantee”).

This provision is consistent with and implements Article 4, paragraph 1, letter c) of Law Decree no. 99/2017: the Ministry of the Economy and Finance “*grants the Government independent first demand guarantee on the performance of the obligations of the entity in liquidation arising from commitments, representations and warranties issued by the entity in liquidation in the sale contract, for a maximum amount equal to the sum of 1,500 million euro plus the result of the difference between the value of the past disputes of the entities in liquidation, as indicated in the case documents, and the related risk provision, up to a maximum of 491 million euro*”.

The Indemnification Guarantee is therefore an essential prerequisite of the Sale Contract. To date, this guarantee has not yet been formalised by a specific Decree from the Ministry of the Economy and Finance. The issuance of the guarantee by the government is a required procedure that is envisaged, not only by the Sale Contract of 26 June 2017, but also by the above-mentioned Law Decree 99/2017.

In January 2018, as part of a criminal proceeding before the Court of Rome for the alleged market rigging and obstructing the Supervisory Authorities in the performance of their functions with respect to officers and executives of Veneto Banca, the preliminary hearing judge decided that Intesa Sanpaolo could be charged with civil liability. According to the judge, the exclusion from the sale to Intesa Sanpaolo of the debts, responsibilities and liabilities deriving from the sale of shares and subordinated bonds – envisaged by Law Decree 99/2017 – would not be objectionable by third parties, while Article 2560 of the Italian Civil Code would be applicable in the case in question and Intesa Sanpaolo should therefore take on those liabilities.

As a result of this decision, more than 3,800 civil plaintiffs holding Veneto Banca shares or subordinated bonds joined the proceedings. Intesa Sanpaolo therefore entered an appearance requesting its exclusion from the proceedings, in application of the provisions of Law Decree 99/2017, of the rules established for the compulsory administrative liquidation of banks and, before that, of the principles and rules contained in the bankruptcy law, in addition to the constitutional principles and decisions made at EU level with regard to the operation relating to the former Venetian banks. In turn, Veneto Banca in compulsory administrative liquidation intervened voluntarily affirming its exclusive, substantial and procedural capacity to be sued.

In March 2018, the preliminary hearing judge declared his lack of territorial jurisdiction, transferring the files to the Public Prosecutor's Office of Treviso. The charge of civil liability and the joinders of the civil parties were therefore removed.

After the case documents were forwarded to the Public Prosecutor's Office of Treviso, the former Managing Director of Veneto Banca, Vincenzo Consoli, was committed to trial for the offences of market-rigging, obstructing banking supervisory authorities and financial reporting irregularities.

The Judge for the Preliminary Hearing rejected the motion to authorise the summons of Intesa Sanpaolo as civilly liable party. A similar motion was rejected in the criminal proceedings before the Court of Vicenza against management board members and key function holders and executives of Banca Popolare di Vicenza.

*Metropolitan City of Rome the Capital (formerly the Province of Rome)* – Criminal proceedings are pending before the Rome Public Prosecutor's Office against a former Banca IMI manager for co-commission of aggravated fraud against the Metropolitan City of Rome Capital (formerly the Province of Rome).

The proceedings relate to the overall transaction for the purchase by the local authority, through the real estate fund Fondo Immobiliare Provincia di Roma (fully owned by the Province of Rome), of the new EUR premises.

The real-estate transaction received financing of 232 million euro from UniCredit, BNL and Banca IMI (each with 1/3).

The former Banca IMI employee is accused of having misled – with three other managers of the two other lending banks, seven managers of the asset management company that manages the provincial fund and two public officials – the fund's internal control bodies and representatives of the Province, allowing the lending banks to obtain an unjust profit and thus causing significant damages to the public authority. In addition, the Public Prosecutor claims that the lending banks and the Fund entered into a loan under different, more burdensome conditions than those provided for in the call for tenders held by the public entity for the transaction.

ISP (as the company that absorbed Banca IMI) is investigated in the criminal proceeding pursuant to Legislative Decree 231/01 together with the other two lending banks and the real-estate fund management company.

Based on early reconstructions, there is reason to believe that the correctness of the Bank's actions will be confirmed.

#### *Significant disputes involving the UBI Group*

*Oromare Bankruptcy* – The bankruptcy receiver for Oromare società consortile a r.l. sued UBI in October 2018, claiming that banking credit had been unlawfully granted and maintained by the bank to the bankrupt company, seeking compensation for damages of 22.5 million euro.

The defence counsel of UBI argued that the bankruptcy receiver lacked standing to sue, citing the position in case law according to which it is individual creditors, not the body of bankruptcy creditors, who have standing to bring an action. It was also emphasised that the disputed loan was granted to support the company at a moment of particular growth and balanced financial performance.

An adverse outcome to the proceedings, which are in the preliminary phase, is possible.

*Eugenio Tombolini SpA bankruptcy receiver and others* – In 2016, Eugenio Tombolini SpA and its shareholders and guarantors sued Nuova Banca delle Marche<sup>55</sup>, claiming that it had not fulfilled a restructuring agreement pursuant to Article 182-bis of the Bankruptcy Law and that it had applied unlawful interest on current accounts and loans, quantifying its claim at 94 million euro.

The bank entered its appearance, objecting that some of the claimants lacked standing to sue and that it lacked standing to be sued in respect of some of the disputed relationships, since they were outside the scope of the acquisition. In addition, it was argued that some claims had become time barred and that the reconstruction of the facts by the adverse party regarding the restructuring agreement pursuant to Article 182-bis of the Bankruptcy Act was groundless, as were the claims regarding the interest applied. Nuova Banca delle Marche thus requested the authorisation to summon the third party REV Gestione Crediti S.p.A. (fully owned by the Bank of Italy) to the proceedings, as it is party to some of the disputed relationships.

The trial, which was suspended due to the bankruptcy of Eugenio Tombolini Spa and of some of the other claimants, was resumed. UBI Banca SpA appeared in lieu of Nuova Banca delle Marche and Rev Gestione Crediti S.p.a. In June 2020 the Court ordered an accounting expert review, which is still ongoing. An adverse outcome to the proceedings is possible.

<sup>55</sup> See the previous note.



*Engineering Service Srl* – In 2015, Engineering Service Srl brought a civil suit against the Ministry of Economic Development, BPER and UBI regarding the granting of public subsidies to businesses. The claimant accuses UBI (and BPER) of delays in managing the approval procedure and disbursements – delays that allegedly resulted in a liquidity crisis for the company and the consequent loss of the public contribution.

A claim for damages for approximately 28 million euro has been brought against UBI.

UBI's defence underscored that the bank was the leader of the temporary consortium formed by BPER and that the approval times depended on the latter. UBI then claimed indemnification from BPER. The trial is still in the preliminary phase. The risk of a negative outcome is deemed possible.

*Fondazione Cassa Risparmio di Pesaro* – In 2018, Fondazione Cassa di Risparmio di Pesaro brought a compensation claim against UBI Banca (as the alleged successor-in-interest to Banca Marche S.p.A.<sup>56</sup>) and PwC (the auditing firm that certified all the financial statements and the figures presented in the Prospectus) alleging that the defendants published data and information regarding the financial performance and position of Banca della Marche S.p.A. that later proved to be totally incorrect and misleading. This information, contained in the financial statements as at 31 December 2010 and 30 June 2011 and included in the Prospectus, is claimed to have led the Foundation to subscribe for the bank's shares issued as part of the capital increase in March 2012. The value of these shares then fell to zero, resulting in a loss quantified at approximately 52 million euro.

During the trial the Bank of Italy joined the suit, upholding the lack of capacity to be sued invoked by UBI, by virtue of the provisions of Legislative Decree 180/2015 governing the resolution procedure for Banca delle Marche. The Court rejected all preliminary applications filed and adjourned the case to 8 June 2021 for the entry of conclusions.

*Abba' Andrea + 207* – This is a dispute pending before the Court of Milan, Business Section, initiated in 2019 by Mr. Abba' and 207 subordinated bondholders of Banca delle Marche<sup>57</sup>. The claimants seek a declaration voiding the bonds and compensation for the damages suffered. The claim has been quantified at approximately 31 million euro.

The bank entered its appearance, objecting that it lacked capacity to be sued, arguing in particular that the bonds in question were outside the scope of the sale by the Old Bank to the Bridge Entity. UBI also argued that the claimant's claims had become time barred and that the adverse parties lacked capacity, since they were not the "first borrowers" and thus by law were not entitled to claim that the original bonds were inherently flawed. Finally, the lack of grounds to void the bonds and of evidence of the causal relationship between the bank's conduct at issue and the damages was underscored.

As the manager of the National Resolution Fund, the Bank of Italy intervened in the proceedings, upholding the arguments and conclusions formulated by UBI.

The trial is still in the initial phase, since the preliminary phase has yet to be held.

*Terni Reti srl* – Lawsuit initiated in July 2020 before the Court of Terni by Terni Reti Sud s.r.l., with share capital wholly held by the Municipality of Terni, seeking a declaration voiding the collar derivative contract entered into in August 2007 due to the alleged breach of the disclosure obligations applicable to the intermediary (former Banca delle Marche<sup>58</sup>). The plaintiff also alleges a lack of abstract and concrete cause of the contract at issue, since the Bank purportedly did not share with the Company information regarding the mark-to-market and probabilistic scenarios relating to the derivative, but instead allegedly also suggested an inefficient derivative, in view of pursuit of hedging goals in relation to the underlying debt, with the consequent deviation from the 'concrete cause'.

The bank entered an appearance promptly, arguing on the merits that the plaintiff's claims were baseless since the bank had provided extensive information regarding the characteristics of the derivative in question, enabling the customer to make an informed choice of the product subscribed. The claims that the contract was allegedly ineffective were also challenged on the basis of the results of the technical expert report requested by UBI in conducting its defence.

The lawsuit is in the initial phase, since the first hearing was held on 15 December 2020.

*Ac Costruzioni s.r.l.* – Proceedings brought by AC Costruzioni S.r.l. (subsequently declared bankrupt) and Cava Aurelio (deceased during the trial) against Banca Carime Spa seeking a declaratory judgment establishing contractual and/or extracontractual liability of the bank for the revocation of the credit facilities on 28/05/1998 and a judgment ordering the bank to provide compensation for the damages resulting from revocation, quantified at a total of around 33 million euro.

The adverse party's claims were rejected in full by both the Court of Cosenza and the Catanzaro Court of Appeal, which upheld the arguments made by the defendant. The judgment of the second instance was appealed by Cava's heirs and then by the receiver to AC Costruzioni by counter-appeal and cross-appeal. The proceedings before the Court of Cassation are still in the initial phase, since the hearing has yet to be scheduled.

*Mariella Burani Fashion Group S.p.A. in liquidation and bankruptcy ("MBFG")* – In January 2018 the receiver to Mariella Burani Fashion Group S.p.a. sued the former directors and statutory auditors of Mariella Burani Fashion Group S.p.A., its auditing firm and UBI Banca (as the company that absorbed Centrobanca), seeking a judgment ordering compensation for alleged damages suffered due to the many acts of mismanagement of the company while in good standing.

According to the claimant's arguments, Centrobanca, which was merged into UBI, continued to provide financial support to the parent company of the bankrupt company (Mariella Burani Holding S.p.A.), despite the signs of insolvency that began to show in September 2007, causing damages quantified at approximately 94 million euro.

On a preliminary level, the bank argued that the receiver lacked capacity to sue since the disputed loan had been disbursed to the parent company of Mariella Burani Fashion Group S.p.a.; moreover, the alleged damages for which the receiver claims compensation were argued to have been in fact sustained by the company's creditors (and not by the procedure).

As regards the merit of the claims, the bank stressed that it had acted properly and the borrower in good standing was solely liable since it bore exclusive responsibility for preparing the untrue financial statements, circulating the misinformation and

<sup>56</sup> See the previous note.

<sup>57</sup> See the previous note.

<sup>58</sup> See the previous note.

continuing to operate the company in an alleged situation of insolvency.

*Fondazione Cassa Risparmio di Jesi* – In January 2016, Fondazione Cassa di Risparmio di Jesi brought a compensation claim against UBI Banca (as the alleged successor-in-interest to Banca Marche S.p.A.<sup>59</sup>) and PwC (the auditing firm that certified all the financial statements and the figures presented in the Prospectus) alleging that the defendants published data and information regarding the financial performance and position of Banca della Marche S.p.A. that later proved to be totally incorrect and misleading. This information, contained in the financial statements as at 31 December 2010 and 30 June 2011 and included in the Prospectus, is claimed to have led the Foundation to subscribe for the bank's shares issued as part of the capital increase in March 2012. The value of these shares then fell to zero, resulting in a loss quantified at approximately 25 million euro.

During the trial the Bank of Italy joined the suit, upholding the lack of capacity to be sued invoked by UBI, by virtue of the provisions of Legislative Decree 180/2015 governing the resolution procedure for Banca delle Marche.

By judgment rendered on 18 March 2020, the Court of Ancona granted the objection of lack of capacity to be sued raised by the bank, rejecting the claims lodged. The appeal filed by the Foundation is currently pending before the Ancona Court of Appeal.

*Melania Group S.p.A.* – Proceedings brought by Melania Group and its guarantors in 2015 claiming unlawful suspension of credit and improper reporting to the Central Credit Register and seeking compensation for damages suffered quantified at 38 million euro. The claimants also sought the reversal of the interest accrued on the current accounts held by the company due to exceeding the "threshold rate". When entering its appearance, the bank motioned the court to reject the claims formulated and lodged a counterclaim by virtue of the debt balances in the Melania Group's name. By judgment of December 2019, the Court of Ancona rejected the compensation claims formulated by the adverse party, granting the bank's counterclaim in a lesser amount than sought. The appeal initiated by UBI (which absorbed Banca Adriatica<sup>60</sup>) is pending, with the first hearing scheduled for April 2021.

*Isoldi Holding bankruptcy receiver* – The receiver to Isoldi sued UBI (which absorbed Nuova Banca Etruria<sup>61</sup> and Centrobanca) and five other banks in June 2020, claiming that they were liable, jointly and severally with the management body of Isoldi Holding, for a series of acts of diversion of assets that are claimed to have contributed to the company's artificial survival in the period June 2011 – June 2013. The scheme is claimed to have been implemented by preparing a turnaround plan pursuant to Article 67, para. 3, letter d), of the Bankruptcy Law based on unlawful acts and a connected agreement governing the disbursement of new finance, acts that are argued to have artificially deferred the company's crisis and concealed the irrevocability of its default. The total damages claimed amount to approximately 33.5 million euro.

UBI Banca entered its appearance, claiming that it lacked capacity to be sued with regard to the claims bearing on Banca Etruria, since the circumstances in question are excluded from the sale. REV Gestione Crediti (fully owned by the Bank of Italy) joined the proceedings.

#### *Labour litigation*

There were no significant cases of labour litigation from either a qualitative or quantitative standpoint as at 31 December 2020. In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

#### *Contingent assets*

As for contingent assets, and the IMI/SIR dispute in particular, it should be recalled that following the final judgement establishing the criminal liability of the corrupt judge Metta (and his accomplices Rovelli, Acampora, Pacifico, and Previti), the defendants were ordered to pay compensation for damages, with the determination of those damages referred to the civil courts. Intesa Sanpaolo then brought a case before the Court of Rome to obtain an order of compensation for damages from those responsible.

In its ruling of May 2015, the Court of Rome quantified the financial and non-financial damages for Intesa Sanpaolo and ordered Acampora and Metta – the latter also jointly liable with the Prime Minister's Office (pursuant to Law no. 117/1988 on the accountability of the judiciary) – to pay Intesa Sanpaolo 173 million euro net of tax, plus legal interest accruing from 1 February 2015 to the date of final payment, plus legal expenses. The amount ordered took account of the amounts received in the meantime by the Bank as part of the settlements with the Rovelli family and with the counterparties Previti and Pacifico.

In July 2016, the Rome Court of Appeal stayed the enforcement of the judgment of first instance with respect to the amount in excess of 130 million euro, in addition to ancillary charges and expenses, and adjourned the hearing of the final pleadings to June 2018. As a result of this decision, in December 2016 the Office of the President of the Council of Ministers credited Intesa Sanpaolo with the sum of 131,173,551.58 euro (corresponding to the 130 million euro of the order, in addition to legal interest and reimbursement of expenses). To avoid dispute, only the exact amount of the order, without applying the gross-up, was demanded and collected. On 16 April 2020, the ruling of the Court of Appeal of Rome was filed, which essentially upheld the Court's ruling, while reducing the amount of non-financial damages to 8 million euro (compared to 77 million euro that had been quantified by the court of first instance), and set the amount to be paid at 108 million euro, to be considered net of tax, plus legal interest and expenses.

In the second quarter of 2020 the bank filed a petition for the correction of a material error contained in the finding regarding the calculation of the damages liquidated; the Court of Appeal rejected the bank's petition by ruling filed on 7 December 2020. Intesa Sanpaolo will therefore file an appeal to the Court of Cassation against the decision of the Court of Appeal in regard to the quantification of the non-financial damage and the erroneous calculation of the financial damage, for which an application for correction was filed.

<sup>59</sup> See the previous note.

<sup>60</sup> See the previous note.

<sup>61</sup> See the previous note.



## TAX LITIGATION

At Group level, the total value of the claims for tax disputes (taxes, penalties and interest) was equal to 211 million euro as at 31 December 2020, which represents an increase compared to 175 million euro as at 31 December 2019.

The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges (74 million euro in 2020 compared to 62 million in 2019).

As at 31 December 2020, the Parent Company had 687 pending litigation proceedings (612 as at 31 December 2019) for a total amount claimed (taxes, penalties and interest) of 139 million euro (111 million euro as at 31 December 2019), considering both administrative and judicial proceedings at various instances. In relation to these proceedings, the actual risks were quantified at 57 million euro as at 31 December 2020 (54 million euro as at 31 December 2019).

Compared to 31 December 2019, the main events that gave rise to significant movements for the Parent Company in 2020 consisted of:

- on the increase (approximately +42 million euro), the transfer to the Tax Litigation team of the Parent Company of a long-standing dispute in Brazil dating back to 1995, which until 2019 was taken care of by the Legal Litigation team of the Parent Company, amounting to 35 million euro (the dispute is related to the guarantees provided by ISP to Banca Santander in connection with the sale of the former subsidiary Banco Sudameris), and new disputes relating to the municipal property tax ("IMU") and registration tax for a total amount of 5.4 million euro, in addition to interest accrued on the existing disputes;
- on the decrease (approximately -13.8 million euro), the resolution of the Infogroup claim amounting to 7.3 million euro, the favourable resolution of disputes regarding substitute tax on loans, registration tax, property value increase tax ("INVIM") regarding a long-standing dispute over contributions of real estate assets made in 1997 by Carical to Carime, and municipal property tax ("IMU") for a total amount of 4.5 million euro and, finally, the resolution of the former Centro Leasing dispute involving the payment of registration tax on the leased property located in Rome at Via Tuscolana, amounting to approximately 2 million euro.

The main differences in the provisions booked by the Parent Company compared to 31 December 2019 related to:

- on the increase (approximately +13 million euro), tax disputes relating to the municipal property tax ("IMU"), discussed further below, the transfer of the aforementioned tax dispute in Brazil and the interest accrued on the pending disputes;
- on the decrease (approximately -10 million euro), the resolution of the Infogroup claim, involving the use of approximately 7.3 million euro for VAT and direct taxes (IRES and IRAP), the resolution of the aforementioned dispute known as "Immobiliare Tuscolana" amounting to approximately 2 million euro, and the resolution of the INVIM dispute relating to contributions of real estate assets by Carical, amounting to approximately 0.8 million euro.

During the year, 212 disputes were closed at the level of the Parent Company for a total of 13.8 million euro with a disbursement of around 9 million euro.

At the level of the Italian subsidiaries, tax disputes totalled 63 million euro as at 31 December 2020 (53 million euro as at 31 December 2019), covered by specific provisions amounting to 10 million euro (1 million euro in the 2019 financial statements). The figures presented also include the disputes in which UBI Banca and its subsidiaries are defendants. Compared to 31 December 2019, the main events that gave rise to significant movements of the total amount of both the claims (+10 million euro) and the provisions (+9 million euro) were as follows:

- inclusion of the UBI Group companies (total claims of 9.9 million euro and provisions of 2.7 million euro);
- with respect to Intesa Sanpaolo Provis, an increase of 0.6 million euro in the total claims and an increase of 1.5 million euro in the provision for numerous cases involving modest individual amounts. The change in the provision is due to the controversial issue of the liability for municipal property tax ("IMU") in respect of property lease contracts terminated without repossession of the assets, for which it was deemed appropriate to provision in full for the risk;
- with respect to Banca Fideuram, a prudential provision was recognised following the most recent unfavourable judgment of the Regional Tax Commission of Lazio No. 3417/16/20 filed on 11 November 2020 in respect of pending claims concerning the failure to withhold a withholding tax of 27% on the interest accrued in 2009, 2010 and 2011 on foreign bank accounts held at Fideuram Bank (Luxembourg) by two "historic" Luxembourg mutual funds (Fonditalia and Interfund SICAV), for which Banca Fideuram was only the placement bank and correspondent bank (total value of the disputes of 9.3 million euro).

Tax disputes involving foreign subsidiaries amounted to 9 million euro at year-end (11 million euro at the end of 2019), covered by provisions of 7 million euro (in line with 2019). The decrease in the claimed amount was mainly due to the disputes involving Intesa Sanpaolo Bank Albania, which were settled, and the reduction in the value of the lawsuits involving Intesa Sanpaolo Brasil S.A. and Alexbank due to the use of the exchange rate at year-end. The provisions from the previous year were confirmed.

There were no new disputes of significant amounts initiated during the year.

However, it should be emphasised that due to the extension of the terms of forfeiture and time bar, imposed by the various legislative measures pertaining to the COVID-19 pandemic, the notices of tax assessment, payment due, claims and penalties, expiring between from 9 March and 31 December 2020 and issued by the tax authorities by 31 December 2020, will be validly served on the taxpayers during the period from 1 January to 31 December 2021.

In the following paragraphs, information is provided regarding the most important ongoing disputes (including those that arose prior to 2020).

*Parent Company**Disputes regarding registration tax, with a total remedy sought of 38 million euro, on the reclassification of business contribution and subsequent sale of the participations as sale of business and the consequent assessment of a higher business value*

These are disputes concerning the recovery of registration tax paid on the contributions of business units and the subsequent sales of the participations, which were reclassified by the tax authorities as sales of business units, with the consequent assessment of a higher value for the business units. These disputes were not settled under the tax amnesty pursuant to Article 6 of the tax decree connected to the 2019 Budget Law (Decree-Law 119/2018), either because the Bank had already paid the full amount assessed and as a result of settlement would not have been entitled to the repayment of the sums in excess of the amount due for settlement, or because there were sound prospects of a favourable outcome to the trials pending before the Court of Cassation.

Those disputes also include the dispute (remedy sought of 8 million euro) pending before the Court of Cassation on petition of the Attorney General against the judgment of the second instance favourable to the Bank, regarding the registration tax due further to the reclassification as a sale of a business unit of the overall transaction whereby Manzoni s.r.l. transferred a private equity business unit – that it had acquired through two different contributions of business units by Intesa Sanpaolo and the former IMI Investimenti – to Melville S.r.l., through a partial, non-proportional demerger. The Bank has appointed a major law firm to represent it at trial.

*Dispute regarding the municipal property tax (“IMU”) on real estate not repossessed following the termination of the related lease contracts*

There is longstanding discussion regarding the identification of the taxpayer liable for the municipal property tax in relation to real estate assets owned by the leasing companies and leased out to third parties, where the lease was terminated early due to default by the lessee, or as a result of insolvency proceedings involving the lessee, but without the lessee having returned the asset to the lessor. Over the years a tax dispute arose on this matter (also affecting the former Mediocredito Italiano and Provis) relating to whether the lessee is (still) liable for the municipal property tax rather than (already) the leasing company in the period between the date of termination (or dissolution) of the lease and the date of physical return of the asset to the lessor. Until 2019, the position adopted by Intesa Sanpaolo – in line with that of all the other Italian leasing companies and the recommendations from ASSILEA (Italian association of leasing companies) – had been that over the period in question the lessee should continue to be liable for municipal property tax. In late 2019, the position of the Court of Cassation on the matter was still undefined, but in 2020 the Court of Cassation settled on the view that the leasing company was liable for municipal property tax from the date of legal termination of the contract, regardless of repossession of the asset. In addition, the 2020 Budget Law provided for the abolition of the single municipal tax (IUC), with regard to its components relating to IMU and TASI, and the unification of the two taxes into the new municipal property tax (IMU). On 18 March 2020, the Ministry of the Economy and Finance – Finance Department – Tax Legislation and Tax Federalism Unit, with circular no. 1/DF, commenting on the latter changes, provided precise indications regarding the liability for the new municipal property tax with regard to the date of termination of the lease agreement in accordance with the prevailing case law. Accordingly, starting from 2020, the bank decided to proceed with the payment of municipal property tax for all leased real estate assets with terminated contracts, regardless of repossession of the asset, seeking recovery from the former users, where possible. It was also decided to gradually withdraw from all pending disputes (over 300 for the Parent Company) on assessments relating to years up to 2019, following an attempt at settlement with the interested municipalities to quash the penalties and offset trial fees. The total remedy sought is 11 million euro, fully provisioned for.

*Dispute regarding VAT on boat lease transactions*

On 17 April 2019, the Milan Tax Police (Guardia di Finanza) initiated a general audit of the former Mediocredito Italiano (now merged into Intesa Sanpaolo), concerning tax years 2014 and 2015 for VAT purposes and tax years 2015 and 2017 for direct tax purposes. The audit was concluded on 13 October 2020.

With regard to tax year 2014, the Tax Police served a tax audit report on 31 July 2019, contesting: i) the VAT exemption applied, in accordance with Article 8-bis of Presidential Decree 633/72, by the company to the nautical leases, and ii) the VAT exemption established in Article 7-bis of Presidential Decree 633/72 for the buyback of a vessel. The total amount of claimed VAT amounted to 2.3 million euro (of which 1.7 million euro on the first charge and 0.6 million euro on the second). The Lombardy Regional Tax Office thus served a notice of assessment (with interest and penalties), against which an appeal was lodged. The hearing of the appeal, originally set by the Milan Provincial Tax Commission on 24 November 2020, was postponed until 24 March 2021. On this dispute, the bank made provisions with regard to the former claim, solely for the risk of tax and interest, and not also for the risk of penalties, whereas for the latter claim, the potential tax liability is believed to be borne contractually by the customer.

With regard to tax year 2015, the Tax Police served the tax audit report on 13 October 2020, contesting, as done for the previous year, the VAT exemption applied, in accordance with Article 8-bis of Presidential Decree 633/72, by the company to the nautical leases. The total amount of claimed VAT amounts to 0.9 million euro. The related notice of assessment has yet to be served. For this dispute as well, in the previous year the bank booked a provision corresponding to the portion of the dispute relating to the risk for tax and interest, as it did in 2014.

With regard to tax years 2015 and 2017, the audit was concluded without detecting any irregularities in the field of direct taxes.

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With regard to the merged company Banca Nuova (formerly a member of the Banca Popolare di Vicenza Group), discussions are in progress with the Sicily Italian Revenue Agency for the settlement of the tax audit report relating to tax period 2015 served on Intesa Sanpaolo, as the surviving company, on 20 December 2019 and containing findings for a total of 1.6 million euro of greater taxable profit and IRES and IRAP taxes for a total of 0.46 million euro, in addition to penalties and interest. The dispute was notified to Banca Popolare di Vicenza (in compulsory administrative liquidation) - and to the Ministry of the Economy and Finance for their consideration and in view of the guarantees provided under Art. 2, paragraph c), of Ministerial

Decree 187 of 25 June 2017, in accordance with Art. 4, paragraph 1, letter c), of Decree-Law 99 of 25 June 2017 - which has the obligation to indemnify ISP against any liability, pursuant to Article 11 of the agreement entered into on 26 June 2017, for the acquisition of assets, liabilities and legal relationships. After the audit is resolved in 2021, a formal indemnity request will be submitted for the amount definitively due to the tax authorities.

With regard to the disputes involving Intesa Sanpaolo and settled during the period, mention should be made of the favourable ruling by the Court of Cassation concerning the former Cassa di Risparmio di Piacenza e Vigevano regarding the registration tax due on the capital increase based on the incentives under the Amato Law and amounting to around 0.8 million euro. In addition, the Court of Cassation ruled against the notice of payment of registration tax of approximately 2 million euro issued against the merged company Centro Leasing in relation to the sale of a leased property in Rome, in Via Tuscolana. Finally, it is worth highlighting the dispute between the Provincial Tax Office of Florence and Engineering – Ingegneria Informatica S.p.A on the VAT treatment applied in 2014 by Infogroup Informatica e Servizi Telematici S.c.p.A.

With regard to the Intesa Sanpaolo branches located abroad, it should be noted that: i) a VAT audit on the London branch is in progress for the years 2016, 2017 and 2018; ii) three tax audits concerning direct taxes of the New York branch for the tax periods 2015, 2016 and 2017 are in progress; and iii) a fourth audit conducted by the IRS of the income tax return filed for tax period 2018 by the New York branch is in the early stages. Finally, the audit at the Frankfurt branch with regard to the following areas relating to the tax periods from 2016 to 2018 was concluded in November 2020: i) income taxes; ii) VAT; iii) withholding taxes; iv) tax losses carried forward; v) transfer pricing; and vi) German trade tax. The German tax authority presented a single finding relating to head office expenses, assessing greater tax of 1.2 million euro overall for all years, without levying any penalties. On the basis of the external advisor's opinion, the branch decided to settle the claim.

### Group Companies

For Banca Fideuram, mention has been made above of the dispute concerning alleged failure to withhold the withholding tax due on interest accrued on foreign bank accounts held at Fideuram Bank (Luxembourg) by two "historic" Luxembourg mutual funds. In further detail, the second instance judgement in November 2020 was unfavourable to the bank, including with regard to 2011, as in the case of 2009 and 2010. Accordingly, it was decided, after consultation with the consultant engaged to assist the bank in the cases pending before the Court of Cassation, to set up a provision for risks, including penalties and interest.

Intesa Sanpaolo Private Banking has long had pending IRES and IRAP disputes relating to the deduction (in 2011 and the following years) of the amortisation charge for the goodwill arising from the transfers of the private banking business lines of Intesa Sanpaolo and Cassa dei Risparmi di Forlì e della Romagna in 2009, Banca di Trento e Bolzano and Cassa di Risparmio di Firenze in 2010 and Cassa di Risparmio Pistoia e Lucchesia and Cassa di Risparmio dell'Umbria in 2013, realigned by the transferee in accordance with Article 15, paragraph 10, of Law Decree no. 185 of 29 November 2008.

With regard to the disputes, please note the following:

- year 2011: the favourable ruling no. 2763/2019, filed on 26 June 2019, by the Lombardy Regional Tax Commission, which rejected the main appeal by the Italian Revenue Agency against the ruling no. 7028/2017 by the Milan Provincial Tax Commission (total claim amount of 7.9 million euro, of which 3.8 million euro for taxes and 3.5 million euro for penalties). The court of second instance also upheld the company's cross-appeal on the preliminary matter of the lapse of the tax administration's power of assessment: the realignment of goodwill had been reported in the tax return for the 2010 tax year, and the notices were served in 2017, i.e. beyond the time limits laid down in Article 43 of Presidential Decree 600/73. The case is pending before the Court of Cassation on appeal by the Attorney General and a counter-appeal has been prepared by the external advisor appointed by the bank;
- year 2012: unfavourable rulings no. 5172/2019 and 5173/2019 by the Lombardy Regional Tax Commission, which granted the appeals by the Italian Revenue Agency (total claim amount of 8 million euro, of which 3.9 million euro for taxes and 3.5 million euro for penalties). The appeal before the Court of Cassation has been entrusted by the bank to the same advisor;
- year 2013: the proceedings are pending before the Lombardy Regional Tax Commission on appeal by the Italian Revenue Agency (total claim amount of 10.2 million euro, of which 4.9 million euro for taxes and 4.4 million euro for penalties). The appeal was discussed in a public hearing on 20 October 2020. The judgment is pending;
- years 2014 and 2015: the Second Division of the Milan Provincial Tax Commission, by judgment no. 504/2/2020 of 7 February 2020, filed on 13 February 2020, granted the IRES and IRAP appeals for both years (joined proceedings). The tax claim amounts to 16.1 million euro (of which tax of 7.9 million euro and penalties of 7.2 million euro), plus interest. The appeal of the Italian Revenue Agency against the aforementioned judgment was served on 12 November 2020. The bank entered its appearance through the internal structures.

The total amount claimed against Intesa Sanpaolo Private Banking, including taxes, penalties and interest, amounts to 42.2 million euro. The risk of liability has been assessed as remote, because the legitimacy of the impairment of the goodwill arising ex novo in the hands of the transferee – also implemented at the time by other Group companies but not disputed in respect of any of them – has been expressly acknowledged by the Italian Revenue Agency in its Circular no. 8/E of 2010.

The tax disputes pending at 31 December 2020 involving UBI Banca S.p.A. and its subsidiaries as defendants primarily derive from the former "Good Banks" acquired in 2017. The total value of the disputes for the Group is 9.9 million euro (of which 6.5 million euro for UBI Banca) and the provisions amount to 2.7 million euro (of which 1.1 million euro for UBI Banca).

The tax claim against UBI Banca S.p.A. is largely attributable to two disputes originating from the former Banca delle Marche S.p.A. Due to operational decisions made by the bank in question at the time of the events, the payments made pending the trial were largely taken to the income statement (3.5 million euro), whereas just 418 thousand euro was recognised as assets subject to provisional collection, covered in full by a provision for risks. The bank has engaged an external legal advisor to prepare an appeal before the Court of Cassation against the unfavourable judgment in the appeal proceedings.

Due to the foregoing, and considering also the definitive additional payments for UBI Banca pending the trial of 0.3 million euro and payables for disputes recognised of 0.2 million euro, the potential liability at 31 December 2020 on disputes involving UBI Banca S.p.A. and its subsidiaries as defendants amounts to 3.1 million euro (without considering provisional payments made by other co-obligors and any indemnification).

The following should be noted regarding the two most significant disputes, both attributable to the merged company Nuova Banca delle Marche S.p.A. (which in turn absorbed Medioleasing S.p.A.).

One dispute concerns the application of substitute tax pursuant to Presidential Decree 601/1973 in relation to a loan agreement by Banca delle Marche S.p.A. to Medioleasing of 400 million euro entered into on 27 December 2007 in the Republic of San Marino (value of the dispute of 2.2 million euro, in addition to interest). Both companies appealed the payment notices from the Italian Revenue Agency before the competent tax commissions with unfavourable outcomes in the first and second instances (Marche Regional Tax Commission no. 499/2020 and no. 500/2020 filed on 10 September 2020). The term for lodging an appeal before the Court of Cassation is pending. Pending the trial, Medioleasing paid 1.7 million euro, charged directly to the income statement, and the former Banca delle Marche paid approximately 0.4 million euro on a temporary basis, recognised as an asset and covered by provision.

The other dispute relates to VAT for the year 2005 (value of dispute of 1.6 million euro). On 2 December 2010, the Italian Revenue Agency – Ancona Provincial Office served Medioleasing with a notice of assessment demanding greater VAT of 0.7 million euro, in addition to interest, while also levying an administrative fine of 0.9 million euro. The claim was based on presumed reclassification of nautical leasing contracts (with an initial balloon payment) as purchases of the asset, in addition to property sale-and-lease-back transactions. The outcome was unfavourable to Medioleasing in the first and second instances: the latter lodged an appeal before the Court of Cassation in November 2013. The date of the hearing has yet to be scheduled. Meanwhile, the company made payment in full, directly recognized in the income statement.

Finally, Provis has municipal property tax (“IMU”) and TASI claim procedures that are pending or about to commence with a total value of 1.9 million euro.

The following is an account of the developments relating to the foreign subsidiaries during the year.

The three disputes (total remedy sought of 0.5 million euro) involving the subsidiary Intesa Sanpaolo Bank Albania as the absorbing company of Veneto Banka were settled. The outcome was unfavourable, but without adverse effects on the 2020 income statement, since the Albanian bank considered the payment of the full claimed amount made in 2019 to be definitive. Intesa Sanpaolo Bank Albania is also involved in two disputes (total amount 2.3 million euro) both pending before the Court of Cassation on appeal by the bank: i) the first concerning the write-off of loans that were no longer recoverable that, according to the tax authorities, led to an unjustified reduction in the taxable amount for direct tax for the years 2003 to 2007 (1.3 million euro); and ii) the second relating to errors made in the tax return for the 2011 tax year (1 million euro).

Intesa Sanpaolo Brasil S.A. - Banco Multiplo, was audited by Receita Federal do Brasil (RFB). The audit was followed by a notice of assessment for direct taxes for the years 2015 and 2016. This dispute concerns the improper use of carried forward tax losses, which could not be used, in the opinion of the Brazilian tax authorities, because they were generated before the reorganisation of Intesa Sanpaolo Brasil S.A. - Banco Multiplo, which would have modified the business activities carried out and the corporate structure. The RFB’s claim amounts to 1.7 million euro, against which the company has not made any provision, considering the risk of losing the case as remote, also based on the assessment of the local consultant. The first instance yielded an unfavourable outcome for the Bank, which lodged an appeal on 14 December 2020. The amount sought was reduced by approximately 0.6 million euro compared to 31 December 2019 due to the depreciation of the local currency.

Alexbank has two tax pending audits concerning corporate income tax, referring to tax period 2019, and stamp duty, referring to tax period 2019. At present no claims have been put forward. In addition, there is a pending dispute involving non-payment of stamp duty by the bank’s branches for a total value of approximately 4.5 million euro at the exchange rate 31 December 2020 for tax periods 1984 – 2008 (86.8 million Egyptian pounds).

A dispute is pending involving the Ukrainian subsidiary Pravex Bank relating to the disavowal of tax losses of approximately 4 million euro carried forward in 2018 from previous years. The claim has no effects on the 2018 income statement, since the company did not recognise the deferred tax asset and has a tax situation that in any event does not allow this loss to be used. In 2019, an appeal was also lodged against another assessment by the local tax authorities regarding VAT with a value of approximately 20 thousand euro.

In March 2020, Exelia was subject to a VAT audit by the Romanian tax authority (ANAF) with regard to tax periods 2014 - 2019. This audit has been concluded and ANAF has determined that the services rendered by Exelia may be classified as services of a financial nature for VAT purposes and are thus exempt, resulting in the full non-deductibility of the VAT on purchases of goods and services. The revenue authority thus claimed non-payment of VAT for 369 thousand euro, in addition to penalties of 146 thousand euro, for the tax periods subject to audit. It should be clarified, with regard to the amount of the penalties, that the company, by paying the full amount of the taxes requested, obtained the full cancellation of the penalties, thus benefiting from an order of the government issued for cases of full payment of taxes due for previous years.

The following should be noted with regard to the ongoing assessments/inquiries by the local tax authorities.

In February 2020, PBZ CARD O.O.O. was subject to a tax audit by the Croatian tax authority with regard to profit tax relating to tax period 2018. The company still has yet to receive any formal findings. A tax audit is underway on IMI SEC for the years 2015 and 2016. In 2019 the audit was also extended to 2017. No claims have been made for the time being.

\* \* \* \* \*

In connection with all the tax disputes outstanding as at 31 December 2020, for a total value, as stated above, of 211 million euro, of which 139 million euro relating to Intesa Sanpaolo, the Group has recognised receivables of 45 million euro in its balance sheet assets to account for amounts paid on a provisional basis due to tax assessments, of which 27 million euro related to the Parent Company.

The portion of the allowance for risks which relates to provisional tax assessments amounts to 28 million euro, of which 25 million euro for Intesa Sanpaolo.

The provisional payments in question were made in compliance with specific legal provisions, which provide for the mandatory payment based on an automatic mechanism totally independent of whether the related tax claims are actually founded and, thus, irrespective of the higher or lower level of risk of a negative outcome in the related proceedings. Thus, these payments were made solely because of the enforceable nature of the administrative acts that set forth the related tax claim, which does not lose its effectiveness even in the event of an appeal (no suspensive effect) and has no impact on the assessment of the actual risk of a negative outcome, which is measured using the criterion set forth in IAS 37 for liabilities.



## SECTION 3 – RISKS OF INSURANCE COMPANIES

### 3.1 INSURANCE RISKS

#### QUALITATIVE AND QUANTITATIVE INFORMATION

##### Life business

The typical risks of the life insurance portfolio (managed by Intesa Sanpaolo Vita, Intesa Sanpaolo Life, Fideuram Vita and BancAssurance Popolari) may be divided into three main categories: premium risks, actuarial and demographic risks and reserve risks.

Premium risks are managed initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities). During the definition of a product, profit testing is used, aimed at measuring profitability and identifying any weaknesses beforehand, by means of specific sensitivity analyses.

Actuarial and demographic risks arise when an unfavourable trend is recorded in the actual loss ratio compared with the trend estimated when the rate was calculated, and these risks are reflected in the level of “reserves”. The loss ratio refers not only to actuarial loss, but also to financial loss (guaranteed interest rate risk). The Company guards against these risks by means of systematic statistical analysis of the evolution of liabilities in its own contract portfolio, divided by risk type, and through simulations of expected profitability of the assets hedging technical reserves.

Reserve risk is guarded against through the exact calculation of mathematical reserves, with a series of detailed checks (for example, checking that all the variables required for the calculation such as yields, quotations, technical foundations, parameters for the supplementary reserves, and recalculation of the value of single contracts are correctly saved in the system) as well as overall verifications, by comparing results with the estimates produced on a monthly basis. Specific attention is paid to checking the correct assumption of contracts, by checking the relative portfolio against the reconstruction of movements during the period, divided by purpose, and checking the consistency of the amounts settled compared with the movements of reserves.

The tables below show the structure of the mathematical reserves by expiry date, excluding reserves for amounts to be paid and before intercompany netting, and the structure of the guaranteed minimum yield as at 31 December 2020.

Breakdown of mathematical reserves of life branch: maturity	Mathematical reserve	(millions of euro)	
			%
up to 1 year	1,461		1.70
1 to 5 years	3,373		3.94
6 to 10 years	1,413		1.65
11 to 20 years	2,450		2.86
over 20 years	77,020		89.85
<b>TOTAL</b>	<b>85,717</b>		<b>100.00</b>

Breakdown of risk concentration by type of guarantee	Total Reserves	(millions of euro)	
			%
<b>Insurance and investment products with guaranteed annual yield</b>			
0% - 1%	32,261		34.20
from 1% to 3%	37,648		39.91
from 3% to 5%	6,036		6.40
<b>Insurance products</b>	<b>9,772</b>		<b>10.36</b>
<b>Shadow reserve</b>	<b>8,605</b>		<b>9.13</b>
<b>TOTAL</b>	<b>94,322</b>		<b>100.00</b>

The mathematical reserves are calculated on almost the entire portfolio, on a contract-by-contract basis, and the methodology used to determine the reserves takes account of all the future commitments of the company.

The following table shows a breakdown by maturity of financial liabilities, before intercompany netting, represented by assets covering commitments arising under unit- and index-linked policies and subordinated liabilities.

Breakdown of financial liabilities by maturity	(millions of euro)			
	Within 12 months	Over 12 months	Total as at 31.12.2020	Total as at 31.12.2019
Unit linked	101	77,358	77,459	76,165
Index linked	-	-	-	-
Subordinated liabilities	-	2,130	2,130	1,536
<b>Total</b>	<b>101</b>	<b>79,488</b>	<b>79,589</b>	<b>77,701</b>

### Non-life business

The typical risks of the non-life insurance portfolio (managed through Intesa Sanpaolo Assicura, Intesa Sanpaolo RBM Salute and Intesa Sanpaolo Vita) mainly relate to premium and reserve risks.

Premium risks are managed initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).

Reserve risk is monitored through the exact calculation of technical reserves. More specifically, for companies with non-life business the technical reserves may be broken down into: premium reserves, claims reserves, profit sharing and reversal reserves, other technical reserves and the equalisation reserve.

With regard to risk assumption, policies are checked when acquired through an automatic system aimed at detecting the underwriting parameters associated with the applicable tariff. The check is thus not only formal, but also substantive, and in particular allows the identification of exposures in terms of capital and limits of liability, in order to verify that the portfolio matches the technical and tariff scheme agreed upon with the sales network.

Subsequently, statistical checks are carried out to verify potentially anomalous situations (such as concentration by area or by type of risk) and to keep under control accumulation at the level of individual persons (with particular reference to policies that provide cover in the accident and health branches). This is also carried out in order to provide the Financial Reporting Actuarial Analysis and Reinsurance Unit with suitable indications of the portfolio characteristics in order to prepare the annual reinsurance plan.

The following table presents the development of claims by year of generation, broken down into the major business lines of operation, as at 31 December 2020.

Development of Claims Reserves	(millions of euro)					TOTAL
	YEAR OF GENERATION/EVENT					
	2016	2017	2018	2019	2020	
<b>Reserve amount:</b>						
as at 31/12 generation year N	402	466	565	686	598	
as at 31/12 year N+1	205	247	269	278		
as at 31/12 year N+2	112	113	143			
as at 31/12 year N+3	105	108				
as at 31/12 year N+4	103					
<b>Total claims paid</b>	<b>96</b>	<b>93</b>	<b>116</b>	<b>215</b>	<b>303</b>	<b>823</b>
<b>Claims reserve booked as at 31.12.2020</b>	<b>7</b>	<b>15</b>	<b>27</b>	<b>62</b>	<b>295</b>	<b>406</b>
<b>Final claims reserve for previous years</b>						<b>18</b>
<b>Total claims reserve booked as at 31.12.2020</b>						<b>424</b>



## 3.2 FINANCIAL RISKS

### QUALITATIVE AND QUANTITATIVE INFORMATION

#### Financial Risks

These risks derive from the level or volatility of market prices of financial instruments that impact the book value of both assets and liabilities. The risk factors identified by the company are as follows:

- Interest rate risk: impacts assets and liabilities whose value is sensitive to changes in the forward structure of interest rates or the volatility of interest rates;
- Equity price risk: derives from the level or volatility of market prices of equities and impacts assets and liabilities whose value is sensitive to changes in equity prices;
- Property risk: derives from the level or volatility of market prices of real estate property and impacts assets and liabilities sensitive to said changes;
- Foreign exchange risk: derives from changes in the level or volatility of foreign exchange rates;
- Spread risk: impacts assets and liabilities whose value is sensitive to adverse changes in credit spreads;
- Concentration risk: reflects the risk of holding high percentages of financial assets of the same counterparty.

#### Impacts from the COVID-19 pandemic

During 2020, the analysis of the Insurance Group's risk exposure was sharply impacted by the economic, social and financial scenario deriving from the COVID-19 pandemic emergency. Weekly and monthly monitoring was implemented on the situations of solvency and liquidity of the Insurance Group, which have been sent to the Supervisory Authority starting in March. The monitoring of operational risks was also reinforced, specifically referring to the occurrence of losses due to business continuity and/or depending on cyber risks.

#### Investment portfolios

The investments of the insurance companies of the Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life, Fideuram Vita, Intesa Sanpaolo RBM Salute and BancAssurance Popolari) are made with their free capital and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.

As at 31 December 2020, the investment portfolios of Group companies, recorded at book value, amounted to 179,570 million euro. Of these, a part amounting to 92,344 million euro relates to traditional revaluable life policies (the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on assets subject to segregated management are determined), non-life policies and free capital. The other component, whose risk is borne solely by the policyholders, consists of investments related to Index-linked policies, Unit-linked policies and pension funds and amounted to 87,226 million euro.

Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets held to cover traditional revaluable life policies, non-life policies and free capital.

#### Financial assets under segregated funds and free capital

In terms of breakdown by asset class, net of derivative financial instruments, 84.08% of assets, i.e. approximately 77,256 million euro, were bonds, whereas assets subject to equity risk represented 1.92% of the total and amounted to 1,760 million euro. The remainder (12,863 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (14%).

The carrying value of derivatives came to approximately 413 million euro, almost entirely relating to hedging derivatives, while the portion of effective management derivatives<sup>62</sup> is negative for approximately -37 million euro.

At the end of 2020, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 1,832 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 18 million euro.

<sup>62</sup> ISVAP Regulation 36 of 31 January 2011 on investments defines as "effective management derivatives" all derivatives aimed at achieving pre-established investment objectives in a faster, easier, more economical or more flexible manner than would have been possible acting on the underlying assets.

### Interest rate risk exposure

The breakdown by maturity of bonds showed 12.43% short-term (under 1 year), 34.57% medium-term and 53% long-term (over 5 years).

Financial assets	Book value	%	(millions of euro)	
			Duration	
<b>Fixed-rate bonds</b>	<b>71,930</b>	<b>78.28</b>	<b>6.61</b>	
up to 1 year	9,455	10.28		
1 to 5 years	24,519	26.69		
over 5 years	37,956	41.31		
<b>Floating rate/indexed bonds</b>	<b>5,327</b>	<b>5.80</b>	<b>3.68</b>	
up to 1 year	144	0.16		
1 to 5 years	2,192	2.38		
over 5 years	2,991	3.26		
<b>TOTAL</b>	<b>77,257</b>	<b>84.08</b>	<b>-</b>	
<b>Equities or similar capital securities</b>	<b>1,760</b>	<b>1.92</b>		
<b>UCI, Private Equity, Hedge Fund</b>	<b>12,863</b>	<b>14.00</b>		
<b>TOTAL AS AT 31.12.2020</b>	<b>91,880</b>	<b>100.00</b>		

The sensitivity of the fair value of the portfolio of financial assets to interest rate movements, summarised in the table below, highlights the exposure of the portfolio: for example, a parallel shift in the yield curve of +100 basis points leads to a negative fair value change in the bond portfolios of 4,726 million euro.

	Book value	%	(millions of euro)	
			Fair value changes due to interest rate fluctuations	
			+100 bps	-100 bps
Fixed-rate bonds	71,930	93.10	-4,436	5,029
Floating rate/indexed bonds	5,327	6.90	-290	214
Interest rate risk hedging effect	-	-	-	-
<b>TOTAL</b>	<b>77,257</b>	<b>100.00</b>	<b>-4,726</b>	<b>5,243</b>

### Credit risk exposure

The table below sets forth the distribution of the bond portfolio by rating class: AAA/AA bonds represented 5.5% of total investments and A bonds approximately 5.72%. Low investment grade securities (BBB) were 70.66% of the total, while the portion of speculative grade or unrated was minimal (2.21%).

With regard to exposure to BBB rated securities, the majority of the exposure related to bonds issued by the Republic of Italy.

Breakdown of financial assets by issuer rating	Book value	(millions of euro)	
			%
<b>Bonds</b>	<b>77,257</b>		<b>84.08</b>
AAA	1,374		1.50
AA	3,671		4.00
A	5,254		5.72
BBB	64,932		70.66
Speculative grade	1,979		2.15
Unrated	47		0.05
<b>Equities or similar capital securities</b>	<b>1,760</b>		<b>1.92</b>
<b>UCI, Private Equity, Hedge Fund</b>	<b>12,863</b>		<b>14.00</b>
<b>TOTAL</b>	<b>91,880</b>		<b>100.00</b>

The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by governments, central banks and other public entities made up 80.91% of the total investments, whereas the securities of corporate issuers contributed around 19.09%.

The sensitivity values of the fair value of the bonds with respect to a variation in the creditworthiness of the issuers, namely a market credit spread shock of  $\pm 100$  basis points, as at end of 2020, are shown in the table below.

	Book value	%	(millions of euro)	
			Fair value changes due to credit spread fluctuations	
			+100 bps	-100 bps
Government bonds	62,506	80.91	-4,102	4,686
Corporate bonds	14,751	19.09	-642	618
<b>TOTAL</b>	<b>77,257</b>	<b>100.00</b>	<b>-4,744</b>	<b>5,304</b>

### Equity risk exposure

The sensitivity of the equity portfolio to a hypothetical deterioration in equity prices of 10% amounts to 176 million euro, as shown in the table below.

	Book value	%	(millions of euro)	
			Fair value changes due to stock price fluctuations	
			-10%	
Equities - Financial institutions	208	11.82	-21	
Equities - Non-financial companies and other counterparties	1,552	88.18	-155	
<b>TOTAL</b>	<b>1,760</b>	<b>100.00</b>	<b>-176</b>	

### Foreign exchange risk exposure

Approximately 97% of investments is made up of assets denominated in the EU currency. The residual exposure to foreign exchange risk was hedged by positions in derivative financial instruments, particularly domestic currency swaps, in the same currency.

### Derivative financial instruments

Financial derivative instruments are used to hedge the financial risks of the investment portfolio or for effective management. The table below shows the book values of the financial derivative instruments as at 31 December 2020.

Type of underlying	DEBT SECURITIES/ INTEREST RATES		EQUITIES, EQUITY INDICES, COMMODITIES, EXCHANGE RATES		(millions of euro) TOTAL	
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted
	Hedging derivatives	-	449	-	-	-
Effective management derivatives	-	-48	52	11	52	-37
<b>TOTAL</b>	<b>-</b>	<b>401</b>	<b>52</b>	<b>11</b>	<b>52</b>	<b>412</b>

## SECTION 4 – RISKS OF OTHER COMPANIES

The risks of other companies are essentially concentrated:

- in the companies Romulus Funding Corp. and Duomo Funding Plc., included on the scope of consolidation pursuant to IFRS 10;
- in the Risanamento Group companies, consolidated for accounting purposes starting in 2015, but not subject to management and coordination.

### THE VEHICLES ROMULUS FUNDING CORPORATION AND DUOMO FUNDING PLC

#### Qualitative and quantitative information

These two special-purpose vehicles are the Intesa Sanpaolo Group's asset-backed commercial paper conduits, established to support Intesa Sanpaolo's strategy of offering customers an alternative financing channel via access to the international asset-backed commercial paper market. The assets originated by European customers are purchased by Duomo, whereas Romulus is responsible for U.S. assets and fund-raising on the U.S. market through the issuance of asset-backed commercial paper. Nonetheless, due to the subsequent downgrading of Intesa Sanpaolo at the end of 2014, U.S. investors gradually divested without the vehicle being able to find new third-party investors with which to place the asset-backed commercial papers.

As at 31 December 2020, approximately 4.1 billion euro of the securities issued by Romulus, amounting to 4.3 billion euro, had been subscribed by the Parent Company Intesa Sanpaolo.

The risks associated with these entities, and more specifically, the potential interest rate and exchange rate risks arising from the operations of the two companies, must be covered in accordance with the Intesa Sanpaolo Group policy for the management of these risks.

Companies are not generally permitted to take foreign-exchange positions.

As at 31 December 2020, the assets of Romulus included 4.3 billion euro in loans to the vehicle Duomo.

Against those assets, the vehicle issued asset-backed commercial paper (ABCP) with a carrying amount of 4.1 billion euro, almost all of which has been subscribed by the Parent Company, Intesa Sanpaolo.

With regard to the portfolio of the vehicle Duomo, at the end of 2020 this portfolio mainly consisted of loans to customers of 5.6 billion euro.

The table below shows the information and figures for the above two vehicles as at 31 December 2020.

	Vehicle data		Liquidity lines (2)	Guarantees given		Securities issued	of which: held by the Group		
	Total assets	Cumulated losses		nature	amount	amount	amount	Accounting classification	Valuation
ROMULUS FUNDING CORP.	4,269	(1)	-	-	-	4,268	4,084	Fin.Ass. at Am. cost	Amortised cost
DUOMO FUNDING PLC	5,654	-	5,776	-	-	-	-		

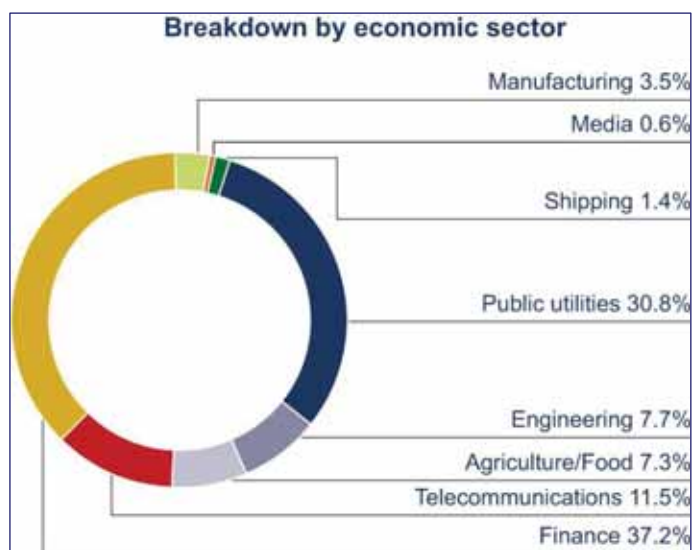
(1) Entirely made up of loans disbursed to Duomo for transactions booked in the financial statements of the vehicle.

(2) These are Fully Supporting Liquidity Facilities issued by the Parent Company Intesa Sanpaolo, of which 5,768 million euro is committed out of an amount granted of 8,451 million euro.

The total assets of the conduits Romulus and Duomo, net of dealings between the two vehicles, made up 1% of the total consolidated assets.

The portfolio risk of the two vehicles is approximately 64.3% accounted for by trade receivables and the remainder by consumer loans (18.3%), loans deriving from lease contracts (5.7%), factoring contracts (4.5%), mortgage loans (1.3%), loans to SMEs (1.3%) and loans/lease contracts to pharmaceutical companies (4.6%). The eligible assets held by the vehicles are mainly expressed in euro (94.7% of the total portfolio). The remainder is broken down into British pounds (1.5%), US dollars (1.5%), Australian dollars (1.8%) and Mexican pesos (0.4%).

The following information is provided concerning the portfolio of eligible assets.



With regard to the rating breakdown of the loan portfolio, 100% does not have a rating.

With reference to the geographical distribution of the assets held by the two vehicles, please note that approximately 94% of the debtors are located in Italy.

## RISANAMENTO GROUP

With regard to the risks of other companies, mention should also be made of the potential effects of the unfavourable real-estate market situation on the Risanamento Group, in consideration of the specific nature of that Group's business.

It is important to note that the real estate market suffered significant effects linked to the spread of the COVID-19 pandemic. With reference to this specific point, it is important to consider that the assets owned by the Risanamento Group are largely areas to be used for medium/long-term development operations. Specifically, for Milano Santa Giulia S.p.A. (which holds the main asset of the Group) the recent publication of the Variant to the Implementation Plan is an important step in the preliminary authorisation process, and brings the start of the actual realisation phase closer, also considering the deadline of the 2026 Winter Olympics, which, as known, should use the new arena.

Though it is currently not possible to forecast the future evolution of the pandemic, the phase of completion of the urban planning process and the constructions of the works makes it possible to believe that Santa Giulia may debut on the market at different, and hopefully better, conditions than current ones.

Moreover, below we set out the considerations made in measuring real estate assets to take account of the uncertainties correlated with the unforeseeable methods and timing of the future evolution of the pandemic:

- the current scenario has generated doubts regarding future scenarios, and no one can yet forecast with sufficient certainty the impacts of the health emergency on global economies and real estate markets. For this reason, the measurement of real estate assets was carried out under conditions of significant uncertainty;
- due to that uncertainty, which renders the transactions actually concluded in the last few months insignificant and low in number, it was decided not to conduct additional market surveys to support the measurement, both because the Milano Santa Giulia operation will build a new urban district (whose prices will be different and significantly higher than those in the surrounding area), and because the current dynamics in the real estate market, highly impacted by the health emergency, do not actually represent the scenario that the (medium/long-term) real estate offerings of Milano Santa Giulia will deal with once the development is completed;
- given the above, in any event, it was decided to incorporate prudential elements into the estimation parameters used for the measurement to consider the previously mentioned uncertainty. Following that measurement, the main asset of the group (Milano Santa Giulia) saw a decrease in fair value of around 15 million euro, equal to approximately 2% compared to the market values observed in the previous year, though remaining still higher than the book value.

The general situation illustrated above inevitably reflects on the real estate sector, whose expectations are conditioned by economic growth, difficult credit access conditions and the high unemployment rate. The situation of the real estate sector thus continues to appear uncertain and complex, just as the macroeconomic context of reference. Indeed, the expected performance of the real-estate market in the coming months is linked to the development of the complex economic scenario. The real-estate market is subject to the cyclical performance of rent values and property prices. The length of such cycles varies, but normally spans multiple years. The macro-economic factors with the greatest influence on property values and cyclical performance are as follows:

- interest rate performance;
- market liquidity and access to remunerative alternative investments;
- economic growth.

The Risanamento Group's management policy is aimed at minimising the effects of the various phases of the cycle through long-term contracts with tenants of high standing, low vacancy rates to avoid the risk of having to locate new tenants in periods of limited demand for lease space, and investments in development projects with high quality standards. The main risks specifically relating to real estate managed by the Risanamento Group are represented below.

#### **Inability to sell / valuation of assets not in line with the Risanamento Group's strategic projections**

This risk relates to all potential events that may influence the achievement of the sales and lease targets for the Risanamento Group's assets. At present, the ability to identify potential commercial tenants that meet the Company's expected needs and requirements is often subject to factors and circumstances beyond the Company's control. The consequences for operations could translate into a decrease in purchasing transactions and an increase in vacant properties.

The Risanamento Group manages this risk through constant monitoring of commercial activities and observance of strategic objectives that allow it to assess and implement sales actions with a full awareness of the established strategic objectives.

#### **Risks associated with project execution**

The execution of real-estate initiatives presents risks associated with planning activity, environmental problems, building activity, and the length and potential exposure of the initiative to the cyclical nature of the real-estate market.

This latter aspect is inherent in larger, long-term projects that are inevitably affected by the cyclical nature of the real-estate sector due to the need to combine administrative formalities with innovative design quality, harnessed to stimulate demand from the market.

The potential risk in question also translates into the possibility that i) errors in or critical aspects of a design may compromise the objectives of the timeliness and proper execution of the works, and ii) the works may not be completed according to the agreed terms and conditions for reasons attributable to the contractor.

In reference to point i), the Group has implemented a structured contractor selection process aimed at identifying professionals with a track record of strong technical expertise. In addition, the Group enters into contracts that include warranty and indemnification clauses. The Group monitors the design process through constant discussions with counterparties about all related activities and verification of periodic quality status and project compliance.

In reference to point ii), the Group adopts structured supplier selection processes to select contractors that meet requirements of integrity, suitability, technical and professional qualification and operational and organisational adequacy in addition to being financially solid. Contractors are constantly monitored in order to ensure constant access to information useful in assessing the situation and taking the appropriate corrective measures in a timely manner. In addition, the contracts contain warranty clauses benefiting the principal.

Subject to the risks indicated above, the observation, already made in the previous years' Annual Reports, still applies, regarding the signing of an important agreement with a leading international operator for the implementation in partnership of the Milano Santa Giulia real estate project, which represents the Group's main asset.

Although it is currently conditional upon the approval of the modification of the Master Plan for the Milano Santa Giulia Project, this agreement is of considerable importance for the Risanamento Group because it (i) confirms the soundness and feasibility of the project and (ii) can generate benefits and synergies both during the development and marketing phases.

The total carrying amount of the Risanamento Group's real-estate portfolio in Intesa Sanpaolo's consolidated financial statements is 692 million euro.

In further detail, the portfolio may be broken down as follows:

- owner-occupied properties: 39 million euro (registered office and place of business);
- real-estate development areas and projects: 613 million euro (Milano Santa Giulia);
- trading properties: 40 million euro.

As mentioned above, Intesa Sanpaolo does not perform management and coordination activity over Risanamento S.p.A. and its subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.



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# Part F – Information on consolidated capital

## SECTION 1 – CONSOLIDATED CAPITAL

### A. Qualitative information

The control of capital adequacy both at consolidated level and at single entities level is ensured by capital management which defines the size and optimum combination of the different capital instruments in accordance with regulatory constraints and consistently with the risk exposure taken on by the Group.

The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources, considering this to be an instrument for strategic leverage, as well as a way to ensure consistency of the operating plans of the business units.

Once the Group's strategic profitability, capital soundness and liquidity objectives have been defined, capital and financial resources are allocated to the business units through a process that evaluates their growth potential, capacity to generate value and financial autonomy.

The capital at risk considered is twofold:

- regulatory capital covering Pillar 1 risks;
- overall internal capital covering Pillar 2 risks, for ICAAP purposes.

Regulatory capital and overall internal capital differ from each other by definition and by their coverage of risk categories. The first arises from formats defined in supervisory provisions, the second from operational measurements.

Hence, the capital management activity comprises the management of current and prospective capital adequacy through careful control of both regulatory Pillar 1 constraints (in compliance with Basel 3 rules, effective from 1 January 2014) and operational Pillar 2 constraints. Projections are also produced under stress conditions in order to ensure that the available resources are adequate to cover all risks, even in adverse conditions. Furthermore, since 2013, the Group has been drawing up a Recovery Plan, in line with regulatory indications (directives "Bank Recovery and Resolution Directive – BRRD" - 2014/59/EU transposed in Italy through Legislative Decrees 180 and 181 on 16 November 2015 and "Bank Recovery and Resolution Directive – BRRD II" - Directive (EU) 2019/879, not yet transposed into Italian law at the date of preparation of these financial statements), with international practice and in compliance with both the Group Risk Appetite Framework and the crisis management model adopted by the Bank.

As part of the process of defining budget targets, a projection compatibility analysis is conducted annually at Group level and at the level of individual entities in the Group. Depending on the expected performance of balance sheet and income statement aggregates, the appropriate capital management measures to ensure the required financial resources for the individual business units are already identified in this phase, if necessary.

Compliance with the target levels of capitalisation is monitored on a quarterly basis, taking appropriate action when necessary.

Compliance with capital adequacy is sought via various levers, such as the dividend distribution policy, the definition of strategic finance operations (capital increases, issue of convertible loans and subordinated bonds, disposal of non-core assets, etc.) and the management of investments, particularly loans, on the basis of counterparty risk.

Further analyses for preliminary assessment of capital adequacy are performed during extraordinary operations (mergers, acquisitions, disposals, etc.) whether internal to the Group or changing the scope of consolidation of the Group.

Following the Supervisory Review and Evaluation Process (SREP), the ECB annually makes a final decision on the capital requirement that Intesa Sanpaolo must comply with at consolidated level.

On 26 November 2019, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 January 2020.

When the regulatory amendment introduced by the ECB with effect from 12 March 2020 – which establishes that the Pillar 2 requirement may be met by partially using capital instruments other than Common Equity Tier 1 – is applied, the overall capital requirement the Bank is required to meet in terms of Common Equity Tier 1 ratio is 8.40% under the transitional arrangements for 2020 and 8.59% on a fully loaded basis.

This is the result of:

- an SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, and an additional Pillar 2 capital requirement of 1.5%, of which 4.5% and 0.84%, respectively, in the Common Equity Tier 1 ratio and 6% and 1.13%, respectively, in the Tier 1 ratio;
- the additional Capital Conservation Buffer requirement of 2.5% on a fully-loaded basis already from 2019 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.56% under the transitional arrangements in force for 2020 and 0.75% on a fully-loaded basis in 2021.

Considering the additional requirement consisting of the Institution-Specific Countercyclical Capital Buffer<sup>63</sup>, the Common Equity Tier 1 ratio to be met is 8.44% under the transitional arrangements in force for 2020 and 8.63% on a fully loaded basis.

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<sup>63</sup> Countercyclical Capital Buffer calculated taking into account the exposures as at 31 December 2020 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities and relating to the 2020-2021 period, where available, or the most recent update of the reference period (requirement was set at zero per cent in Italy for 2020 and Q1 2021).

With effect from 30 September 2019, following permission from the ECB, the Intesa Sanpaolo Group calculates capital ratios applying the so-called Danish Compromise, under which insurance investments – excluding those attributable to the UBI Group, for which an extension of the “Danish Compromise” has not yet been requested – held indirectly through Intesa Sanpaolo Vita, are risk weighted instead of being deducted from capital.

There were no changes relating to the authorisations for the internal credit risk models with respect to 31 December 2019.

There were no changes in the scope of application of the internal models concerning counterparty risk for OTC and ETD derivatives and SFTs compared to 31 December 2019.

There were no changes in the scope of application of the internal models for operational risk compared to 31 December 2019.

On 25 November 2020, Intesa Sanpaolo received the ECB’s final decision concerning the capital requirement that the Bank has to meet, as of 1 January 2021. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.59% for 2021 on a fully loaded basis.

This is the result of:

- a) an SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, and an additional Pillar 2 capital requirement of 1.5%, of which 4.5% and 0.84%, respectively, in the Common Equity Tier 1 ratio and 6% and 1.13%, respectively, in the Tier 1 ratio;
- b) the additional Capital Conservation Buffer requirement of 2.5% on a fully-loaded basis already from 2019 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.75% on a fully-loaded basis in 2021.

Considering the additional requirement consisting of the Institution-Specific Countercyclical Capital Buffer<sup>1</sup>, the Common Equity Tier 1 ratio to be met is 8.63% on a fully loaded basis.

The transitional period (2018-2022), aimed at mitigating the capital impacts linked to the introduction of the new financial reporting standard IFRS 9, started from 1 January 2018. Intesa Sanpaolo has exercised the option provided in EU Regulation 2395/2017 to adopt the “static” approach that allows the neutralisation of a progressively decreasing amount of the impact of IFRS 9 in its CET 1 relating solely to the FTA component of the impairment. In particular, the result from the comparison between the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018 – relating to performing loans and securities (stage 1 and 2) and adjustments to NPLs (stage 3), net of tax and having eliminated any existing shortfall – is re-included in the capital according to phase-in percentages of 70% in 2020, 50% in 2021 and 25% in 2022.

Within the framework of the COVID-19 pandemic scenario, Regulation (EU) 2020/873 of 24 June 2020, amending Regulations (EU) 575/2013 (CRR) and Regulation (EU) 2019/876 (CRR 2) containing temporary support provisions in terms of capital and liquidity, was published with an accelerated approval procedure (the “quick fix”).

Among the provisions set out in Regulation (EU) 2020/873 relating to the calculation of own funds, the Intesa Sanpaolo Group opted not to use, at 31 December 2020, either the changes to the transitional regime for the application of IFRS 9 (art. 473 bis of the CRR) or the temporary reintroduction of the prudential filter aimed at excluding unrealised gains and losses measured at fair value through other comprehensive income (FVTOCI) on exposures to central governments and public sector entities (art. 468 CRR).

For the purposes of calculating capital ratios at 31 December 2020, the Intesa Sanpaolo Group applied Commission Delegated Regulation (EU) 2020/2176, which entered into force on 23 December 2020 and which amends Commission Delegated Regulation (EU) 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items. The Regulation, which is, inter alia, intended to support the transition to a more digitalised banking sector, introduces the criterion of prudential amortisation applied to all software assets over a three-year period, regardless of their estimated useful lives for accounting purposes. Specifically, the difference, where positive, between prudential cumulative amortisation and accounting cumulative amortisation (including impairment losses) is fully deducted from CET1.

**B. Quantitative information***B.1. Consolidated book shareholders' equity: breakdown by type of company*

Balance sheet captions	Prudential consolidation	Insurance companies	Other companies	Netting and adjustments on consolidation	(millions of euro)	
					TOTAL	of which minority interests
<b>1. Share capital</b>	<b>10,140</b>	-	<b>101</b>	-	<b>10,241</b>	157
<b>2. Share premium reserves</b>	<b>27,463</b>	-	-	-	<b>27,463</b>	19
<b>3. Reserves</b>	<b>17,760</b>	<b>358</b>	<b>-450</b>	<b>114</b>	<b>17,782</b>	321
<b>4. Equity instruments</b>	<b>7,441</b>	-	-	-	<b>7,441</b>	-
<b>5. (Treasury shares)</b>	<b>-130</b>	<b>-3</b>	-	<b>3</b>	<b>-130</b>	-
<b>6. Valuation reserves:</b>	<b>236</b>	<b>808</b>	<b>58</b>	<b>-863</b>	<b>239</b>	<b>-55</b>
- Equities designated at fair value through other comprehensive income	-107	-	-	-	-107	6
- Hedges of equities designated at fair value through other comprehensive income	-	-	-	-	-	-
- Financial assets (other than equities) measured at fair value through other comprehensive income	202	-	-	-	202	3
- Property and equipment	1,589	-	9	-	1,598	28
- Intangible assets	-	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-	-
- Cash flow hedges	-781	-	-	-	-781	-
- Hedging instruments (non-designated items)	-	-	-	-	-	-
- Foreign exchange differences	-1,319	-	49	-	-1,270	-86
- Non-current assets held for sale and discontinued operations	-	-	-	-	-	-
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-102	-	-	-	-102	-
- Actuarial gains (losses) on defined benefit plans	-427	-1	-	-	-428	-6
- Share of valuation reserves connected with investments carried at equity	873	-	-	-863	10	-
- Legally-required revaluations	308	-	-	-	308	-
- Share of valuation reserves pertaining to insurance companies	-	809	-	-	809	-
<b>7. Parent company's net income (loss) and minority interest (+/-)</b>	<b>3,325</b>	<b>743</b>	<b>-83</b>	<b>-700</b>	<b>3,285</b>	<b>8</b>
<b>Shareholders' equity</b>	<b>66,235</b>	<b>1,906</b>	<b>-374</b>	<b>-1,446</b>	<b>66,321</b>	<b>450</b>

The table above indicates the components of net book value, adding those of the Group to those of third parties, broken down by the type of consolidated company. In further detail, the column for the Banking group indicates the amount resulting from the consolidation of the companies belonging to such group, gross of the effects on the income statement of transactions with other companies within the scope of consolidation. Subsidiaries other than those belonging to the Banking group and consolidated on a line-by-line basis are stated at equity. The columns Insurance companies and Other companies contain the amounts resulting from consolidation, gross of the effects on the income statement of transactions with companies belonging to the Banking group. The columns Netting and Adjustments on consolidation show the adjustments required to obtain the figure represented in the financial statements.

*B.2. Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown*

	(millions of euro)									
	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		TOTAL	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,182	-287	690	-3	-	-	-690	3	1,182	-287
- of which measured pursuant to IAS 39	690	-3	690	-3	-	-	-690	3	690	-3
2. Equities	245	-321	37	-4	-	-	-37	4	245	-321
- of which measured pursuant to IAS 39	37	-4	37	-4	-	-	-37	4	37	-4
2bis. Quotas of UCI (pursuant to IAS 39)	51	-14	51	-14	-	-	-51	14	51	-14
4. Loans	3	-4	-	-	-	-	-	-	3	-4
<b>Total as at 31.12.2020</b>	<b>1,481</b>	<b>-626</b>	<b>778</b>	<b>-21</b>	<b>-</b>	<b>-</b>	<b>-778</b>	<b>21</b>	<b>1,481</b>	<b>-626</b>
<b>Total as at 31.12.2019</b>	<b>1,204</b>	<b>-479</b>	<b>500</b>	<b>-16</b>	<b>-</b>	<b>-</b>	<b>-500</b>	<b>16</b>	<b>1,204</b>	<b>-479</b>

The reserve on equities classified as level 1 is negative for about 244 million euro.

*B.3. Valuation reserves of financial assets measured at fair value through other comprehensive income: annual changes*

	(millions of euro)					
	Debt securities	Debt securities: of which measured pursuant to IAS39	Equities	Equities: of which measured pursuant to IAS39	Quotas of UCI (pursuant to IAS39)	Loans
<b>1. Opening balance</b>	485	421	207	31	32	-
<b>2. Increases</b>	2,622	1,915	516	420	490	6
2.1. Fair value increases	2,436	1,857	510	417	487	-
2.2. Adjustments for credit risk	74	-	X	-	-	3
2.3. Reversal to the income statement of negative reserves from disposal	54	-	-	-	-	-
2.3bis Reversal to the income statement of negative reserves from impairment (pursuant to IAS39)	-	-	-	-	1	-
2.4. Transfer to other shareholders' equity items (equities)	-	-	1	-	-	-
2.5. Other increases	58	58	5	3	2	3
<b>3. Decreases</b>	-2,212	-1,649	-799	-418	-485	-7
3.1. Fair value decreases	-1,787	-1,568	-682	-393	-470	-7
3.2. Recoveries for credit risk	-49	-	-	-	-	-
3.2bis Impairment losses (pursuant to IAS39)	-	-	-8	-8	-4	-
3.3. Reversal to the income statement of positive reserves from disposal	-306	-22	-13	-13	-8	-
3.4. Transfer to other shareholders' equity items (equities)	-	-	-34	-	-	-
3.5. Other decreases	-70	-59	-62	-4	-3	-
<b>4. Final balance</b>	895	687	-76	33	37	-1

**Trading on treasury shares**

During the year, Intesa Sanpaolo and the Group companies – on the basis of specific Shareholders' Meeting authorisations – carried out the following transactions on treasury shares:

Ordinary shares:

Initial number	no.	43,882,399
Purchases	no.	32,416,226
Sales	no.	-10,364,881
End-of-year number	no.	65,933,744

*B.4. Valuation reserves relating to the defined benefit plans: annual changes*

During the year, the reserves at issue recorded a decrease of 13 million euro. Therefore, as at 31 December 2020, there was an overall negative reserve equal to approximately 428 million euro for defined benefit plans.

**SECTION 2 – OWN FUNDS AND CAPITAL RATIOS FOR BANKS**

Reference is made to the “Basel 3 Pillar 3” public disclosure as at 31 December 2020 for the disclosure on own funds and capital adequacy.

# Part G – Business combinations

## SECTION 1 – TRANSACTIONS CARRIED OUT IN THE YEAR

### 1.1 Business combinations

Companies	Date of the transaction (a)	Cost of the transaction	Equity stake % (b)	Net interest and other banking income (c)	(millions of euro)	
					Net income / loss for the year (d)	Net income / loss recorded as of acquisition date (e)

1. Gruppo UBI	05/08/2020	4,109	100	3,480	-3,503	-147
2. RBM Assicurazione Salute	11/05/2020	657	100	n.a.	62 (f)	4
3. Euroconsult Rental Division	30/10/2020	25	100	n.a.	2	-

(a) Date of acquisition of control.

(b) Percentage of voting rights at the Ordinary Shareholders' Meeting plus possible options on minorities' stakes.

(c) Net interest and other banking income (Caption 120 of the income statement) referred to full year 2020.

(d) Net income/loss recorded by the subsidiary/business for full year 2020.

(e) Net income/loss recorded by the subsidiary/business after acquisition date and included in the consolidated result of the Intesa Sanpaolo Group.

(f) Net income reported in the company's financial statements prepared in accordance with the National Accounting Standards issued by the Italian Accounting Standard-Setter.

In addition to business combinations accounted for by IFRS 3, summarised in the previous table, several extraordinary intragroup transactions were carried out during the year, which had no effects on the consolidated financial statements. Such transactions, which are scoped out of IFRS 3, involved the transfer of business lines or legal entities between Intesa Sanpaolo Group companies or business combinations (under common control).

Since the transfers were carried out for reorganisation purposes only, in accordance with the Group's accounting policy, these transactions were simply recorded applying book value accounting in the individual statements of the companies involved, without recognition of any economic effect.

The main intragroup transactions completed during the year concerned:

- merger by incorporation of PBZ Nekretnine D.o.o. into PBZ Card D.o.o.;
- merger by incorporation of Neva Finventures into Intesa Sanpaolo Innovation Center;
- merger by incorporation of Banca IMI into Intesa Sanpaolo;
- merger by incorporation di Etoile Actualis S.a.r.l. into Etoile Francois Premier S.a.r.l. (both members of the Risanamento Group).

#### Annual changes in goodwill

	(millions of euro)
	<b>31.12.2020</b>
<b>Initial goodwill</b>	<b>4,055</b>
<b>Increases</b>	<b>297</b>
- Goodwill recorded in the year	297
- Positive foreign exchange differences and other changes	-
<b>Decreases</b>	<b>-1,198</b>
- Impairment recorded in the year	-981
- Disinvestments	-171
- Negative foreign exchange differences and other changes (reclassified to discontinued operations)	-46
<b>Final Goodwill</b>	<b>3,154</b>

## Goodwill

CGUs/Goodwill	(millions of euro)	
	31.12.2020 (*)	31.12.2019
Banca dei Territori	-	983
IMI Corporate & Investment Banking	56	56
Insurance	773	494
Asset Management	1,059	1,060
Private Banking	1,266	1,291
International Subsidiary Banks	-	-
Bank of Alexandria (Egypt)	-	-
Pravex Bank (Ukraine)	-	-
Autostrade Lombarde	-	171
<b>Total</b>	<b>3,154</b>	<b>4,055</b>

(\*) The table does not include the goodwill reclassified to discontinued operations as at 31 December 2020, attributable to the Custodian Bank and Fund Administration business line of FLB (Private Banking CGU) to be sold during 2021 and the 31 branches to be sold to BPER in compliance with the instructions from the competent authorities following the acquisition of UBI Banca.

## 1.2 Other information

### The acquisition of the UBI Group

On 17 February 2020 Intesa Sanpaolo, pursuant to Article 102, paragraph 1, of the Consolidated Law on Finance and Article 37 of the Issuers' Regulation, announced the launch of a Voluntary Public Exchange Offer (hereinafter "Offer"), pursuant to Articles 102 and 106, paragraph 4, of the Consolidated Law on Finance, in respect of all ordinary shares of Unione di Banche Italiane S.p.A. (hereinafter "UBI Banca"), equal to 1,144,285,146 ordinary shares. Detailed information about the Offer is provided in the Offer Document, the Information Document and all the documentation made available in accordance with the law, as well as the individual announcements made regarding the progress of the Offer and its outcome. However, we remind you here that by making the Offer, Intesa Sanpaolo initially undertook to offer, to the shareholders accepting the Offer, for every 10 UBI Banca shares tendered in acceptance and as consideration for them, 17 newly issued Intesa Sanpaolo ordinary shares with the same characteristics as the Intesa Sanpaolo ordinary shares already in issue. This is equivalent to a unit consideration of 1.7000 newly issued ordinary shares of Intesa Sanpaolo per each share of UBI Banca tendered in acceptance of the Offer.

The offer was conditional on the following main authorisations:

- i. prior authorisation, from the European Central Bank ("ECB") and the Bank of Italy, of direct acquisition of a controlling interest in UBI Banca and its associates and subsidiaries;
- ii. prior authorisation from IVASS for the indirect acquisition of a controlling interest in BancAssurance Popolari S.p.A. and a qualifying interest in Aviva Vita S.p.A. and Lombarda Vita S.p.A.;
- iii. ECB and Bank of Italy authorisation for prior assessment that the amendments to the offeror's Articles of Association arising from the capital increase reserved to the Offer were not in conflict with sound and prudent management of the Issuer and for the classification of the new shares issued in the above-mentioned capital increase among the own funds of Intesa Sanpaolo as Common Equity Tier 1 capital;
- iv. authorisation from the Italian Antitrust Authority ("AGCM") and the Albanian and Serbian antitrust authorities;
- v. additional authorisations required in relation to the Offer, including the necessary authorisations from the competent foreign authorities.

The Offer was also conditional on the satisfaction of the condition precedent that Intesa Sanpaolo acquired, upon the conclusion of the offering, an interest of at least 66.67% in the share capital of UBI Banca (termed the "Percentage Threshold Condition"), with the ability to waive this condition in part, provided that the interest that Intesa Sanpaolo came to hold upon the conclusion of the offer was equal to at least 50% of the share capital, plus one ordinary share, of the share capital of UBI Banca.

To prevent possible antitrust concerns, on 17 February 2020 Intesa Sanpaolo and BPER Banca (below also "BPER") entered into a binding agreement, conditional on the success of the Offer ("BPER Agreement"), which provides for the purchase by BPER of a going concern consisting of a pool of branches of the entity resulting from the combination of Intesa Sanpaolo with UBI Banca. The original agreement provided for the sale of around 400/500 branches of the combined entity and the related assets and liabilities for a consideration equal to a multiple of 0.55 times the CET 1 of UBI Banca allocated to the branches identified as being subject of the sale. Subsequently, to take appropriate account of the economic situation generated by the outbreak of the COVID-19 pandemic, and following discussions held between Intesa Sanpaolo and BPER, the pricing mechanism described above was modified by establishing a consideration for the above-mentioned going concern equal to 0.38 times the value of the fully-loaded CET 1 at the reference date allocated to the risk-weighted assets of the branches to be sold. In order to remove the specific antitrust concerns raised by AGCM, on 15 June 2020 Intesa Sanpaolo negotiated and signed an agreement supplementing the BPER Agreement under which the number of branches to be transferred was increased (from 400/500 to 532, of which 501 of UBI Banca and 31 of Intesa Sanpaolo) with the precise identification of the details and consequent redefinition of the estimated values. By decision adopted at the meeting of 14 July 2020 and notified to Intesa Sanpaolo on 16 July 2020, AGCM approved the transaction for the acquisition of control of UBI Banca subject to the execution of structural sales in accordance with the BPER Agreement and the commitments made by Intesa Sanpaolo. The definitive scope of assets transferred to BPER includes a going concern owned by UBI Banca (consisting of 455 bank



branches and 132 operating outlets), a going concern owned by Intesa Sanpaolo (consisting of 31 bank branches and two operating outlets) and a going concern owned by UBISS (a consortium company controlled by UBI Banca), essentially focused on services for the acquired branches.

The transfer to BPER Banca of the former UBI Banca and UBISS going concerns took effect on 22 February 2021, while the transfer of the going concern owned by Intesa Sanpaolo will take effect from 21 June 2021.

On 17 February 2020, the Board of Directors of Intesa Sanpaolo also resolved to submit to the Extraordinary Shareholders' Meeting the proposal to grant the Board of Directors of Intesa Sanpaolo with the power, pursuant to article 2443 of the Italian Civil Code, to resolve upon and carry out the share capital increase to be reserved to the Offer, to be carried out on one or more occasions, and also in one or more tranches, to be executed through (and in compensation of) the contribution in kind of the UBI Banca shares tendered in acceptance of the offer, and thus without pre-emption rights pursuant to article 2441, paragraph 4, of the Italian Civil Code, by issuing a maximum no. of 1,945,284,755 ordinary Intesa Sanpaolo shares, with ordinary rights and the same characteristics as those already outstanding at the date of issuance. On 27 April 2020, the Shareholders' Meeting approved the Board of Directors' proposal relating to the powers to carry out the capital increase for a maximum amount of 1,011,548,072.60 euro, in addition to any share premium. The Shareholders' Meeting also decided to consequently amend Article 5 of the Articles of Association and grant the Chairman of the Board of Directors and the Chief Executive Officer of the Company, on a several basis and through possible appointment of special attorneys, powers to do whatever required, necessary or useful to execute the resolutions above.

Following the authorisation issued by the ECB on 2 June 2020 in respect of both the amendments to Intesa Sanpaolo's Articles of Association related to the aforementioned capital increase and the classification among Intesa Sanpaolo's own funds, as Common Equity Tier 1 capital, of the shares to be issued in this context, on 16 June 2020 the Board of Directors approved, in execution of the powers granted at the Extraordinary Shareholders' Meeting, a share capital increase for a consideration in service of the Offer. Additional authorisations were received in June from the ECB, Bank of Italy, IVASS and the foreign authorities along with, finally, approval by CONSOB of the documents preliminary to the launch of the acceptance procedure, which began on 6 July 2020 and concluded on 30 July 2020.

During the acceptance period, on 16 July 2020, AGCM also authorised the transaction for the acquisition of control of UBI Banca subject to the execution of structural sales in accordance with the BPER Agreement and the commitments made by Intesa Sanpaolo, as laid down in the offer document, imposing some specific implementation measures relating to the aforementioned branch sales. In particular, the measure states that authorisation is conditional on, inter alia, the sale to third parties other than BPER of 17 UBI Banca branches located in Molise, Basilicata, Abruzzo and Calabria. In accordance with the prescriptions imposed by AGCM on 19 October 2020, a competitive procedure was launched for the sale of the branches, upon the conclusion of which Banca Popolare di Puglia e Basilicata (BPPB) tendered a binding offer on 22 December 2020.

On 17 July 2020 the Board of Directors of Intesa Sanpaolo resolved to increase the unit consideration of the Offer and pay, for each UBI Banca share tendered in acceptance, in addition to the consideration in shares, equal to 1.7000 newly issued Intesa Sanpaolo ordinary shares, a cash consideration of 0.57 euro, thereby modifying the original Public Exchange Offer into a Public Purchase and Exchange Offer (hereinafter the "Offer").

Based on the final results – announced to the market on 3 August 2020 – a total of 1,031,958,027 UBI Banca shares were tendered in acceptance of the Offer during the acceptance period (including those tendered in acceptance through the Private Placement), equal to approximately 90.184% of the share capital of UBI Banca. On the basis of the final results of the Offer, Intesa Sanpaolo decided that the Percentage Threshold Condition (i.e., the holding by the offeror of a total equity interest of at least 66.67% of the share capital of UBI Banca) had been fulfilled, as had all other conditions precedent of the Offer.

On 5 August 2020, in exchange for the transfer of the ownership of the UBI Banca shares, Intesa Sanpaolo issued and assigned the acceptors of the Offer a total of 1,754,328,645 new Intesa Sanpaolo shares, representing 9.107% of the share capital of Intesa Sanpaolo, based on the ratio of 1.7000 Intesa Sanpaolo shares to 1 UBI Banca share. In addition, on 19 August 2020, Intesa Sanpaolo paid the entitled parties the cash consideration (i.e. 0.57 euro for each UBI Banca share tendered in acceptance) which amounted to a total of 588,216,075.39 euro.

The interest held directly or indirectly by Intesa Sanpaolo in the share capital of UBI Banca at the end of the acceptance period was more than 90%, but less than 95%, which meant that the conditions were met for the compulsory squeeze-out pursuant to Article 108, paragraph 2, of the Consolidated Law on Finance, with Intesa Sanpaolo having already declared in the Offer Document that it would not implement measures to restore the minimum free float conditions for normal trading of the UBI Banca ordinary shares. Therefore, pursuant to Article 108, paragraph 2, of the Consolidated Law on Finance, Intesa Sanpaolo was required to purchase the remaining ordinary shares from the shareholders of UBI Banca who requested it, for a total amount of 112,327,119 UBI shares and representing 9.8163% of the share capital. The consideration per remaining share, identified in accordance with the provisions of Article 108, paragraphs 3 and 5, of the Consolidated Law on Finance, was determined as follows:

- i. a consideration equal to that offered to the acceptors of the Public Purchase and Exchange Offer, namely 1.7000 newly issued Intesa Sanpaolo ordinary shares and 0.57 euro for each UBI Banca share tendered in acceptance; or, alternatively,
- ii. only to the shareholders so requesting, a cash consideration in full whose amount for each UBI Banca share, calculated in accordance with Article 50-ter, paragraph 1, letter a) of the Issuers' Regulations, was equal to the sum of (x) the weighted average of the official prices of the Intesa Sanpaolo shares recorded on the Italian Stock Exchange during the five trading days prior to the payment date (i.e. on 29, 30 and 31 July, and 3 and 4 August 2020) multiplied by the exchange ratio (2.969 euro) and (y) 0.57 euro, for a total consideration of 3.539 euro per remaining share.

The compulsory squeeze-out procedure, pursuant to Article 108, paragraph 2, of the Consolidated Law on Finance, which was carried out between 24 August and 11 September 2020, resulted in sale requests for a total of 90,691,202 remaining shares, representing 7.9256% of the share capital of UBI Banca and 80.7385% of the remaining shares. With reference to the 90,691,202 remaining shares:

- i. for 87,853,597 remaining shares, the owners have requested the consideration established for the Public Offer; and
- ii. for the other 2,837,605 remaining shares, the owners have requested the cash consideration in full, i.e. 3.539 per remaining share.

Taking into account (a) the 1,031,958,027 shares tendered in acceptance of the Offer, (b) the 90,691,202 remaining shares purchased through the procedure pursuant to Article 108, paragraph 2, of the Consolidated Law on Finance, (c) the 131,645 ordinary shares of the Issuer held directly or indirectly by Intesa Sanpaolo and (d) the 8,903,302 own shares held by UBI Banca, Intesa Sanpaolo, following the procedure pursuant to Article 108, paragraph 2, of the Consolidated Law on Finance, came to hold a total of 1,131,684,176 UBI Banca shares, equal to 98.8988% of the share capital of UBI Banca. Intesa Sanpaolo made the payment of the consideration for the compulsory squeeze-out pursuant to Article 108 paragraph 2 of the Consolidated Law on Finance on 17 September 2020 through:

- i. the issuance of 149,351,114 new Intesa Sanpaolo shares, representing 0.77% of the bank's share capital, and the payment of a consideration of 50,076,550.29 euro to the accepting shareholders who chose the consideration established for the Offer;
- ii. the payment of 10,042,284.10 euro for the accepting shareholders that requested the cash consideration in full.

Subsequent to the procedure pursuant to Article 108, paragraph 2 of the Consolidated Law on Finance, Intesa Sanpaolo, having come to hold more than 95% of the share capital of UBI Banca, exercised its right of squeeze-out pursuant to Article 111 of the Consolidated Law on Finance and, at the same time, carried out the compulsory squeeze-out pursuant to Article 108, paragraph 1 of the Consolidated Law on Finance for the shareholders of UBI Banca that requested it, through a specific joint procedure that, as agreed with CONSOB and Borsa Italiana (the "Joint Procedure"), was carried out in the period 18 – 29 September 2020. The Joint Procedure targeted a maximum of 21,635,917 UBI residual shares. The consideration established in the Joint Procedure was the same as that paid for the shares purchased in the procedure pursuant to Article 108, paragraph 2 of the Consolidated Law on Finance. During the Joint Procedure, sale requests were submitted for a total of 3,013,070 remaining shares, i.e. 13.9262% of the shares subject to the procedure. More specifically:

- i. for 408,474 shares, the owners requested the consideration established for the Public Offer; and
- ii. for the other 2,604,596 shares, the owners requested the cash consideration in full, i.e. 3.539 per remaining share.

No sale requests were submitted by the holders of the 18,622,847 remaining shares. Those residual shares also include 8,877,911 own shares (representing 0.7758% of the Issuer's share capital) held by UBI Banca and 120,985 UBI Banca ordinary shares held on own account by Intesa Sanpaolo before 17 February 2020, the announcement date of the Offer. The UBI Banca own shares and UBI Banca ordinary shares held on own account by Intesa Sanpaolo were not transferred to Intesa Sanpaolo under the Joint Procedure. Intesa Sanpaolo made the payment of the consideration for the Joint Procedure on 5 October 2020 through:

- i. the issuance of 17,055,121 new Intesa Sanpaolo shares, representing 0.09% of the Bank's share capital and the payment of a consideration of 5,718,482.25 euro to the accepting shareholders who chose the consideration established for the Offer and to the shareholders that did not submit any sale requests;
- ii. the payment of 9,217,655.24 euro for the accepting shareholders that requested the cash consideration in full.

Following the conclusion of the Joint Procedure, Intesa Sanpaolo came to hold 100% of the share capital of UBI Banca.

Moreover, Borsa Italiana ordered the delisting of UBI Banca shares from trading on the Mercato Telematico Azionario with effect from 5 October 2020.

### IFRS 3 provisions

The Public Purchase and Exchange Offer, which allowed Intesa Sanpaolo to obtain control of UBI Banca, is a business combination that must be accounted for in accordance with International Financial Reporting Standard (IFRS) 3, which requires the application of the acquisition method. On the basis of this method, on the acquisition date, the acquirer must:

- identify the acquirer and the acquisition date;
- determine the purchase price;
- allocate the purchase price (the "Purchase Price Allocation" or "PPA") by recognising the identifiable assets, liabilities and contingent liabilities of the acquiree at their acquisition date fair value, excluding non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5. The latter assets are instead measured at fair value less costs to sell.

Any excess of the unallocated cost of the combination must be recognised as goodwill; alternatively the negative difference, resulting from the recognition of the combination at favourable prices, is recognised in the income statement as negative goodwill.

### Identifying the acquirer and determining the acquisition date

Without prejudice to the identification of Intesa Sanpaolo as the acquirer, one of the fundamental aspects of accounting for a business combination is the need to determine the acquisition date, that is, the date on which the acquirer obtains control of the acquiree. This is also important because it is only from the acquisition date, when control is obtained, that profit or loss from the business or from the acquired investees are included line by line in the acquirer's financial position and results. It is also the date from which the assets acquired and the liabilities assumed are measured at fair value, to which reference will be made below.

The acquisition date of the transaction in question was determined to be 5 August 2020, i.e. the date of settlement of the Offer in which, against the issuance by Intesa Sanpaolo, in the ratio of 1.7000 Intesa Sanpaolo shares per each UBI Banca share tendered in acceptance, of a total of 1,754,328,645 new shares, equal to 9.107% of Intesa Sanpaolo's share capital, ownership of UBI Banca shares equivalent to 90.18% of the bank's share capital was transferred to Intesa Sanpaolo. It was thus with effect from this date that Intesa Sanpaolo acquired control of UBI Banca pursuant to IFRS 10, with the consequent obligation to include it within its consolidation scope. Since it was not possible for UBI Banca to prepare a consolidated balance sheet as at 4 August 2020, the day prior to the acquisition date pursuant to IFRS 3, it was decided to refer, for the

purposes of the PPA and the initial consolidation of the UBI Group into the Intesa Sanpaolo Group, to the consolidated balance sheet prepared by the UBI Group at 31 July 2020, considering the brief period of time – which, incidentally, included a Saturday and a Sunday – between that date and 4 August. Therefore, the income statement of the UBI Banca Group has been consolidated from 1 August 2020.

#### *Determining the purchase price (or the consideration transferred)*

Pursuant to paragraph 37 of IFRS 3, the consideration transferred in a business combination is to be determined on the basis of the acquisition-date fair values of the assets transferred by the acquirer and the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.

In the case of the UBI Group acquisition, the purchase price consists of the sum of the fair value of the shares issued by Intesa Sanpaolo under the capital increase and assigned to the shareholders of UBI Banca and the cash consideration transferred to them in accordance with the provisions of the Offer. The fair value of the Intesa Sanpaolo shares issued was determined on the basis of the reference price of the Intesa Sanpaolo shares on 4 August 2020, 1.7936 euro per share, i.e. the last available price before the effective date of the Offer, and thus the issuance of the Intesa Sanpaolo shares for the benefit of UBI Banca's shareholders. The price was also used to value the shares issued at a later date and allocated to shareholders of UBI Banca who accepted per the procedure governed by Article 108, paragraph 2, of the Consolidated Law on Finance and the Joint Procedure, since the undertaking to purchase additional UBI Banca shares arose when the offer became effective. Pursuant to Article 108, paragraph 2, of the Consolidated Law on Finance, since the interest held directly or indirectly by Intesa Sanpaolo in the share capital of UBI Banca at the end of the acceptance period was more than 90%, but less than 95%, Intesa Sanpaolo became obligated to purchase the remaining ordinary shares from UBI Banca shareholders who had so requested. The cash consideration was valued, in line with the provisions of IFRS 3, para. 37, at the fair value of the transferred assets and thus the cash outlay actually paid.

Finally, for the purposes of determining the purchase price, it should be noted that IFRS 3.42 states that "in a business combination achieved in stages, the acquirer must remeasure its previously held equity interest in the acquiree at its acquisition-date fair value." The 120,985 UBI shares already held by Intesa Sanpaolo were therefore measured at the listing price of UBI Banca on 4 August 2020 (3.709 euro per share), for a total value of 0.4 million euro and that value was also recognised in the calculation of the cost of the acquisition.

Based on the above, the total purchase price was 4,109 million euro. A detailed table showing how this amount was calculated is set out below.

#### Determination of purchase price of the UBI Group

Total UBI Banca shares at acquisition date		1,144,285,146
- of which shares tendered in the Public Purchase and Exchange Offer and repurchased with Consideration (1)	a	1,129,844,049
- of which shares repurchased with full cash consideration	b	5,442,201
- of which shares already held by Intesa Sanpaolo	c	120,985
- of which UBI Banca treasury shares		8,877,911
Intesa Sanpaolo share price (euro) - 4 August 2020	d	1.7936
UBI Banca share price (euro) - 4 August 2020	e	3.7090
Exchange ratio	f	1.7000
Cash consideration per share as per the Public Purchase and Exchange Offer (euro)	g	0.5700
Full cash consideration per share (euro)	h	3.5390
No. of shares issued	$i = a * f$	1,920,734,883
<b>Value of ISP capital increase (millions of euro)</b>	$l = i * d$	3,445
<b>Cash consideration (millions of euro)</b>	$m = a * g + b * h$	663
<b>Value of shares already held by Intesa Sanpaolo (millions of euro)</b>	$n = c * e$	1
<b>Total purchase price (millions of euro)</b>	$o = l + m + n$	<b>4,109</b>

(1) Consideration is the sum of the consideration in shares equal to 1.7000 newly issued ordinary shares of ISP and the cash consideration of 0.57 euro per share.

The accounting effects of the acquisition also include the expenses related to the Public Offer totalling 146 million euro, with the part directly attributable to the capital increase and the corresponding issue of Intesa Sanpaolo shares (112 million euro)

recognised, pursuant to IAS 32 and IFRS 3, as a reduction in shareholders' equity reserves and the remainder (34 million euro) recognised in the income statement.

#### *Purchase Price Allocation - PPA*

At the acquisition date, the acquirer must allocate the purchase price of the business combination by recognising the identifiable assets, liabilities and contingent liabilities of the acquiree at their acquisition date fair value, excluding non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5. The latter assets are instead measured at fair value less costs to sell.

The acquirer recognises separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:

- a) in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
- b) in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
- c) in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

The recognition of these assets and liabilities at fair value, after the purchase price allocation, is reflected in the income statements after the acquisition date, which will consider the income and expenses relating the acquired business based on the cost of the business combination incurred by the acquirer. For example, depreciation expense that the acquirer recognises in its income statement after the acquisition date and that relates to the acquiree's depreciable assets, shall be based on the fair values of said depreciable assets as at the acquisition date, i.e. their cost to the acquirer. Furthermore, in the case of disposal of an asset designated at fair value at the date of the PPA, the financial statements of the acquirer shall include the gain or loss from the disposal, determined on the basis of the carrying amount inclusive of the residual gain at the date of the disposal.

Any difference between the purchase price of the business combination and the fair value of the identifiable assets, liabilities and contingent liabilities shall be recognised as goodwill; instead if the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the acquirer will recognise a bargain purchase (negative will) in the income statement.

Determining the impacts of the PPA entailed the need, in some cases, to make use of the support of independent experts, whereby the acquisition date of some captions of the balance sheet was determined with the support of the internal structures of the UBI Group and the Intesa Sanpaolo Group. The remaining captions of the balance sheet were measured internally by Group structures.

With regard to the measurement period in which to obtain the information necessary to measure the fair value of the identifiable assets and liabilities of the acquiree and complete the PPA process, IFRS 3 states that this period ends as soon as the acquirer has received all necessary information existing at the acquisition date or has determined that it is not possible to obtain further information to conduct the measurements of the acquired items. In any event, the measurement period may not extend for more than one year from the acquisition date. With regard to the acquisition of the UBI Group, the measurement period and thus the PPA process ended on 5 February 2021, the date of approval by the Board of Directors of the parent company and consolidated results of the Intesa Sanpaolo Group as at and for the year ended 31 December 2020, as on that date all identification activities and fair value measurement of assets and liabilities acquired, including contingent assets and liabilities, had been completed. In particular, all independent experts involved in the PPA process decided that they had all the elements needed to determine the fair value of the assets and liabilities acquired, thus concluding their estimation activities. The process of identifying the going concern being transferred to BPER and determining the related capital loss is also believed to have been essentially completed when the parties entered into the Fifth Supplementary Agreement on 15 January 2021.

Finally, Partners S.p.A., represented by Prof. Angelo Provasoli and Prof. Massimiliano Nova, which Intesa Sanpaolo asked to conduct a critical examination of the measurement methods adopted, and in particular to verify the completeness of the valuations and the reasonableness and non-arbitrariness of the measurement methods and parameters adopted, expressed a positive opinion on the correctness and the methodological consistency, the soundness of the assumptions made, the appropriateness of the implementation choices, and the overall reasonableness of the results of the PPA process.

#### *Reclassifications of balance sheet captions during the PPA*

With regard to the classification or designation of the identifiable assets acquired and liabilities assumed in a business combination, IFRS 3, paragraph 15, states that at the acquisition date the acquirer must classify or designate the identifiable assets acquired and liabilities assumed to the extent necessary to then apply the other IFRSs. The acquirer must perform such classifications or designations on the basis of the contractual terms, economic conditions, its own operating or accounting criteria and other relevant conditions in place at the acquisition date.

In some situations, the IFRSs provide for a different accounting treatment, depending on the way in which the entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer must perform on the basis of the relevant conditions in place at the acquisition date include:

- the classification of particular financial assets and liabilities as measured at fair value through profit or loss or at amortised cost or as financial assets measured at fair value through other comprehensive income in accordance with IFRS 9;
- the designation of a derivative instrument as a hedging instrument in accordance with IFRS 9; and
- verification to establish whether the embedded derivative is to be separated from the host contract in accordance with IFRS 9 (which is a question of "classification" in the meaning in which the IFRS uses this term).

Within this reference framework, and in order to integrate the securities positions of UBI Banca's banking book promptly and effectively into the Intesa Sanpaolo Group's Liquidity and Investment portfolios, the following guidelines were identified for reducing and classifying the exposures originating from UBI Banca: i) continuity with the Group's guidelines; and ii) guarantee of an adequate liquidity buffer complying with the current regulatory provisions relating to the Liquidity Coverage Ratio (LCR). These guidelines are consistent with the Group's company policies regarding the management mission and the WAL (Weighted Average Life) of the target portfolios and ensure the construction of financial portfolios in continuity with their



current structure.

The approach set out above made it possible to extend the business models identified by the Intesa Sanpaolo Group to the UBI Banca portfolio. As part of this process, optimisation of the risk profile of the UBI Banca portfolio involved classifying a part of the portfolio previously classified by UBI Banca as hold-to-collect-and-sell (HTCS) to the Intesa Sanpaolo Group's hold-to-collect (HTC) portfolio. This decision meets the need to pursue greater diversification of the asset allocation of the hold-to-collect portfolio originating with UBI Banca, primarily focused on Italy risk governmental exposures, including in the HTC portfolio exposures to corporate, financial and emerging markets issuers previously classified as hold-to-collect-and-sell with a total book value of 1,622 million euro, largely investment-grade.

Once the business model within which the financial instrument is held has been identified, the acquirer must nonetheless perform the SPPI test, as required by IFRS 9, for financial assets measured at amortised cost or at fair value through other comprehensive income. Since the method of performing the SPPI test used by the UBI Banca Group is essentially uniform with that adopted by the Intesa Sanpaolo Group, most of the instruments recognised under captions 30 - Financial assets measured at fair value through other comprehensive income and 40 - Financial assets measured at amortised cost of the UBI Group's balance sheet have been kept within the same accounting captions for the purposes of Intesa Sanpaolo's consolidated financial statements. However, the test may lead to different results when it is performed at different times, given the development of the market rates scenario. In particular, in the case of instruments that present a modified time value of money, the undertaking must conduct an assessment test, the goal of which is to determine the extent to which the undiscounted contractual cash flows could differ from the (also undiscounted) cash flows that would occur if the time value of money were not modified (benchmark cash flows). If the test shows that the contractual cash flows are "significantly different" from the benchmark cash flows, the contractual cash flows cannot be considered to meet the definition of SPPI. The test was conducted by considering the effect of the modification on each reporting period and cumulatively over the entire residual life of the financial instrument, resulting in a reclassification, for a total amount of 125 million euro, from assets measured at amortised cost to assets mandatorily measured at fair value through profit or loss.

With regard to the initial classification of equity instruments, the UBI Banca portfolio was first analysed to identify the investments in common with other companies of the Intesa Sanpaolo Group. For all investments in common, the classification in use within the Intesa Sanpaolo Group was adopted. This led to the reclassification of some investments recognised as financial assets measured at fair value through other comprehensive income (FVOCI) in UBI Banca's financial statements that in Intesa Sanpaolo's consolidated financial statements were classified as associates, as subject to significant influence pursuant to IAS 28 within the framework of the Group.

In further regard to the initial classification of common investments, all situations in which the investment originating with the UBI Group, in addition to that already held by the Intesa Sanpaolo Group, exceeded the threshold of a 20% equity investment, were identified. For that purpose, in all cases in which this threshold is exceeded, the governance of the investee, the presence of any shareholders' agreements and the voting and administrative rights to which the Intesa Sanpaolo Group is entitled were verified. The presumption was overcome in all cases and thus none of these investments was recognised among investments in associates and companies subject to joint control.

The remaining investments not already held by the Intesa Sanpaolo Group were analysed individually in order to establish, case by case, the activation pursuant to IFRS 9 of the option to classify them among financial assets measured at fair value through other comprehensive income (FVOCI).

Pursuant to paragraph 15 of IFRS 3, the hedging transactions in place within the UBI Group on the acquisition date were analysed and assessed to formulate the strategies to be re-designated for Intesa Sanpaolo's consolidated financial statements with effect from the acquisition date and in accordance with the Intesa Sanpaolo Group's policies. The choices made are closely interrelated with the transfer of the going concern to BPER. Specifically, and in reference to hedging relationships, it is relevant that a significant portion of the hedged underlying, attributable to the balance sheet captions of the branches identified for sale, were sold, but not the related derivatives. In the light of the above, the analyses conducted resulted in the identification of the following types of hedges subject to reclassification:

- *Macro-fair value hedges on fixed-rate loans.* The hedges in question were confirmed, except for those in an over-hedge situation in respect of the underlying included in the going concern sold, and, in any event, with interventions on the derivatives in excess of the hedged items in the existing hedging relationships. To this end, a portfolio of derivatives was identified for classification to the trading book at the acquisition date, using a method based on balancing the sensitivities by bucket between loans sold and the related hedging derivatives;
- *Macro fair value hedges on floating-rate loans with a cap.* For this type of derivative, the designation as a hedge for the entire portfolio was not confirmed; in the light of this choice, the related hedging derivatives were classified among trading derivatives;
- *Macro fair value hedges on core deposits.* The existing hedges were confirmed within the framework of the PPA process, except for the hedges of the core deposits, for the portion sold to BPER. In this case as well, a portfolio of derivatives reclassified among trading derivatives was identified.

See the following paragraph for the details of the reclassification among disposal groups and associated liabilities of the accounting captions relating to the going concern to be sold to BPER and that which is to be sold to BPPB.

*Disposal groups and associated liabilities – Going concerns sold to BPER and BPPB*

The binding agreements, conditional on the success of the Public Purchase and Exchange Offer, entered into with BPER and BPPB, which call for the acquisition by BPER and BPPB of the going concerns composed of the bank branches of the entity resulting from the combination of Intesa Sanpaolo with UBI Banca, gave rise to the reclassification, until the transactions are concluded, of the assets and liabilities relating to the two going concerns among disposal groups and associated liabilities pursuant to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations. Paragraph 6 of the standard in question states that “an entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use”. Since both agreements are strictly related to the acquisition of UBI Banca, because AGCM approved the acquisition of UBI Banca by Intesa Sanpaolo subject to the execution of structural sales in line with the provisions of the agreements with BPER and BPPB, the going concerns were classified among disposal groups with effect from the acquisition date and, consequently, measured within the framework of the PPA process, solely for the amount attributable to the UBI Banca branches, because the PPA pursuant to IFRS 3, which gave rise to the negative goodwill, only concerns the assets and liabilities of the acquired entity (in this case UBI Banca).

From the standpoint of measurement of the going concerns, IFRS 3, paragraph 31, states that “the acquirer shall measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations at fair value less costs to sell in accordance with paragraphs 15–18 of that IFRS”. In the case at hand, since a binding agreement has been signed with BPER and BPPB, the assets and liabilities of the going concerns have not been specifically measured within the framework of the PPA, since the price of sale of the going concerns as a whole was taken as the acquisition date fair value, in accordance with IFRS 13, which states that “this Standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.

Specifically, both the sale price of the going concern sold to BPER, which, based on contractual provisions was calculated as a multiple less than one (in this case, 0.38x) of the going concern’s regulatory capital, and that referring to the going concern to be sold to BPPB of 8.9 million euro, were lower than the book values of those going concerns. Therefore, on the basis of the above, at the time of reclassification, the book values of the going concerns were aligned with the fair values represented by the sale prices, recording a capital loss, net of the related price adjustments and tax effects, decreasing the negative goodwill recognised in the consolidated income statement, limited to the portion attributable to the branches of UBI Banca. This capital loss amounted to 1,464 million euro before tax and 1,061 million euro after tax. Finally, it should be recalled that the agreement with BPER also provides for the sale of 31 Intesa Sanpaolo branches, the cost of which (108 million euro gross of tax and 85 million euro net of tax), has been recognised in the income statement outside the PPA process.

The loss recognised upon reclassification has not been allocated to the individual assets and liabilities of the two going concerns as, in the case in question, the contracts signed with BPER and BPPB state prices referring to the going concerns as a whole, defined by the parties based on an assessment conducted not on the quality of the underlying assets but, rather, on the current market values of the banking business, which show significantly lower prices than the net book value. As a result, the recoverable amount of the single assets and liabilities pertaining to the going concerns is not impacted by the price agreed by the parties and, therefore, the loss recorded on reclassification cannot be allocated to the single assets and liabilities, also considering the provisions of IAS 36, according to which the attribution of losses cannot, in substance, entail the recognition of an asset at an amount below its recoverable amount.

*Fair value of assets acquired and liabilities assumed*

On the basis of the foregoing, the PPA then focused on the fair value measurement of the assets acquired and liabilities assumed, net of the balance sheet captions attributable to the branches to be sold to BPER and BPPB reclassified as assets held for sale.

The fair value measurement of the individual accounting items, subject of acquisition, was carried out with the aid of independent experts and mainly concerned:

- loans to customers and banks (performing and non-performing);
- macro-hedging relationships;
- intangible assets not previously recognised by the acquired entity;
- investments in associates and equities;
- property and equipment;
- bonds issued and amounts due to banks and customers.

The PPA also included the write-down of the UBI Group’s property, equipment and intangible assets (mainly hardware and software), which, following the process of integration and migration into Intesa Sanpaolo, will no longer be used and will not contribute to the business production process. These impairment losses of 168 million euro gross of the related tax effect were deducted from the negative goodwill recognised upon the conclusion of the PPA process.

In addition, the consolidated goodwill originating from the financial statements of the UBI Group was reversed as, pursuant to IFRS 3, the goodwill or negative goodwill recognised in the consolidated financial statements of the acquirer incorporates and thus supersedes the historical entries of goodwill recognised in the financial statements of the acquirees. In addition, the intangible assets recognised as a result of previous PPAs of the UBI Group were derecognised as new intangible assets were recognised under the PPA, representing the value of the relationships and assets of the entire UBI Group.

For cases that have a greater impact in the PPA process, the valuation technique used and the related outcomes have been summarised below.

*Loans to customers and due from banks*

The measurements were performed with support from Prometeia, an independent expert active in the sectors of enterprise risk management and financial advisory, which determined the fair value of the acquired portfolio of loans to customers and due from banks as at the acquisition date. As stated in the foregoing paragraphs, the measurement did not include the loans relating to the going concerns sold to BPER and BPPB, reclassified with effect from the acquisition date among disposal groups and measured on the basis of the price agreed between the parties.

The total fair value is negative compared to the related carrying amount for 393 million euro. The total difference is the result of the combination of the measured effects of performing captions (positive for 1,290 million euro) and non-performing



captions (negative for 1,683 million euro) as described in detail below. Moreover, with regard to performing loans, measurement at fair value entailed the elimination of the adjustment allowance previously recognised by UBI. In this regard, it should be noted that, in the 2020 income statement (and thus outside the PPA process) an adjustment allowance of 428 million euro was re-established on a prudential basis, taking account of the macroeconomic context and the risk indicators already present within UBI, and in application of the estimation models in use at Intesa Sanpaolo.

#### Performing loans

The portfolio subject to measurement may be attributed to medium/long-term performing exposures, whereas for short-term exposures and those with residual maturity of less than 12 months, the carrying amount acquired from the balance sheet of the UBI Group at the acquisition date is considered to be a reasonable approximation of their fair value in accordance with IFRS 13, taking into account that the discounting of future cash flows is of little significance in presence also of changes in the reference market rates. On the basis of the foregoing, the reserve requirement and all current accounts were excluded, along with repurchase agreements and factoring, all core deposits or short-term positions, whereas both mortgage loans and leases almost all entered into the measurement period. Overall, the performing loans subject to measurement within the framework of the PPA process amounted to approximately 45.5 billion euro.

The determination of the acquisition date fair value of the performing loans subject to measurement for the purposes of the PPA - as there was no active market for instruments of this sort - aimed, as per IFRS 13, to replicate the price that would be paid in a regular-way sale on the market, therefore adopting the assumptions that a normal operator would reasonably make in determining the price, and hence formulating a valuation framework of reference that is as uniform as possible with situations actually observable on the market.

Accordingly, the method used to estimate the fair value of the performing loans, developed, as mentioned above, with the support of Prometeia, replicates the method that currently prevails on the market, which consists in using a discounted cash flow (DCF) model, in which the cash flows have been discounted at an appropriate discount rate that incorporates an estimate of the main risk factors.

The following future cash flows were considered:

- capital payments based on the principal repayment schedules of the individual relationships;
- interest payments based on the contractual interest payment plans associated with fixed-rate exposures, calculated in accordance with the rules associated with indexation of market parameters embedded in unknown coupons, contractual spreads and any optional embedded components for floating-rate exposures.

The discounting rate applied was derived from the sum of three components:

- the level of the risk-free interest rates quoted in the various currencies of denomination and observed on the various tenors of the curve;
- the cost of funding, corresponding to the cost of liquidity curve of the Intesa Sanpaolo Group, structured on the basis of rules that take into account the features of the portfolio being measured;
- the level of the average credit spread, which reflects the risk of default associated with each performing loan transaction, based on the counterparty segment, credit risk parameters, i.e. probability of default (PD) and loss given default (LGD) class, and the average residual financial life of the transaction. The calculation of credit spreads considered both the expected loss component, based on the PD and LGD levels deriving from the application of Intesa Sanpaolo's internal models, and the unexpected loss component, based on the regulatory capital of the acquired positions and the cost of capital estimated internally by Intesa Sanpaolo.

In addition, within the framework of a calculation process with a prudent orientation, and with the aim of obtaining a cash flow configuration that more closely corresponds to what has been observed in reality, appropriate prepayment ratios were used, estimating the probability of the total or partial early repayment of retail and corporate loans. Specifically, the method developed estimated prepayment ratios diversified by customer type (retail and corporate) and the financial characteristics of the transaction. The prepayment matrices made it possible to recalculate the accelerated principal and interest cash flows of the loan portfolio and thus to revise the residual average duration parameters of each loan used to assign the credit spread and calculate the cost of funding curve on the various reference time bands. Principal and interest flows were thus discounted according to risk-free interest rates, cost of funding levels and credit spreads consistent with the new accelerated maturity profile.

Finally, to incorporate a scenario of convergence of the contractual conditions of retail mortgage loans in portfolio with the conditions in place within Intesa Sanpaolo into the calculation of fair value, a scenario was considered with a renegotiation of the fixed and floating-rate contractual levels observed on the acquisition date and a reduction of the contractual rates to the Intesa Sanpaolo Group's benchmark conditions.

The above-mentioned prudential components relating to prepayments and renegotiations led to a reduction in the fair value of the loans of around 30%.

The measurement process identified a total fair value of performing loans in excess of the related carrying amount by 1,290 million euro, gross of the related tax effect.

#### Non-performing loans

Since these positions were acquired already non-performing, the UBI Group's non-performing loans were considered purchased or originated credit-impaired (below "POCI") pursuant to IFRS 9 and Bank of Italy Circular 262, which defines them as "exposures that meet the definition of purchased or originated credit-impaired financial assets provided in Annex A to IFRS 9. They include, *inter alia*, non-performing credit exposures acquired through (individual or portfolio) sales and business combinations." IFRS 9 states that for loans purchased or originated credit-impaired a credit-adjusted effective interest rate must be calculated at the initial recognition date, which requires the inclusion of the initial expected credit losses on the loans in the cash flow estimates.

In keeping with the approach taken for performing loans, as there was no active market for instruments of this sort, the acquisition date fair value of the non-performing loan portfolio also aims to replicate the price that would be paid in a regular-way sale on the market, therefore adopting the assumptions that a normal operator would reasonably make in determining the price, and hence formulating a valuation framework of reference that is as uniform as possible with situations actually observable on the market.

Overall, the net book value of the non-performing loans subject to measurement was approximately 3 billion euro, whereas their gross value was approximately 5.2 billion euro.

The method used with the support of Prometeia therefore replicated the method that currently prevails on the market, which consists in using a discounted cash flow (DCF) model to measure non-performing loan portfolios. The model was applied to the individual relationships, in some cases classified into uniform clusters, by applying the following key elements:

- the estimated distribution of cash flows, in terms of amount and recovery times, net of legal expenses and costs;
- the discount rate, which must consider the risk profile of the discounted flows, while also taking account of current market conditions.

The results obtained have been subject to a sensitivity analysis in order to appreciate the variability of the values obtained in conjunction with the main measurement assumptions adopted. The significance of the results obtained has also been subject to further verification on the basis of data drawn from transactions observed on the market.

As indicated in further detail below, the method includes certain specific aspects for various risk classes, and in particular bad loans, on the one hand, and UTP and past-due positions, on the other.

With regard to secured bad loans, an analytical estimate of the expected recovery deriving from the sale of the asset securing the position was prepared. For measurement purposes, it was assumed that the sale of the collateral would be achieved through court auctions, presuming a haircut and an average duration of the recovery process in line with market benchmarks. For unsecured bad loans (not secured by mortgage collateral), the method involved applying statistical benchmark recovery curves differentiated by the seniority of the position and the segment of the counterparty.

The gross cash flows thus determined were then corrected in order to incorporate a prudential factor tied to the risk related to the volatility of the recoveries. This component discounts the elements of uncertainty associated with the recoveries and therefore makes it possible to take account of possible developments in the non-performing loan market, including in respect of the presumable effects of the COVID-19 crisis; in fact, according to most analysts, in 2021, at the end of the duration of the moratoria, there will be an increase in non-performing loans on banks' balance sheets, which in turn will cause an increase in the supply of loans of this type on the NPL market, with the consequent reduction in the level of sale prices.

Legal fees were determined by approximating those generally incurred for recovery on the basis of benchmark values, estimated in proportion to gross recoveries and consistent with that observed on the market.

Similarly, servicing costs were estimated using benchmark values consistent with that required on average by servicing agreements for non-performing loan portfolios, assuming the application of an annual base fee with respect to that claimed for management and a success fee on the gross collections obtained.

The discount rate used to discount recovery flows was determined as the weighted average cost of the current market rates of a hypothetical securitisation characterised by the issuance of notes of varying seniorities. The structures were assumed as not being backed by the GACS government guarantee in view of the forthcoming expiry of the related legislative measure. The sale of non-performing loans through securitisation therefore currently represents the prevailing sale practice on the domestic market.

With regard to exposures classified as UTP and past-due, the fair value calculation method applied was based on applying what is known as the "Steady-State Cash Flow" approach, which represents the main measurement method for loans used in the Asset Quality Review (AQR) framework. In the standard Steady-State Cash Flow approach, the recovery cash flows relating to the exposure are determined by estimating the present value of the forecast cash flows of the debtor quantified through the joint analysis of various financial statement items of the counterparty, and then allocating them to hedge the exposure in respect of the actual seniority class of each position.

With regard to UTP and past-due exposures relating to counterparties for which at least one set of financial statements is not available in the Financial Statements Database, since it is not possible to apply the Steady-State Approach, it was decided to apply an alternative method of calculating fair value based on the danger-rate and cure-rate benchmark grids drawn from market and financial information.

For the non-performing loan sale transactions concluded by UBI after the acquisition date, since these occurred near the acquisition date, the sale prices actually negotiated with the acquiring counterparties were taken as the fair values.

The final phase of the measurement process conducted on the non-performing loan portfolio focused on benchmarking analysis with respect to the prices of recent transactions observed on the market by uniform clusters. The analysis was structured to emphasise market benchmarks with regard to the sale prices of non-performing loans, with particular reference to bad loans and unlikely-to-pay loans. The results of the analysis emphasised how the measurement prices of bad loans, where compared with transactions in the last three years and two years, are moderately prudent to take account of the possible development of the non-performing loans market due to the presumable effects of the COVID-19 crisis. The average fair value of UTP loans determined during the PPA process was found to be essentially in line with the average transaction prices observed in the three-year period 2018-2020.

The measurement process identified an estimated fair value of performing loans lower than the net carrying amount in the UBI Group's financial statements prior to the acquisition by 1,683 million euro, gross of the related tax effect. This amount was recognised as a reduction in the negative goodwill.

#### *Hedging relationships*

Given UBI Banca's adoption of macrohedging relationships pursuant to IAS 39, at the acquisition date there were specific captions of the balance sheet representing the fair value adjustment to the hedged risk of the positions subject to macrohedging. Specifically, the captions used were "Fair value change of financial assets in hedged portfolios" and "Fair value change of financial liabilities in hedged portfolios", which include the balance of the changes in value of the assets and liabilities, respectively, subject to macrohedging against interest rate risk in application of the provisions of paragraph 89A of IAS 39.

These effects of the fair value change of financial assets and liabilities in hedged portfolios were reversed to determine negative goodwill during the PPA process as:

- the hedging relationships were designated ex-novo with effect from the acquisition date;
- the hedged positions were recognised separately at their fair value within the framework of the PPA process pursuant to IFRS 3.

For the purpose of identifying the impact on negative goodwill, it was decided to reverse the amount included on a

conventional basis and defined between the parties, as a caption adjusting the assets and liabilities subject to macrohedging in the going concern sold to BPER; since this amount was reclassified among disposal groups and measured within the framework of the overall consideration of the going concern, it was not measured during the PPA process.

The reversal of the hedging relationships as represented above entailed the recognition of a capital loss of 685 million euro, gross of the related tax effect, recognised as a deduction from negative goodwill.

*Intangible assets not previously recognised by the acquired entity*

Pursuant to IFRS 3 and IAS 38, intangible assets are identifiable non-monetary assets without physical substance that may only be separately recognised from goodwill where identifiable. IAS 38 clarifies that an intangible asset meets the criterion for identifiability only if:

- it is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, or;
- it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations;
- the fair value of the asset may be determined reliably.

In addition, with regard to the criterion of separability, IFRS 3 states that an intangible asset acquired meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the acquirer is involved in them. If an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset.

In the light of the foregoing, for the purposes of measuring intangible assets within the framework of the PPA relating to the acquisition of the UBI Group, Deloitte, a major consultancy firm, was engaged to identify and measure three intangible assets relating to the UBI Group's customers: asset under management (AuM), asset under administration (AuA) and acquiring activities.

AuM assets typically include relationships with banking customers relating to dealing in asset management products, i.e. portfolio management schemes, mutual funds and SICAVs, in addition to pension and insurance products. In the UBI Group's specific case, AuM activities refer not only to the placement and distribution of such products with the UBI Group network, but also to the in-house production component (designing and creating financial products and managing customers' assets) of these products carried out by Pramerica SGR, which acts as a product factory for the sales network. Also considering their extensive integration within the UBI Group, the two separate activities may be therefore considered as different value components of the intangible assets, one linked to distribution and the other to the production of asset management products; AuA activities include customer relationships relating to accounts of custody and administration without management mandates to the intermediary. Finally, a specific relationship was identified with merchant customers linked to acquiring activities, i.e. the acquisition of transactions executed using payment cards linked to international circuits, in accordance with the separability principle provided for in IAS 38 and IFRS 3, as well as in the light of recent transactions involving similar activities on the Italian market.

The value of that intangibles was estimated by discounting the net expected cash flows over a defined time horizon. The net cash flows of the intangible assets were estimated by taking due account of the volumes, net margins, operating costs and capital absorption relating to the operational risk that may be associated with the intangible. In estimating the cash flows, account was also taken of the figurative cost associated with the use of certain assets that contribute to the realisation of the result flows attributable to the intangibles (known as "contributory assets"). To discount the net prospective cash flows arising from the AuM and AuA intangible assets, the cost of capital used was equal to the rate of return on equity requested by the shareholders for investments with similar risk characteristics. This rate was estimated using the CAPM (Capital Asset Pricing Model).

The useful life of the intangibles was estimated on the basis of the churn rate of the customers acquired.

On the basis of the foregoing, the analyses resulted in the recognition of new intangible assets through an increase in negative goodwill for a total of 593 million euro, gross of the related tax effect, of which 512 million euro relating to AuM, 41 million euro to AuA and 40 million euro to acquiring activities.

### Investments in associates and equities

Equities and equity investments subject to significant influence pursuant to IAS 28 and thus consolidated according to the equity method were measured within the framework of the PPA process. The portfolio subject to measurement is composed of a number of investments, among which the foremost are:

- Lombarda Vita, in which UBI Banca holds a 40% stake, as a result of the agreements signed with the Cattolica Assicurazioni Group. Within the framework of the renewal of these agreements, in 2010 the options on the respective interests in the joint venture were also revised to provide solely for call options, exercisable subject to certain conditions;
- Aviva Vita, in which UBI Banca holds a 20% interest, as a result of the partnership between the Aviva Group and the UBI Group in the life insurance product distribution sector. Within the framework of the renewal of these agreements, in 2014 the options on the respective interests in the joint venture were also revised to provide solely for call options, exercisable subject to certain conditions;
- Zhong Ou Asset Management Company (hereinafter “ZOAM”), in which UBI Banca holds a 25% interest, as per a partnership agreement within the framework of asset management activity focused on the Chinese market, entered into between UBI Banca and the company’s current shareholders. The agreements provide for a mechanism aimed at lending stability to the shareholder structure through a series of call options, exercisable upon the occurrence of certain events, relating to the respective equity investments held by the shareholders.

The measurement of the three aforementioned equity investments and the related derivatives has been entrusted to an independent third-party expert identified as Partners S.p.A., whereas the analysis of the fair value of the other investments was conducted internally by the structures of the Intesa Sanpaolo Group responsible for measuring equity investments.

In estimating the fair value of the various companies, Partners made use of various criteria. In particular, for the insurance companies Aviva Vita and Lombarda Vita, reference was made to the Dividend Discount Model (DDM), on the basis of which fair value is a function of the expected cash flows that each company may distribute in terms of dividends and/or excess regulatory capital. For the equity investment in ZOAM, it was deemed more appropriate to use the levered income method, on the basis of which fair value is a function of the expected income flows that the company may generate. The results thus obtained were observed using the market multiple criterion: on the basis of this method, fair value is estimated using multipliers calculated on the basis of stock market data concerning comparable listed companies. In addition, a discount was used to take account of the greater illiquidity of the companies measured with respect to the sample of listed companies.

In the measurement of the equity investment in ZOAM, the liquidity discount, in addition to being larger, was also applied to the income method to take account of the restrictions on international investments imposed by the local authorities. In addition, considering the specific characteristics of the investment, a minority discount was also applied. In the case of Aviva Vita and Lombarda Vita, the comparable transactions criterion was also used, for checking purposes: fair value was estimated using multipliers (P/BV and P/E) calculated on the basis of the prices negotiated in recent comparable transactions.

With regard to the measurement of the call options on Aviva Vita and Lombarda Vita, the criterion used to estimate the fair value of the options is the binomial method, which uses the value of the underlying asset at the measurement date to prepare, on the basis of the appropriate market volatility and the risk-free rate, a wide range of possible alternative value scenarios for the asset on a future date and associates a probability of occurrence with each value scenario.

The remaining equity investments and equities were measured internally by the responsible structures of the Intesa Sanpaolo Group on the basis of the provisions and rules formulated internally, which lay out the principles and methods for measuring unlisted equities in line with the measurement criteria established by the IAS/IFRS and the Italian Valuation Criteria (*Principi Italiani di Valutazione*, PIV) published in 2015 by the Italian Valuation Body.

The analyses conducted entailed the recognition of a total capital gain with respect to the carrying amount of 103 million euro, gross of the related tax effect, of which 119 million euro attributable to equity investments (the share attributable to the 3 equity investments described above was 148 million) and -16 million euro to equities. The measurement of the call options resulted in a capital gain on the carrying amount of 5 million euro.

### Property and equipment

Property and equipment include owner-occupied property, investment property, land, furniture and fittings and various types of equipment that are expected to be used over a period of more than one year. They also include the rights of use (RoU) acquired under a lease and relating to the use of property and equipment (for lessees) and assets leased under an operating lease (for lessors), as well as improvements and incremental expenses incurred on owned assets and rights of use of property and equipment arising from lease contracts. Within the framework of the PPA process, properties (land and buildings) and valuable art assets were measured at their acquisition date fair value in accordance with IFRS 3. For the other property and equipment, cost was maintained, as it was deemed representative of their value, since it was determined by a depreciation process estimated on the basis of the asset’s actual contribution to the production process.

### Real estate portfolio

The measurement was conducted with assistance from CBRE, a qualified firm of high standing capable of providing real-estate valuations on the basis of the finest standards in the industry, which through a specific appraisal determined the acquisition date fair value of the UBI Group’s owner-occupied and investment real-estate property portfolio. The total book value of this portfolio at the acquisition date was 1.7 billion euro, of which 1.2 billion euro relating to owner-occupied properties and 0.5 billion euro to investment properties.

The methodologies already in place within the Intesa Sanpaolo Group were used to estimate fair value. In particular, the valuation approach has been defined on the basis of the business relevance and plan for the use of the properties (owner-occupied / investment). The open market value means the best price at which it would be reasonable to unconditionally conclude the sale of the property against payment in cash. This concept is in line with IFRS 13, which defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. The appraiser used the Discounted Cash Flow model, which makes it possible to analyse the flows of revenues and costs (capital and otherwise) connected to the property subject to appraisal over a defined time horizon. This approach enabled the appraiser to be fully explicit in analysing the events that may occur over the established time horizon. In particular, this method allowed a detailed consideration of the impact on the value of the property



of both the existing rent and the costs and revenues arising from optimisation of the property in order to ensure its optimal use.

In the appraisal, account was taken of the current real-estate market environment and the intended use of the properties indicated by Intesa Sanpaolo in order to better represent the distinction between properties for direct/owner-occupied use and those for investment use, or which reasonably, from a prudential standpoint, are presumed to become such.

Finally, it should be noted that, with regard to the seven properties owned by UBI Banca in Milan, sold in August, for the purposes of the fair values determined within the framework of the PPA process, sales prices were used, entailing a capital gain of 36 million euro, gross of the tax effect, recognised as an increase in negative goodwill in Intesa Sanpaolo's consolidated financial statements. At the acquisition date these properties were classified among discontinued operations.

Based on the foregoing, the total fair value of the real-estate portfolio was found to be lower than its carrying amount by 126 million euro, gross of the related tax effect.

#### Valuable art assets

The UBI Group has an art portfolio that originated with the various institutions from which the Group was gradually formed, represented by approximately 6,000 works and recognised at the acquisition date at a carrying amount of 13 million euro. Within this portfolio, 721 works of particular importance have been identified based on their historical-critical and artistic value, state of preservation and economic importance. These works have been included in a specific category, "valuable art assets", and were appraised in the PPA process by Open Care, a leading qualified, independent sector firm.

Valuable art assets were measured by estimating the "commercial value or market value" of the individual works in the various categories, taken from the trend in sales and purchases of equivalent works (in terms of technique, size and subject) by the same artist, or by regional schools and movements that are similar in terms of style and artistic philosophy. The information was obtained with the aid of specialised databases that monitor the results of the main Italian and international auction houses, as well as through consultation of the main industry reports. Accordingly, these are objective parameters that were compared to the market at large, in an analysis that also included galleries and the main industry fairs in the monitoring of the values expressed. In addition to considering the trends in auction trading, starting from the most recent trading and also including unsold items in the analysis, which are a possible indicator of the loss of market value for the artwork, the valuation also considered the current market interest in an artwork or an artist, measured by the number and quality of temporary exhibitions held in internationally important museum spaces and accompanied by specific publications.

Based on the foregoing, the fair value of the valuable art assets was found to be higher than its carrying amount by 16 million euro, gross of the related tax effect.

#### Bonds issued and amounts due to banks and customers

The valuation was performed with support from Prometeia, a major independent expert in the sector, which determined the acquisition date fair value of the acquired portfolio of bonds issued, amounts due to banks and amounts due to customers. As stated in the foregoing paragraphs, the measurement did not include the liabilities relating to the going concerns sold to BPER and BPPB, reclassified with effect from the acquisition date among disposal groups and measured on the basis of the overall price agreed between the parties.

In order to determine the scope subject to measurement, for short-term exposures and those with residual maturity of less than 12 months, the carrying amount acquired from the balance sheet of the UBI Group at the acquisition date was considered to be a reasonable approximation of their fair value in accordance with IFRS 13, taking into account that the discounting of future cash flows is of little significance in presence also of changes in the reference market rates.

With reference to amounts due to banks and customers, on the basis of the analysis conducted the measurement scope included only the amounts due to Cassa Depositi e Prestiti (CDP), made available within the framework of interventions in support of SMEs, and to the European Investment Bank (EIB), whereas the entire portfolio of securities issued by the UBI Group was measured. Accordingly, overall, the liabilities subject to measurement within the framework of the PPA process amounted to approximately 23.6 billion euro, of which 1 billion euro of amounts due to EIB, 0.5 billion euro of amounts due to CDP and 22.1 billion euro of securities issued.

The fair value of listed bonds was determined on the basis of quoted market prices at the acquisition date. On the basis of the principles set out in the Intesa Sanpaolo Group's policies, listed bonds were measured on the basis of the hierarchy of markets considered active and the corresponding methods of measurement of fair value at 4 August 2020.

With regard to the measurement of unlisted bonds and loans with the EIB and CDP, Prometeia adopted the "Discounted Cash Flow" method based on the discounting of expected future cash flows, consisting of:

- capital payments based on the cash flows of the individual liabilities;
- interest payments based on the contractual interest payment plan associated with fixed-rate exposures, calculated in accordance with the rules associated with indexation of market parameters embedded in unknown coupons, contractual spreads and any optional embedded components for floating-rate exposures.

For structured bonds, reference was also made to term sheets and redemption plans.

The discounting rate applied was derived from the sum of three components:

- the risk-free interest rates curve at the different maturity dates;
- the cost of funding, which reflects the cost of liquidity curve of the Intesa Sanpaolo Group and is determined to take into account the features of the bonds being measured in terms of average financial life. Specifically, the estimated spread curve on the basis of market quotations of comparable securities was used;
- the average credit spread. Each transaction was linked to a credit spread that reflects the risk of default, based on the risk parameters and the average residual financial life of the transaction.

The analyses conducted entailed the recognition at the acquisition date of a total capital loss with respect to the carrying amount of 296 million euro, gross of the related tax effect.

#### Other accounting captions measured in the PPA process

In addition to what is described above, other accounting captions were also measured at fair value, mainly represented by debt securities recognised in the portfolios of assets at amortised cost, allowances for risks and charges and certain potential liabilities previously not recognised in the UBI Group's financial statements. With regard to allowances for risks and charges in

particular, the main types of risk for which provisions have been recognised in the UBI Group's financial statements were analysed; the analyses focused on the need, in application of the policies and methods of application adopted by the Intesa Sanpaolo Group, for any additional provisions for uniform risk types. With regard to potential liabilities, marginal cases were identified relating to penalties for early termination of previous commercial agreements following the change of control of UBI Banca.

The analyses conducted yielded a total negative effect for these captions, gross of the related tax effect, of 69 million euro.

Lastly, it should be noted that, with regard to deferred tax assets not yet recognised, during the PPA process it was decided, from a prudential standpoint, not to recognise the amount attributable to UBI Banca, which at 31 December 2019 amounted to approximately 550 million euro, and was entirely attributable to tax losses that may be carried forward without limit.

#### Tax effects

IAS 12 provides that in a business combination, since the identifiable assets acquired and liabilities assumed are recognised at their respective acquisition date fair values, temporary differences are generated when the tax value of the identifiable assets acquired and identifiable liabilities assumed is not influenced by the business combination. For example, when the carrying amount of an asset is increased to its fair value, but the tax value of the asset remains the previous owner's cost, a taxable temporary difference is generated and translates into a deferred tax liability.

As per IAS 12, deferred tax assets and liabilities recognised during the PPA process have been recognised through the negative goodwill booked upon the conclusion of the PPA process.

In addition, when determining the tax effects during the PPA process, account was taken, pursuant to IAS 12, of the current and prospective situation that may currently be imagined with regard to the taxable income of UBI Banca and its subsidiaries. Specifically, with regard to certain aspects of the PPA process with an impact also on the separate financial statements and deductible in 2020, above all adjustments to loans and write-offs, the conditions for recognising the corresponding IRAP deferred tax assets were not met.

#### Calculation of negative goodwill

On the basis of the account given above, the following is a summary of the purchase price allocation process and the resulting negative goodwill.

(millions of euro)

<b>UBI Group shareholders' equity at 31 July 2020 net of AT1 instruments</b>	<b>9,883</b>	<b>a</b>
<b>Purchase price</b>	<b>-4,109</b>	<b>b</b>
<b>Derecognition of UBI Banca Group intangible assets net of tax effects</b>	<b>-1,479</b>	<b>c</b>
<b>Loss on branches held for sale net of tax effect</b>	<b>-1,061</b>	<b>d</b>
<b>Negative goodwill before fair value adjustments to individual accounting captions</b>	<b>3,234</b>	<b>e = a - b + c + d</b>
<b>Effects of fair value adjustments to individual accounting captions</b>	<b>-729</b>	<b>f</b>
- of which performing loans	1,290	
- of which non-performing loans	-1,683	
- of which adjustments to hedged assets/liabilities	-685	
- of which intangible assets	593	
- of which investments in associates and equities	103	
- of which options related to investments in associates	5	
- of which bonds issued and amounts due to banks and customers	-296	
- of which write-offs of software and other intangible assets	-168	
- of which real estate portfolio	-126	
- of which valuable art assets	16	
- of which other accounting captions and effects relating to minority interests	-69	
- of which related tax effects	291	
<b>UBI Group shareholders' equity at acquisition date fair value</b>	<b>6,614</b>	<b>g = a + c + d + f</b>
<b>Negative goodwill</b>	<b>2,505</b>	<b>g - b</b>



The Additional Tier 1 (AT1) instruments issued by UBI Banca, amounting to 398 million euro, while classified to shareholders' equity pursuant to IAS 32 (caption 140. Equity instruments), have not been included in the value of UBI Group's equity to be compared with the purchase price, as these instruments were not subject to the Public Purchase and Exchange Offer promoted by Intesa Sanpaolo, which concerned only the ordinary shares issued by UBI Banca, and upon the conclusion of the transaction they continue to be regarded as financial instruments subscribed by third parties. Accordingly, within the framework of the PPA process they were considered "non-controlling interests" nonetheless to be recognised at fair value pursuant to IFRS 3. Fair value was determined on the basis of the quoted price on the acquisition date, as the instruments in question are listed on the Irish Global Exchange Market, which confirmed their carrying amount in UBI Banca's financial statements.

As shown in the table above, upon the conclusion of the PPA process conducted pursuant to IFRS 3, the negative goodwill amounted to 2,505 million euro.

Regarding the measurement process that led to the recognition of the aforementioned negative goodwill - a process primarily completed with the help of independent experts - paragraph 36 of IFRS 3 provides that, in order to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date, the acquirer shall, before recognising negative goodwill in the income statement, reassess the measurement process already conducted to ascertain the completeness of the process of redetermining the values and the reasonableness and non-arbitrariness of the valuation methods and parameters adopted. In addition, in January 2021 the ECB published a guide on the inclusion of negative goodwill in the own funds of acquirers, stressed the need for the appropriate calculation of the negative goodwill arising from the PPA to be duly verified. To this end, Intesa Sanpaolo has carried out a reassessment of the main measurements, both directly and with aid of its advisors identified above.

Moreover, as an additional verification of the correctness and reasonableness of the conclusions reached and the resulting negative goodwill, Intesa Sanpaolo asked Partners S.p.A., represented by Prof. Angelo Provasoli and Prof. Massimiliano Nova, to conduct a critical examination of the measurement methods adopted, and in particular to verify the completeness of the valuations and the reasonableness and non-arbitrariness of the measurement methods and parameters adopted. Following these verifications, Partners S.p.A. expressed a positive opinion concerning the correctness and the methodological consistency, the soundness of the assumptions made, the appropriateness of the implementation choices, and the overall reasonableness of the results of the PPA process.

#### *The UBI Group's balance sheet situation upon initial consolidation*

Based on the reclassifications applied during initial recognition and the effects arising from the fair value measurement of the identifiable assets and liabilities, the balance sheet of the UBI Group is provided below, as accounted for at the acquisition date by Intesa Sanpaolo. In detail, the balance sheet shows figures as at the acquisition date based on the carrying values derived from the UBI Group and the fair values initially recognised in the consolidated financial statements of the Intesa Sanpaolo Group.

Assets		Carrying amount at acquisition date	Reclassifications made upon acquisition	Fair value differences	(millions of euro)
					Acquisition date fair value
10.	Cash and cash equivalents	597	-143	-	454
20.	Financial assets measured at fair value through profit or loss	3,325	-173	-52	3,100
30.	Financial assets measured at fair value through other comprehensive income	12,748	-1,394	18	11,372
40.	Financial assets measured at amortised cost	106,945	-21,186	-230	85,529
50.	Hedging derivatives	20	-71	-	-51
60.	Fair value change of financial assets in hedged portfolios (+/-)	935	-85	-850	-
70.	Investments in associates and companies subject to joint control	285	9	154	448
80.	Technical insurance reserves reassured with third parties	-	-	-	-
90.	Property and equipment	2,884	-638	-164	2,082
100.	Intangible assets	1,747	-1	-1,099	647
	<i>Of which:</i>				
	<i>- goodwill</i>	1,465	-	-1,465	-
110.	Tax assets	3,559	-	1,487	5,046
	<i>a) current</i>	974	-	-	974
	<i>b) deferred</i>	2,585	-	1,487	4,072
120.	Non-current assets held for sale and discontinued operations	92	23,694	36	23,822
130.	Other assets	1,034	-12	14	1,036
<b>Total assets</b>		<b>134,171</b>	<b>-</b>	<b>-686</b>	<b>133,485</b>

Liabilities		Carrying amount at acquisition date	Reclassifications made upon acquisition	Fair value differences	(millions of euro) Acquisition date fair value
10.	Financial liabilities measured at amortised cost	114,752	-27,558	334	87,528
20.	Financial liabilities held for trading	794	284	-	1,078
30.	Financial liabilities designated at fair value	473	-	-	473
40.	Hedging derivatives	749	-288	-	461
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	165	-	-165	-
60.	Tax liabilities	297	-	731	1,028
	a) current	51	-	-	51
	b) deferred	246	-	731	977
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	28,053	1,464	29,517
80.	Other liabilities	3,637	-396	7	3,248
90.	Employee termination indemnities	276	-70	-	206
100.	Allowances for risks and charges	397	-25	174	546
	a) commitments and guarantees given	62	-19	-	43
	b) post-employment benefits	81	-	-	81
	c) other allowances for risks and charges	254	-6	174	422
110.	Technical reserves	2,299	-	-	2,299
120.	Valuation reserves	-	-	-	-
130.	Redeemable shares	-	-	-	-
140.	Equity instruments	398	-	-	398
150.	Reserves (IFRS 2 reserve for employee incentive schemes)	-	-	10	10
150. - 200.	Shareholders' equity captions excluding equity instruments	9,883	-	-3,269	6,614
190.	Minority interests (+/-)	51	-	28	79
<b>Total liabilities and shareholders' equity</b>		<b>134,171</b>	<b>-</b>	<b>-686</b>	<b>133,485</b>

In 2020, as of the acquisition date, the effects attributable to the period arising from the amortisation of the differences between fair values and the carrying values that emerged in the PPA were recognised in the income statement; such differences refer mainly to captions recognised at amortised cost (e.g. loans to customers or securities issued). The impact on the 2020 income statement was negative for 37 million euro, net of the related tax effect.

For the reclassified income statement, in addition to the effects, already mentioned above, relating to the negative goodwill of 2,505 million euro and the transaction costs for the Public Offer for the component not attributable to shareholders' equity, amounting to -34 million euro, the following were allocated to the caption "Effects of purchase price allocation (net of tax)": (i) -85 million euro as a capital loss, net of tax, related to the Intesa Sanpaolo branches being sold to BPER Banca (ii) -37 million euro as the amortisation accrued in 2020, net of tax, of the differences resulting from the PPA between the fair values and the previous carrying amounts recognised by the acquired entity and (iii) -287 million euro net of tax (-428 million euro gross of tax) for the reinstatement of the Expected Credit Loss on the performing loans of the UBI Group that had been removed as a result of the fair value adjustment of the loan portfolio<sup>64</sup>. The resulting overall profit and loss effect allocated to the caption "Effect of purchase price allocation (net of tax)" was 2,062 million euro.

Lastly, in further reference to the business combination expenses totalling 2,041 million euro, gross of tax (1,378 million euro net of tax), related to the integration of the two groups, were recognised in the 2020 income statement. These expenses included around 1,340 million euro related to the agreement reached with the trade unions for voluntary exits, while the remainder mainly related to IT and advisory costs connected to the integration process. For the overall measurement of the net effect of the transaction, as the resulting negative goodwill, the decision was made to expense the charges for integration in the year when the business combination became effective, even though they were not considered in the PPA as required by IFRS 3. In fact, these charges would not have been incurred without the Public Offer for UBI Banca and the price offered by Intesa Sanpaolo, which the negative goodwill amount depends on, is also related to the synergies that can be achieved once the restructuring programme is completed. This approach is consistent with the expectations of the ECB, which indicated in the document mentioned above that badwill should also be used to cover the charges for integration connected to the business combination "... Given these uncertainties, the acquirer is expected to take advantage of this relatively low acquisition price to increase the sustainability of the business model of the combined entity, for example to cover transaction

<sup>64</sup> Pursuant to IFRS 9, on the performing loans arising from the UBI Group, qualifying as newly originated loans for the purposes of Intesa Sanpaolo's consolidated financial statements, a provision for the 12-month or lifetime ECL has been recognised based on the staging. Pursuant to IFRS 3, this effect was recognised outside the PPA process. Indeed, IFRS 3, paragraph B41, states that acquirers need not recognise a loss allowance on the acquisition date for expected credit losses because the effects of the uncertainty on future cash flows are already included in measurement at fair value. However, an ECL provision must be recognised on the first reporting date after the acquisition date, since these loans must follow the common rules provided for in IFRS 9. This approach is similar to that which would have been taken if the entity had originated or acquired these loans in a portfolio rather than acquiring them in a business combination.

or integration costs, or other investments, or to increase the prudence of assets' valuation in particular for non-performing loans ...”.

#### The acquisition of RBM Assicurazione Salute

On 19 December 2019 Intesa Sanpaolo Vita (“ISPV”) and the shareholders of RBH, the holding company controlled by the Favaretto family, reached an agreement for the acquisition by Intesa Sanpaolo Vita of RBM Assicurazione Salute (“RBM”), the third largest Italian player in the health insurance market. The investment contract signed by the parties calls for the gradual acquisition by ISPV, between 2020 and 2029, of full ownership of the company through:

- the acquisition of 50% plus one share of the share capital of RBM, with payment in cash at closing and the consequent acquisition of control of RBM by ISPV pursuant to IFRS 10;
- the acquisition of an additional interest of no less than 20% with cash payment through a cross put and call option mechanism with RBH that may be exercised between 1 January and 31 July 2026;
- the acquisition of the remainder of share capital of 30% less one share, with cash payment through a cross put and call option mechanism with RBH that may be exercised between 1 January and 31 July 2029.

The acquisition of RBM, subsequently renamed Intesa Sanpaolo RBM Salute, will enable the Intesa Sanpaolo Group to obtain immediate positioning, with a leadership role, in a sector that is currently expanding rapidly, with the health insurance product segment up nearly 10% in 2015-18, while other non-life business products were essentially flat.

The fulfilment of the purchase and sale agreement was conditional on obtaining the customary authorisations from the supervisory authorities (AGCM and IVASS), issued on 17 March and 16 April 2020, respectively. After the conclusion of the authorisation procedure, the transaction was finalised by the parties on 11 May 2020 with the acquisition by ISPV of 50% plus one share of RBM's share capital for consideration of 327 million euro.

At closing, on the basis of the interest acquired and the governance rights to which the Intesa Sanpaolo Group is entitled, ISPV (and thus, indirectly, Intesa Sanpaolo) acquired control of the company pursuant to IFRS 10, with the resulting obligation for line-by-line consolidation of RBM in its consolidated financial statements.

Thus structured, the transaction qualifies as a business combination in accordance with IFRS 3.

#### Accounting treatment of the business combination and PPA process

In view of the acquisition of control of RBM pursuant to IFRS 10 with the acquisition of 50%, plus one share, of share capital, the business combination was recognised according to the “acquisition method” set out in IFRS 3, with the consequent purchase price allocation.

Without prejudice to the identification of ISPV as the acquirer, the acquisition date is a significant element for the purposes of identifying the transaction, inasmuch as it represents the reference date for determining the fair values of the assets and liabilities acquired and the date with effect from which the financial performance of the acquiree is recognised in the acquirer's consolidated income statement. In this regard, although ISPV acquired control of RBM on 11 May 2020, taking due regard of the fact that the company, for the purposes of the contractual agreements, prepared a balance sheet and income statement as at and for the period ended 30 April 2020 and between this date and 11 May 2020 there were no extraordinary or material events, the book acquisition date has been taken by convention to be 1 May 2020. Accordingly, the closing balances as at 30 April 2020 have been adopted for the purposes of the balance sheet subject to initial consolidation, and for the purposes of determining the fair value of the assets acquired and liabilities assumed. Likewise, with regard to the recognition of the economic effects in the consolidated financial statements of ISPV and Intesa Sanpaolo, given the immateriality of the balances accrued in the first eleven days of May, RBM's economic contribution was recognised in the Intesa Sanpaolo Group's financial statements with effect from 1 May 2020.

The purchase price was determined on the basis of the consideration transferred on the closing date for 50% + 1 of RBM shares, equal to 327 million euro. In addition, given the clear strategic intention of Intesa Sanpaolo Vita to acquire the remaining RBM shares over time, reaching 100% ownership of the company in 2029, as established by the contractual agreements, which provide for put and call options, essentially representing a forward purchase, exercisable from 2026 to 2029, it was opted also to include in the purchase price the shares underlying the put and call agreement through the expression of minority interests in equity at fair value, as permitted by para. 19 of IFRS 3. Given the presence of the put options for the minority shareholder, the result for ISPV is an unconditional undertaking to purchase the shares underlying the option, which must be recognised as a financial liability in the parent entity's consolidated financial statements. Accordingly, the minority interest in equity has been derecognised and a financial liability recognised, also at fair value, representing ISPV's undertaking to purchase the RBM shares held by third parties. As for the acquisition date fair value of the financial liability associated with the put options, reference was made to the calculation mechanisms provided for in the contractual agreements for determining the best estimate of the future outlay, which was then discounted at a rate representing the implicit risk in the estimate of that future outlay, which by its nature is uncertain since it is tied to RBM's future equity and earnings on the basis of its business plan. On the basis of the calculations performed, relying on the balance sheet and income statement formula set out in the agreements and applied to RBM's 2020-2028 Business Plan, the estimated discounted value of the two options was found to be 110 million euro for that exercisable in 2026 and 220 million euro for that exercisable in 2029, with a total value of the financial liability at the acquisition date of 330 million euro.

The total consideration of the acquisition of RBM was 657 million euro, as the sum of the price paid by ISPV to acquire 50%, plus one share, of the company, equal to 327 million euro, and the fair value of the financial liability recognised on the acquisition date to reflect the subscription of the put options provided for in the investment contract (330 million euro).

In accordance with IFRS 3, within the framework of the PPA process, the acquiree's assets and liabilities were recognised at their respective fair values. In terms of differences between carrying amount and fair value, the following should be noted with regard to the assets and liabilities already recognised:

- real-estate portfolio: an appraisal was obtained from CBRE, a qualified firm of high standing capable of providing real-estate valuations on the basis of the finest standards in the industry, which precisely identified the acquisition date fair value of the company's property in Milan by determining a negative difference with respect to the previous carrying amount of one million euro;
- bond portfolio composed of short-term Italian government bonds, purchased to hedge technical reserves, recognised, pursuant to IAS 39, partly among financial assets measured at fair value and partly among financial assets measured at

- amortised cost. For both categories, the initial recognition value was taken as the acquisition date fair value;
- other assets: primarily relating to receivables for premiums to be collected from the policyholders of the policies issued. Considering the short-term nature of these captions (always less than 12 months), fair value was based on the carrying amount, in line with IFRS 13.

As for liabilities, RBM recognised technical reserves at the acquisition date of 137 million euro, payables of 57 million euro, attributable to relations with suppliers, intermediaries, reinsurers, co-insured parties and employees, recognised among other liabilities; the fair value of these captions was also taken as their carrying amount, given their short-term nature as trade payables. There are also allowances for risks and charges of 7 million euro.

Finally, an intangible asset typical of the insurance business, previously not recognised in the RBM financial statements, i.e. the Value of Business Acquired (VoBA), was recognised. VoBA is a specific intangible asset identified within the framework of the client relationship and specifically indicated among the intangible assets typical of the insurance business pursuant to IFRS 4, representative of the contracts that constitute the relationship with the customers acquired. Since it is an intangible asset strictly linked to the specific contractual relationship with the customer (insurance policies) it has been assumed to have a finite useful life. According to the relevant measurement practice, and pursuant to IFRS 4, the value of the VoBA was estimated, with support from Deloitte, a leading consultant with expertise in the sector, as the difference between the value of RBM's IAS/IFRS shareholders' equity and the value of its own funds, determined for the purposes of Solvency II regulations, which takes account of the company's technical reserves re-stated at fair value. The restatement of technical reserves at fair value, gross of the related tax effect, yielded a VoBA value of 32 million euro.

#### *Summary of the purchase price allocation and goodwill calculation process*

By virtue of the put and call agreements entered into, goodwill was recognised on 100% of the acquiree as the difference between the total purchase price, equal to the consideration transferred for 50% of the share capital plus one share of the company, in addition to the fair value of the financial liability relating to the put options underlying the minority interest, and the shareholders' equity acquired at 30 April 2020, expressed at fair value within the framework of the PPA process.

The following is a summary of the purchase price allocation process and the resulting goodwill.

	(millions of euro)	
<b>Consideration transferred at closing for 50% + 1 share of share capital</b>	a	327
Fair value of financial liability for put option on 20% of RBM	b	110
Fair value of financial liability for put option on 30% - 1 share of RBM	c	220
<b>Total financial liability</b>	d = b + c	330
<b>Total purchase price of RBM at acquisition date</b>	<b>e = a + d</b>	<b>657</b>
<b>RBM IAS/IFRS shareholders' equity at 30/04/2020</b>	<b>f</b>	<b>355</b>
<b>PPA effects</b>	<b>g</b>	<b>23</b>
- VoBA recognition		32
- Change in fair value on property		-1
- Related tax effects		-8
<b>RBM shareholders' equity at 30/04/2020 - fair value</b>	<b>h = f + g</b>	<b>378</b>
<b>Goodwill recognised</b>	<b>e - h</b>	<b>279</b>

A comparison between the total purchase price and the shareholders' equity revalued at fair value produced a residual difference of 279 million euro which was recognised as goodwill in the 2020 financial statements. According to IAS 36, the goodwill and intangible assets recognised in a business combination must, from the acquisition date, be allocated to the CGU that is expected to benefit from the synergies of the business combination; the goodwill and VoBA recognised from the acquisition of RBM were allocated to the Insurance CGU of the Intesa Sanpaolo Group.

In the interest of completeness, the balance sheet of RBM is provided below, as accounted for at the acquisition date by Intesa Sanpaolo Vita.

(millions of euro)

Assets	Carrying amount at acquisition date	Fair value differences	Acquisition date fair value
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	31	-	31
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	41	-	41
Investments in associates and companies subject to joint control	-	-	-
Property, equipment and intangible assets	4	310	314
- of which VoBa	-	32	32
- of which: goodwill	-	279	279
Tax assets	9	-	9
Non-current assets held for sale and discontinued operations	-	-	-
Other assets	474	-	474
<b>Total assets</b>	<b>559</b>	<b>310</b>	<b>869</b>

(millions of euro)

Liabilities and Shareholders' Equity	Carrying amount at acquisition date	Fair value differences	Acquisition date fair value
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	-	-	-
Tax liabilities	1	10	11
Other liabilities	57	-	57
Technical reserves	137	-	137
Allowances for risks and charges	7	-	7
Shareholders' equity captions	357	300	657
<b>Total liabilities and shareholders' equity</b>	<b>559</b>	<b>310</b>	<b>869</b>

### The acquisition of Euroconsult Rental Division

Following the agreement signed on 30 October 2020, ISP Forvalue, a sole-shareholder company subject to management and coordination by Intesa Sanpaolo, undertook to purchase the entire share capital of Euroconsult Rental Division S.p.a. (hereinafter "Euroconsult"), a company operating in the market for the rental to freelance professionals, companies, credit institutions and public or private entities of operating assets in the "beauty and health", "trade", "hospitality", "office and services" and "manufacturing" sectors.

The acquisition of Euroconsult, subsequently renamed Intesa Sanpaolo Rent for You, active since 2009 in the Italian market for rental of operating assets with market share of between 2% and 3%, allows the Intesa Sanpaolo Group to take a strategic position in a rapidly expanding business with high industrial margins and excellent return on investment. The contract signed by the parties provides for the progressive acquisition by Intesa Sanpaolo Forvalue, from 2020 to 2025, of full ownership of Euroconsult through the purchase of a 60% interest in two tranches, the first of Euro 4.8 million euro, paid on 30 October 2020, and the second to be paid after 12 months, in the same amount, with possible price adjustments upon the occurrence of certain conditions – and then of the residual 40% interest, starting in March 2025, through put and call options at a strike price calculated according to a balance sheet-income statement formula that reflects the actual performance of the target company in the 2020-2024 period.

The transaction in question qualifies as a business combination in accordance with IFRS 3 and was accounted for using the "acquisition method". In the case at hand, the total consideration of the acquisition of Euroconsult was 25 million euro, equal

to the sum of the price paid by Intesa Sanpaolo Forvalue to acquire 60% of the company (10 million euro) and the amount of the financial liability recognised on the acquisition date to reflect the subscription of the put options provided for in the investment contract (15 million euro).

A comparison between the consideration transferred and the shareholders' equity at acquisition date fair value of Euroconsult, equal to 7 million euro, produced a residual difference of 18 million euro, which was recognised as goodwill in the 2020 financial statements. In addition, as provided for in IAS 36, the goodwill recognised in the Euroconsult acquisition was allocated to the Banca dei Territori CGU.

## **SECTION 2 – TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR**

### **2.1 Business combinations**

No business combinations within the scope of IFRS 3 have been undertaken since the end of 2020.

## **SECTION 3 – RETROSPECTIVE ADJUSTMENTS**

No adjustments are recognised in the current year that relate to business combinations that occurred in previous reporting periods.



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# Part H – Information on compensation and transactions with related parties

## A) TRANSACTIONS WITH RELATED PARTIES

### 1. Procedural features

The Board of Directors of Intesa Sanpaolo S.p.A. adopted, in compliance with the procedures set out by regulations, the Group Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking.

These Procedures take into account both the rules issued by Consob, pursuant to Article 2391-bis of the Italian Civil Code, and the supervisory provisions introduced by the Bank of Italy on 12 December 2011 in terms of risk and conflicts of interest by banks and banking groups with respect to "Associated Entities", issued in accordance with Article 53, paragraphs 4 et seq. of the Consolidated Law on Banking and CICR (Interdepartmental Committee for Credit and Savings) Resolution 277 of 29 July 2008, as well as the rules established by Article 136 of the Consolidated Law on Banking.

The Procedures apply to the entire Intesa Sanpaolo Group with respect to the following aspects:

- the criteria for identifying Related Parties and Associated Entities;
- the process of analysis, decision-making and information for corporate bodies in connection with transactions with Related Parties and Associated Entities;
- market disclosure for transactions with Related Parties;
- the prudential limits and obligations for periodic reporting to the Bank of Italy for activities at risk in relation to Associated Entities;
- the rules governing organisational controls and safeguards;
- the general rules for disclosure and abstention about the management of the personal interests by board members and general managers, employees and company staff, including other than Associated Entities.

Pursuant to the Procedures, the following are considered Related Parties of Intesa Sanpaolo: parties that exercise significant control or influence, subsidiaries and associates, joint ventures, pension funds of the Group, Board Directors and General Managers and Key Managers of Intesa Sanpaolo and their close family members and significant shareholdings.

The set of Associated Entities of the Group consists of the Associated Entities of each bank of the Group (including the Parent Company) and each monitored significant intermediary with own funds greater than 2% of the total of consolidated own funds. The following are considered to be Associated Entities for each monitored significant bank or intermediary of the Group: i) shareholders that exercise control, significant influence or that are required to request authorisation pursuant to Article 19 of the Consolidated Law on Banking or that may appoint a member of the management or strategic supervisory body and the relative corporate groups; ii) subsidiaries, associated companies under joint control and associated companies, as well as the companies controlled by the latter, also jointly with others; iii) board members and general managers and their relative close family members up to the second degree and significant subsidiary entities.

As a form of self-regulation, the Bank has extended the regulations on transactions with Related Parties, as well as those on risk assets and conflicts of interest with respect to Associated Entities, to: i) the shareholders of Intesa Sanpaolo and to the relative corporate groups with an equity investment in the Bank's voting capital greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management, as well as the companies jointly controlled by them; ii) the companies in which close family members of board members and general managers of the banks and the monitored significant intermediaries of the Group hold executive offices; iii) the companies which the Group has notable investments in and financial links with, because they meet the conditions of at least two of the following indicators:

- the counterparty holds a stake in Intesa Sanpaolo's capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies;
- an entity of the Intesa Sanpaolo Group holds a stake in the counterparty exceeding 10% of the voting rights;
- significant credit exposure of the Group to the counterparty.

This approach allows closer monitoring of transactions with the main entities in potential conflict of interest risk - by subjecting them to the same requirements for analysis, decision-making process and subsequent disclosure to the Corporate Bodies and the market as transactions with Related Parties and Associated Entities - and keeps the risk activities carried out by the Group with said parties within the prudential limits set by the Bank of Italy.

The Procedures set forth the assessment process that must be followed by the Parent Company and subsidiary companies when carrying out transactions with Related Parties of Intesa Sanpaolo, Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, to ensure appropriateness of the transactions. The Procedures also require detailed examination of the reasons and interests behind the transactions, their effects on the Bank's financials and the terms of the transaction.

In line with the regulations implemented by Consob and by the Bank of Italy, a regime of full or partial exemptions from the application of the regulations is also envisaged.

With regard to the decision-making for transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, the procedure distinguishes between:

- transactions involving smaller amounts: with a value of less than or equal to 250,000 euro for individuals and 1 million euro for persons other than natural persons (excluded from application of the regulations);
- less significant transactions: with a value higher than the small-amount thresholds (250,000 euro for individuals and 1 million euro for persons other than natural persons) but lower than or equal to the most significant thresholds indicated below;
- most significant transactions: with a value higher than the threshold of 5% of the indicators defined by Consob and by the Bank of Italy (approximately 3.4 billion euro for the Intesa Sanpaolo Group);
- transactions attributed to the shareholders' meeting, in accordance with the law or with the Articles of Association.

In the process of approval of transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, an important role is reserved for the Committee for Transactions with Related Parties of Intesa Sanpaolo S.p.A. and Associated Entities of the Group (hereafter Committee for Transactions with Related Parties), which meets the independence requirements laid down in the Corporate Governance Code for Listed Companies and Art. 148 of the Consolidated Law on Finance. The Committee for Transactions with Related Parties can make use of independent experts, where considered appropriate, according to the degree of importance of the transaction, its specific economic or structural characteristics and the nature of the related party or associated entity.

For most significant transactions, the Committee must be promptly involved in the analysis and negotiation phases, receiving a complete and timely flow of information, with the right of the Committee to request additional information and make observations.

All transactions – that are not exempt based on the Procedures – undertaken by the Parent Company with one of its related parties or associated entities are subject to approval by the Board, upon recommendation by the Committee for Transactions with Related Parties.

The Procedures set out specific controls in the event that a less significant or most significant transaction is approved in spite of a negative opinion of the independent Committee.

Transactions undertaken by subsidiaries with Related Parties of Intesa Sanpaolo and Associated Entities of the Group must be approved by the Board of Directors of the subsidiaries concerned, subject to prior authorisation from the Parent Company released in accordance with the procedure described above.

The Procedures also define the general criteria for the information to be provided, at least quarterly – also pursuant to Article 150 of the Consolidated Law on Finance – to the directors and the control body regarding transactions with Related Parties and Associated Entities completed in the reference period by the Parent Company or by its subsidiaries. All of the above is aimed at providing a complete overview of the transactions of greater importance, as well as the volumes and the main features of all those delegated. Reports must include all transactions, even if exempt from the decision-making procedure, for amounts greater than the small-amount thresholds. Transactions of less significant importance and intragroup loans and bank funding are excluded from this requirement (provided they do not regard a subsidiary with significant interests of another Related Party or Associated Entity and are not carried out at market or standard conditions). For ordinary intragroup less significant transactions carried out at market conditions, reporting is on an aggregate annual basis.

Transactions undertaken by Italian subsidiary banks with Related Parties and Associated Entities of the Group that have not been considered exempt must, subject to authorisation by the Parent Company, be approved by the relative Board of Directors, upon obtaining the opinion of a Committee of independent directors set up within the Board of Directors of the bank itself. Furthermore, specific reporting rules apply to transactions by the Bank's Bodies.

The Procedures also apply to transactions with Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, which must be applied by all the Italian banks of the Intesa Sanpaolo Group, including the Parent Company. This provision requires the adoption of a more thorough decision-making procedure (unanimous decision by the management body, excluding the vote of the interested member, and favourable vote of members of the control body) in order to allow the bank officers to contract obligations, directly or indirectly, with the bank of which they act as officers.

Furthermore, the requirements envisaged by the Italian Civil Code (Article 2391) and Article 53 of the Consolidated Law on Banking governing directors' personal interests are confirmed.

In particular, Article 2391 of the Italian Civil Code requires each Board Member to report every interest held, in his/her own name or on behalf of third parties, that may be significant in carrying out his/her management function, with reference to a specific transaction. In accordance with the abovementioned provision, the Board has jurisdiction over decisions regarding transactions – including those with Related Parties – in which the Managing Director possesses an interest on his/her own account or through a third party and must therefore abstain from the decision, entrusting the Board as per Article 2391 of the Italian Civil Code.

In addition, Article 53 of the Consolidated Law on Banking requires banks' directors to abstain from voting on resolutions where they have a conflict of interest on their own behalf or on behalf of third parties.

**2. Information on balances with related parties**

Receivable and payable balances with related parties as at 31 December 2020 within the consolidated accounts – other than those fully consolidated intragroup – amount to a total that is insignificant compared to the size of the Group's capital base. Likewise, the weight of income and charges with related parties on consolidated operating margin is insignificant.

	31.12.2020	
	Amount (millions of euro)	Impact (%)
Total financial assets (1)	10,693	1.2
Total other assets (2)	572	1.3
Total financial liabilities (3)	7,706	1.0
Total other liabilities (4)	1,631	1.0
(1) Includes captions 20, 30, 35, 40, 45 and 70 of balance sheet assets		
(2) Includes captions 50, 60, 120 and 130 of balance sheet assets		
(3) Includes captions 10, 15, 20, 30 and 35 of balance sheet liabilities		
(4) Includes captions 40, 50, 70, 80, 90, 100 and 110 of balance sheet liabilities		

	31.12.2020	
	Amount (millions of euro)	Impact (%)
Total interest income	50	0.5
Total interest expense (1)	67	0.0
Total fee and commission income	89	0.9
Total fee and commission expense	-133	5.7
Total operating costs (2)	-145	1.2
(1) The positive balance of interest expense is due to the differentials on hedging derivatives which adjust interest recognised on hedged financial instruments.		
(2) Includes caption 180 of the income statement		

In relation to associates, in the year a total of around 19 million euro of net adjustments to loans were recorded, partially offset by releases of allowances for commitments and guarantees given of around 16 million euro.

The table below reports the main terms of reference of transactions with each category of related party, as classified by IAS 24, net of operations with fully consolidated entities, with the category of Significant Shareholders of Intesa Sanpaolo and their corporate groups (subsidiaries also controlled jointly with others, parent companies and companies subject to joint control) with an equity investment with voting rights in the Bank greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management, as well as with the additional subjects included in the scope set as a form of self-regulation.

The following table does not show the impact of related party transactions on the Group's cash flows, as this was not significant.

For greater clarity and in line with the reports sent to the Supervisory Authorities, note that the off-balance sheet items were detailed on two separate columns by grouping on one side the guarantees/commitments given and on the other the guarantees/commitments received. The first category also includes the revocable commitments issued totalling 85 million euro.

	Subsidiaries not consolidated on a line-by-line basis	Companies subject to joint control and their subsidiaries	Associates and their subsidiaries	Board Members and General Managers, Key Managers and their related parties	Pension funds	TOTAL	(millions of euro)	
							Shareholders (*)	Companies which the Group has notable investments in and financial links with (**)
Financial assets measured at fair value through profit or loss	2	-	57	-	-	59	805	1,292
a) financial assets held for trading	-	-	5	-	-	5	795	1,292
b) financial assets designated at fair value	2	-	-	-	-	2	-	-
c) other financial assets mandatorily measured at fair value	-	-	52	-	-	52	10	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	22	4
Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	-	-	-	-	-	-	250	24
Financial assets measured at amortised cost	2	49	744	9	-	804	3,487	1,939
a) due from banks	-	-	4	-	-	4	3,371	32
b) loans to customers	2	49	740	9	-	800	116	1,907
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-	-	-	-	-	-
Other assets	7	-	353	-	1	361	204	7
Investments in associates and companies subject to joint control	46	44	1,914	-	-	2,004	-	-
Financial liabilities measured at amortised cost	32	12	861	23	241	1,169	1,150	353
a) due to banks	1	-	3	-	-	4	827	15
b) due to customers	31	12	858	23	241	1,165	323	338
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-	-	-	-	-	-
Financial liabilities held for trading	-	-	-	-	-	-	3,658	1,328
Financial liabilities designated at fair value	-	-	-	-	-	-	-	-
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	-	-	-	-	-	-	46	3
Other financial liabilities	4	-	41	16	518	579	131	921
Guarantees and commitments given	24	25	1,290	1	1	1,341	1,150	1,398
Guarantees and commitments received	-	16	31	5	-	52	34	722

(\*) Shareholders and their groups that hold a stake in the share capital that exceeds the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies, calculated considering only shares owned or under management, as well as entities jointly controlled by them.

(\*\*) Companies that meet the conditions of at least two of these indicators: i) the counterparty holds a stake in Intesa Sanpaolo's capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies; ii) an entity of the ISP Group holds a stake in the counterparty exceeding 10% of the voting rights; iii) significant credit exposure of the Group to the counterparty. The amounts mostly refer to Goldman Sachs International, The Goldman Sachs Group Inc. and Nexi Payments S.p.A.

For the sake of completeness, the Group's most significant associates included in the category of related parties in accordance with the version of IAS 24 in effect are: Intrum Italy S.p.A., RSCT Fund - Comparto Crediti, Penghua Fund Management Co. Ltd, Lombarda Vita S.p.A., Back2Bonis, FI.NAV. - Comparto A Crediti, Zhong Ou Asset Management Company Ltd, Aviva Vita S.p.A., Equiter S.p.A., Sisalpay Group S.p.A., Cassa di Risparmio di Fermo S.p.A., and Autostrada Pedemontana Lombarda S.p.A. The main joint ventures include: Mir Capital Sca Sicar, PBZ Croatia Osiguranje Public Limited Company for Compulsory Pension Fund Management and VUB Generali Dochodkova Spravcovska Spolocnost AS.

### 3. Information on transactions with related parties

It is noted that transactions with fully consolidated intragroup related parties are not included in this document because they are netted at consolidated level.

For details of the transactions carried out by Intesa Sanpaolo S.p.A., see the information provided in Part H of Parent Company's Financial Statements.

#### *Most significant transactions*

During the year, the Intesa Sanpaolo Group did not carry out any transactions that qualified as non-ordinary "most significant transactions" and at non-market or non-standard conditions subject – in accordance with the Group Procedures regulating the conduct of Transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking – to the obligation to publish a market disclosure document. Please note that the most significant transactions in the period are those that exceed the threshold of 5% of Own Funds at consolidated level (approximately 3.4 billion euro) or of the other indicators defined by the Consob regulation.

#### *Most significant intragroup transactions*

During the year, net of the transactions between Group companies consolidated on a line-by-line basis, the Intesa Sanpaolo Group did not carry out any more significant intragroup transactions – exempt, pursuant to the aforementioned internal Procedures, from the special decision-making procedure and from the obligation to publish a market disclosure document.

#### *Other significant transactions*

The transactions undertaken by the Intesa Sanpaolo Group with related parties fall within the scope of the Group's ordinary activities and are generally entered into at market conditions, based on considerations of mutual economic interest, in line with the internal procedures mentioned above.

The main less significant transactions concluded during the period by Intesa Sanpaolo Group Companies with related parties are reported below. See Part H of the Parent Company's Financial Statements, for a description of Intesa Sanpaolo's operations.

Relations between the Intesa Sanpaolo Group and the board members and general managers, key managers, their close family members and entities they invest in refer to the Group's normal business activities and are defined applying, where conditions recur, the terms reserved to all employees, in full respect and transparency of terms applied.

With respect to transactions with Shareholders – which hold equity investments in Intesa Sanpaolo S.p.A. with voting rights greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management – and with entities with significant shareholding or financial relationships (to which the provisions governing transactions with related parties has been extended as a form of self-regulation, subjecting them to the same assessment, approval and disclosure procedure as applied to transactions with related parties), mainly ordinary lending transactions and transactions in financial instruments were undertaken at market conditions.

In particular, the transactions in OTC financial instruments carried out by Banca IMI S.p.A. (merged into Intesa Sanpaolo S.p.A. during the year) in the course of continuing operations included those with JP Morgan Securities PLC, Goldman Sachs Bank Europe SE, BlackRock Fund Managers Ltd, JP Morgan AG, Goldman Sachs International, Quaestio Capital SGR S.p.A., Fondazione Cassa di Risparmio di Firenze, Goldman Sachs Asset Management International and JP Morgan Asset Management UK.

The transactions with jointly-controlled subsidiaries and associates, as well as their subsidiaries, included the transactions in OTC financial instruments carried out by Banca IMI S.p.A., as part of its ordinary operations, with Cassa di Risparmio di Fermo and, among the financial transactions, the early termination by Unione di Banche Italiane S.p.A. of the securitisations relating to the vehicle companies UBI SPV Group 2016 S.r.l. and 24-7 Finance S.r.l., which would have been in an advanced stage of amortisation, due to the repurchase of assets by the latter following the sale of branches to BPER.

In addition, a supply contract was signed between Banca 5 and Sisalpay S.p.A. for the issuance of a Sisalpay-branded payment card, and UBI Banca S.p.A. granted Euromilano S.p.A. ordinary credit facilities at market conditions.

Finally, transactions conducted with Pension funds for employees of Intesa Sanpaolo and other Group Companies included ordinary transactions in OTC financial instruments by Banca IMI S.p.A. with Cariplo Pension Fund.

#### *Other significant information*

With regard to companies carried at equity, adjustments were posted in the equity investments in Destination, Oval, Rainbow, Cassa di Risparmio di Fermo, Mir Capital, Matipay and RSCT Fund - Comparto Crediti.

For pension funds benefiting the Group's employees in which Intesa Sanpaolo Group companies are co-obliged by virtue of guarantees given, payments of immaterial amounts were made during the period for the settlement of the technical imbalance of the funds concerned.

**B) INFORMATION REGARDING COMPENSATION OF THE MEMBERS OF MANAGEMENT AND CONTROL BODIES AND KEY MANAGERS**

The following table shows the amounts of the compensation paid in 2020 to the members of the Management and Control Bodies and the General Managers of the subsidiary companies, as well as the compensation paid to other Key Managers of the Parent Company who fall within the notion of “related party”. This also includes the maximum amounts of the variable portion of remuneration which shall be paid in cash and/or shares of the Parent Company, based on the Group's remuneration and incentive policy, subject to the verification of achievement of the assigned targets and the decisions of the competent bodies of the Parent Company.

(millions of euro)

	MANAGEMENT BODIES/ CONTROL BODIES <sup>(1)</sup>		OTHER MANAGERS <sup>(2)</sup>		TOTAL as at 31.12.2020	
	Amount due	Amount paid	Amount due	Amount paid	Amount due	Amount paid
Short-term benefits <sup>(3)</sup>	19	15	45	39	64	54
Post-employment benefits <sup>(4)</sup>	-	-	7	6	7	6
Other long-term benefits <sup>(5)</sup>	-	-	4	-	4	-
Termination benefits <sup>(6)</sup>	-	-	-	-	-	-
Share-based payments <sup>(7)</sup>	-	-	16	-	16	-
<b>Total</b>	<b>19</b>	<b>15</b>	<b>72</b>	<b>45</b>	<b>91</b>	<b>60</b>

(1) Figures referring to 430 positions. The table does not include approximately 1.2 million euro relating to 85 positions in the Boards of Directors (or similar bodies), as this was fully transferred to other Group Companies

(2) Figures referring to 89 positions. The table does not include approximately 2.9 million euro relating to 7 General Manager positions (or similar positions), as this was fully transferred to other Group Companies

(3) Includes fixed and variable remuneration of Directors that may be treated as equivalent to labour cost and social security charges paid by the company for its employees

(4) Includes company contribution to pension funds and provisions for employee termination indemnities pursuant to law and company regulations

(5) Includes an estimate of provisions for employee seniority bonuses

(6) Includes benefits due under the employment contract for termination of employment

(7) Includes the cost referring to the variable portion of short-/long-term remuneration to be paid in Intesa Sanpaolo shares/through POP Plan.

Detailed information on remuneration policies, pursuant to Art. 123 ter of the Consolidated Law on Finance, is published annually in the “Report on remuneration policy and compensation paid”, which includes:

- the details of the remuneration paid to members of management and control bodies, to General Managers, and to other Key Managers;
- the details and the progress of the stock option plans for the members of the Management Body, General Managers and other Key Managers;
- the details and the progress of the incentive plans based on financial instruments other than stock options, in favour of the Managing Director and CEO and other Key Managers;
- the details of the monetary incentive plans in favour of the Managing Director and CEO and other Key Managers;
- the shares of the Parent Company and subsidiaries held by the members of the Management and Control bodies, Key Managers and other associated entities.



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# Part I – Share-based payments

## A. QUALITATIVE INFORMATION

### Description of share-based payments

#### *Annual incentive plan based on financial instruments*

The Supervisory Provisions regarding remuneration and incentive policies and practices in banks and in banking groups, issued on 30 March 2011 (now integrated in Circular 285 of the Bank of Italy) required, *inter alia*, that a portion of annual incentives paid to “Risk Takers” be granted through the assignment of financial instruments, over a multi-year time horizon. As a result, the Intesa Sanpaolo Group sets up annual incentive plans linked to performance. In fulfilment of these plans:

- with regard to the results for 2015, and in implementation of the Shareholders' Meeting resolution of 27 April 2016, on 16 November 2016 the Group totally purchased - through Banca IMI, in charge of the programme execution - 8,440,911 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.149 euro per share, for a total value of 18,139,446 euro;
- with regard to the results for 2016, and in implementation of the Shareholders' Meeting resolution of 27 April 2017, on 18 September 2017 the Group totally purchased - through Banca IMI, in charge of the programme execution - 8,091,160 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.937 euro per share, for a total value of 23,762,245 euro.
- with regard to the results for 2017, and in implementation of the Shareholders' Meeting resolution of 27 April 2018, on 12 September 2018 the Group purchased - through Banca IMI, in charge of the programme execution - 12,686,321 Intesa Sanpaolo ordinary shares (representing approximately 0.07% of the ordinary share capital) at an average purchase price of 2.291 euro per share, for a total value of 29,061,008 euro.
- with regard to the results for 2018, and in implementation of the Shareholders' Meeting resolution of 30 April 2019, on 17 and 18 September 2019 the Group totally purchased - through Banca IMI, in charge of the programme execution - 17,137,954 Intesa Sanpaolo ordinary shares (representing approximately 0.10% of the ordinary share capital) at an average purchase price of 2.129 euro per share, for a total value of 36,481,543 euro. In addition, the purchase programme has been implemented in order to grant severance payments to Risk Takers upon early termination of employment, as envisaged by the Supervisory Provisions;
- with regard to the results for 2019, and in implementation of the Shareholders' Meeting resolution of 27 April 2020, on 16, 17 and 18 November 2020 the Group totally purchased - through its IMI Corporate & Investment Banking Division, in charge of the programme execution - 25,400,000 Intesa Sanpaolo ordinary shares (representing approximately 0.13% of the share capital of the Parent Company) at an average purchase price of 1.852 euro per share, for a total value of 47,046,279 euro. In addition, the purchase programme has been implemented in service of the 2018-2021 Incentive Plan for financial advisors of the Fideuram – Intesa Sanpaolo Private Banking and Sanpaolo Invest networks and to grant severance payments to Risk Takers upon early termination of employment, as envisaged by the Supervisory Provisions.

The above Shareholders' Meetings also authorised the sale on the regulated market of any shares exceeding requirements, or their retention for any future incentive plans.

The above shares shall be assigned to the beneficiaries in compliance with the implementing regulations set forth in the above incentive systems. Generally, according to these regulations, the beneficiaries must remain in service up to the time the shares are actually delivered to them, and the deferred portion (either in cash or in financial instruments) of the incentive is subject to an ex post correction mechanism – the “malus condition” – according to which the relative amount paid and the number of shares assigned, if any, may be reduced by the level of achievement, in the year to which the deferred portion refers, of specific income statement-balance sheet targets which measure the sustainability of the results achieved over time.

#### *Long-Term Incentive Plans 2018-2021: POP and LECOIP 2.0 Plans*

At the time of launching the 2018-2021 Business Plan, two new long-term incentive plans were launched targeting different clusters of employees:

- The Performance-based Option Plan (POP) targeted at the Top Management, Risk Takers and Key Managers;
- The LECOIP 2.0 Plan targeted at Managers and the remaining personnel.

With reference to the Top Management, Risk Takers and Key Managers, which have a direct impact on the Group's results, it was considered necessary to adopt an instrument specifically linked to the achievement of the Business Plan targets and with an adequate risk/return profile in respect of the role held and the levels of ambition and challenge of the new Business Plan.

The POP is based on financial instruments linked to shares (Call Options) and subject to the achievement of the key performance conditions of the Business Plan as well as subordinated to gateway conditions and individual access (compliance breach).

The entire amount accrued will be paid in shares over a 3/5-year time horizon (depending on the sub-cluster of the beneficiary and subject to verification of the malus conditions, defined in a mirrored manner to the gateway conditions, in those years when they are envisaged).

Furthermore, in June 2018 the Group signed a novation agreement (*accollo liberatorio*) with JP Morgan. Under the terms of this agreement, Intesa Sanpaolo transferred to JP Morgan the obligation to deliver to the Intesa Sanpaolo Group employees

any ordinary shares that may be due when the POP Options expire, and JP Morgan thereby took on all the volatility risks associated with the Plan.

Instead, with reference to the Managers and the remaining personnel, basically in line with the LECOIP 2014-2017, a LECOIP 2.0 retention plan 2018 – 2021 was introduced.

The LECOIP 2.0, aimed at enabling the sharing of the value created over time, at every level of the organization, as a result of the achievement of the objectives of the Business Plan and fostering the identification (ownership) and the spirit of belonging to Intesa Sanpaolo Group, is assigned as certificates issued by JP Morgan, i.e. share-based financial instruments. In particular, the LECOIP 2.0 includes:

- the assignment, free of charge, to employees, of new Intesa Sanpaolo ordinary shares deriving from a capital increase without payment (“Free Shares”);
- the assignment, also free of charge, to employees, of additional new Intesa Sanpaolo ordinary shares deriving from the same capital increase without payment (“Matching Shares”) and the subscription by employees to new Intesa Sanpaolo ordinary shares deriving from a capital increase with payment, reserved for employees, through the issue of shares at a discounted price (“Discounted Shares”).

The Certificates are divided into two categories, and have different characteristics according to whether they are reserved for Professionals or for Managers employed by the Group in Italy. The Certificates reflect the terms of certain options that have Intesa Sanpaolo ordinary shares as their underlying instruments, and will allow employees to receive, at maturity, in the absence of trigger events, an amount in cash (or in Intesa Sanpaolo ordinary shares) that is equal to the original market value of the Free Shares and the Matching Shares with regard to Professionals and 75% of this value with regard to Managers, plus a portion of any appreciation, compared to the original market value, related to the amount of the Free Shares, Matching Shares and Discounted Shares.

The POP and the LECOIP 2.0 plans were subject to the approval of the ordinary Shareholders’ Meeting of 27 April 2018.

With specific reference to the LECOIP 2.0, the extraordinary session of the Shareholders’ Meeting resolved on granting a power of attorney to the Board of Directors to increase the share capital pursuant to Article 2443 of the Italian Civil Code, conducive to the implementation of the LECOIP 2.0. These capital increases were carried out on 11 July 2018, at the same time as launching the long-term incentive plans 2018-2021.

Both the long-term incentive plans in question (the POP and the LECOIP 2.0) fall within the scope of IFRS 2 and qualify as equity-settled share-based payment plans.

With reference to the POP, at the assignment date, the fair value of the equity instruments that are subject to the plan was calculated (represented by the fair value of the options adjusted to consider the availability constraint the shares will be subject to following the exercise of the options) and no longer modified. The Plan envisages the presence of non-market service and performance conditions (the gateway conditions and performance conditions), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and until the expiry. The cost of the plan, so defined, is attributed to the income statement (as labour costs) pro rata temporis along the period of accrual of the benefit, as a balancing entry for a specific shareholders’ equity reserve. Upon the occurrence of the events that imply the loss of the right to the benefits of the POP (performance conditions, gateway conditions and the discontinuation of employment) for the employees, Intesa Sanpaolo recognises a financial asset through shareholders’ equity. Upon measurement, subsequent changes in fair value are taken to profit or loss. Concerning the right of novation – as this can essentially be considered as the operational method adopted by the Group to fulfil the obligation of physical delivery of the shares deriving from the Plan - the accounting representation is that of an equity instrument, with a balancing entry under shareholders’ equity.

With regard to the LECOIP 2.0 Plan, at the assignment date, the fair value of the equity instruments that are subject to the plan was calculated (equivalent to the sum of the fair value of the shares assigned free of charge and the fair value of the discount for the paid shares) and no longer modified. The Plan envisages the presence of non-market service and performance conditions (trigger events), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and until the expiry. The cost of the plan, so defined, is attributed to the income statement (as labour costs) pro rata temporis along the period of accrual of the benefit, as a balancing entry for a specific shareholders’ equity reserve.

Upon the occurrence of the events that imply the loss of the rights to the benefits of the LECOIP 2.0 Certificates (trigger events and the discontinuation of employment) for the employees, Intesa Sanpaolo recognises a financial asset as a balancing entry in Shareholders’ Equity. In particular, the Certificates entered in the Group’s financial statements, as part of IFRS 9, are classified among financial assets mandatorily measured at fair value. Upon measurement, subsequent changes in fair value are taken to profit or loss.

**B. QUANTITATIVE INFORMATION***Evolution of the annual incentive plans based on financial instruments in 2020*

	Number of shares	Average strike price (euro)	Residual life
Financial instruments outstanding as at 31 December 2019	27,416,160	-	May 2020/ May 2024
Financial instruments granted during the year	18,139,869	-	May 2021/ May 2025
Financial instruments no longer assignable (a)	101,078	-	
Financial instruments vested during the year and assigned	8,110,877	-	
Financial instruments outstanding as at 31 December 2020	37,344,074	-	May 2021/ May 2025
of which: vested and assigned as at 31 December 2020	-	-	

(a) Shares no longer deliverable to the beneficiaries following the related employment agreement ceasing and/or due to the application of the so-called malus conditions.

In addition to the shares specified above, in accordance with the Provisions of the Bank of Italy regarding remuneration and the Remuneration and Incentive Policies of the Group, during 2020, 410,693 shares were assigned with reference to remuneration granted to Risk Takers in the event of early termination (severance). The residual life of those shares, assigned over a multi-year time horizon, ends between January 2021 and July 2025.

*Breakdown by residual life*

Residual life	Number of shares
May - November 2021	19,507,021
May - November 2022	9,632,392
May - November 2023	5,554,023
May 2024	1,748,447
May 2025	902,191

## Evolution of long-term share-based instruments: LECOIP 2.0 and POP

	LECOIP PLAN 2.0												
	Free Shares at July 2018		Matching Shares at July 2018		Discounted Shares at July 2018		Sell to cover shares at July 2018 (a)		Total number of shares assigned at July 2018	Number of LECOIP Certificates at 31.12.2019	Changes in the year (c)	Number of LECOIP Certificates at 31.12.2020	Average fair value 31.12.2020
	Number of shares	Average unit fair value	Number of shares	Average unit fair value	Number of shares	Average unit fair value (b)	Number of shares	Average unit fair value (b)					
Total employees	25,147,152	2.4750	47,411,243	2.4750	507,908,765	0.3771	96,595,275	2.5416	677,062,435	70,094,666	-1,408,701	68,685,965	2.3645

(a) Assigned shares allocated to cover the payment relating to the employee's tax burden.

(b) Fair value of the subscription discount.

(c) Number of Certificates for which Intesa Sanpaolo shall take over the rights that would have been recognised to the employees by virtue of the Certificates due to failure to comply with the condition of continuation of employment for the duration of the Plan and other vesting conditions.

	Performance-based Option Plan (POP)							
	POP options at July 2018 (a)		POP options at 31.12.2019		Changes in the year (b)	POP options at 31 December 2020		
	Number of POP options	Average unit fair value	Number of POP options	Average unit fair value		Number of POP options	Average unit fair value	
Total beneficiaries (Top Management, Risk Takers and Key Managers)	517,066,285	0.3098	491,075,556	0.0560	-7,271,278	483,804,278	0.0004	

(a) Number of POP options and relevant average fair value assigned on 11 July 2018 to beneficiaries (Top Management, Risk Takers and Key Managers).

(b) Number of POP options for which Intesa Sanpaolo shall take over the rights that would have been recognised to the employees due to failure to comply with the condition of continuation of employment and other vesting conditions.

# Part L – Segment reporting

## Breakdown by business area: 2020 income statement figures<sup>(a)</sup>

	Banca dei Territori	IMI Corporate & Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre (b)	Total Intesa Sanpaolo Group (net of UBI Group)	(millions of euro)	
									UBI Group	Total Intesa Sanpaolo Group
Net interest income	4,090	2,131	1,310	196	-	-	-657	7,070	713	7,783
Net fee and commission income	3,910	979	505	1,714	835	2	-363	7,582	721	8,303
Income from insurance business	-	-	-	-	-	1,268	75	1,343	10	1,353
Profits (Losses) on financial assets and liabilities designated at fair value	93	1,207	131	28	-1	-	-17	1,441	131	1,572
Other operating income (expenses)	-10	8	-38	6	33	-13	-13	-27	39	12
<b>Operating income</b>	<b>8,083</b>	<b>4,325</b>	<b>1,908</b>	<b>1,944</b>	<b>867</b>	<b>1,257</b>	<b>-975</b>	<b>17,409</b>	<b>1,614</b>	<b>19,023</b>
Personnel expenses	-2,955	-423	-527	-347	-82	-99	-1,098	-5,531	-608	-6,139
Other administrative expenses	-2,106	-654	-344	-200	-69	-126	1,039	-2,460	-219	-2,679
Adjustments to property, equipment and intangible assets	-4	-21	-110	-57	-5	-16	-882	-1,095	-58	-1,153
<b>Operating costs</b>	<b>-5,065</b>	<b>-1,098</b>	<b>-981</b>	<b>-604</b>	<b>-156</b>	<b>-241</b>	<b>-941</b>	<b>-9,086</b>	<b>-885</b>	<b>-9,971</b>
<b>Operating margin</b>	<b>3,018</b>	<b>3,227</b>	<b>927</b>	<b>1,340</b>	<b>711</b>	<b>1,016</b>	<b>-1,916</b>	<b>8,323</b>	<b>729</b>	<b>9,052</b>
Net adjustments to loans	-2,588	-470	-247	-12	-	-	-843	-4,160	-54	-4,214
Other net provisions and net impairment losses on other assets	-75	-40	-15	-42	-	-17	-149	-338	-8	-346
Other income (expenses)	30	65	7	-4	-	-	-34	64	-	64
Income (Loss) from discontinued operations	-	-	-	-	-	-	1,163	1,163	-	1,163
<b>Gross income (loss)</b>	<b>385</b>	<b>2,782</b>	<b>672</b>	<b>1,282</b>	<b>711</b>	<b>999</b>	<b>-1,779</b>	<b>5,052</b>	<b>667</b>	<b>5,719</b>
Taxes on income	-127	-888	-140	-378	-189	-220	752	-1,190	-170	-1,360
Charges (net of tax) for integration and exit incentives	-16	-19	-59	-30	-2	-16	-32	-174	-1,387	-1,561
Effect of purchase price allocation (net of tax)	-7	-	-	-2	-	-24	-69	-102	2,062	1,960
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-	-	-	-465	-465	-47	-512
Impairment (net of tax) of goodwill and other intangible assets	-912	-	-	-	-	-	-	-912	-	-912
Minority interests	-	-	-	1	-1	-53	15	-38	-19	-57
<b>Net income (loss)</b>	<b>-677</b>	<b>1,875</b>	<b>473</b>	<b>873</b>	<b>519</b>	<b>686</b>	<b>-1,578</b>	<b>2,171</b>	<b>1,106</b>	<b>3,277</b>

(a) Figures from the reclassified financial statements as described in the Report on operations.

(b) The Corporate Centre has been attributed the intersector netting.

In application of IFRS 15, in particular paragraphs 114 and 115, which require a breakdown of revenues from contracts with customers, the breakdown of fee and commission income and expense by business area is provided below.

	Banca dei Territori	IMI Corporate & Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre (a)	Total 2020 Intesa Sanpaolo Group (net of UBI Group)	UBI Group	Total 2020 Intesa Sanpaolo Group	Total 2019	(millions of euro) Changes	
												amount	%
Guarantees given	74	250	36	2	-	-	-	362	18	380	341	21	6.2
Collection and payment services	343	86	162	7	-	-	11	609	40	649	720	-111	-15.4
Current accounts	1,031	28	124	7	-	-	-	1,190	181	1,371	1,222	-32	-2.6
Credit and debit cards	364	2	195	8	-	-	25	594	41	635	631	-37	-5.9
<b>Commercial banking activities</b>	<b>1,812</b>	<b>366</b>	<b>517</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>36</b>	<b>2,755</b>	<b>280</b>	<b>3,035</b>	<b>2,914</b>	<b>-159</b>	<b>-5.5</b>
Dealing and placement of securities	1,044	306	20	194	320	-	-915	969	112	1,081	960	9	0.9
Currency dealing	6	2	3	3	-	-	1	15	3	18	13	2	15.4
Portfolio management	112	10	18	1,546	1,654	-	-226	3,114	231	3,345	3,110	4	0.1
Distribution of insurance products	799	-	26	608	-	2	-2	1,433	86	1,519	1,441	-8	-0.6
Other	56	73	13	166	1	-	4	313	25	338	316	-3	-0.9
<b>Management, dealing and consultancy activities</b>	<b>2,017</b>	<b>391</b>	<b>80</b>	<b>2,517</b>	<b>1,975</b>	<b>2</b>	<b>-1,138</b>	<b>5,844</b>	<b>457</b>	<b>6,301</b>	<b>5,840</b>	<b>4</b>	<b>0.1</b>
<b>Other net fee and commission income</b>	<b>310</b>	<b>371</b>	<b>74</b>	<b>20</b>	<b>122</b>	<b>-</b>	<b>31</b>	<b>928</b>	<b>84</b>	<b>1,012</b>	<b>1,068</b>	<b>-140</b>	<b>-13.1</b>
<b>Fee and commission income</b>	<b>4,139</b>	<b>1,128</b>	<b>671</b>	<b>2,561</b>	<b>2,097</b>	<b>2</b>	<b>-1,071</b>	<b>9,527</b>	<b>821</b>	<b>10,348</b>	<b>9,822</b>	<b>-295</b>	<b>-3.0</b>
<b>Fee and commission expense</b>	<b>-229</b>	<b>-149</b>	<b>-166</b>	<b>-847</b>	<b>-1,262</b>	<b>-</b>	<b>708</b>	<b>-1,945</b>	<b>-100</b>	<b>-2,045</b>	<b>1,860</b>	<b>85</b>	<b>4.6</b>
<b>Net fee and commission income</b>	<b>3,910</b>	<b>979</b>	<b>505</b>	<b>1,714</b>	<b>835</b>	<b>2</b>	<b>-363</b>	<b>7,582</b>	<b>721</b>	<b>8,303</b>	<b>7,962</b>	<b>-380</b>	<b>-4.8</b>

(a) The Corporate Centre has been attributed the intersector netting.

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents.

### Breakdown by business area: balance sheet figures as at 31 December 2020<sup>(a)</sup>

	Banca dei Territori	IMI Corporate & Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre (b)	Total 2020 Intesa Sanpaolo Group (net of UBI Group)	UBI Group	Total Intesa Sanpaolo Group	(millions of euro)	
											amount	%
Loans to customers	207,533	135,004	36,079	9,853	452	-	12,903	401,824	59,748	461,572		
Direct deposits from banking business	229,677	88,183	46,308	41,145	14	-	51,642	456,969	68,030	524,999		

(a) Figures from the reclassified financial statements as described in the Report on operations.

(b) The Corporate Centre has been attributed the intersector netting.



**Breakdown by geographical area: 2020 income statement figures<sup>(a)</sup>**

	Italy	Europe	Rest of the world	(millions of euro) Total
Net interest income	5,807	1,406	570	7,783
Net fee and commission income	6,854	1,304	145	8,303
Income from insurance business	1,081	272	-	1,353
Profits (Losses) on financial assets and liabilities designated at fair value	1,482	89	1	1,572
Other operating income (expenses)	-31	1	42	12
<b>Operating income</b>	<b>15,193</b>	<b>3,072</b>	<b>758</b>	<b>19,023</b>
Personnel expenses	-5,407	-586	-146	-6,139
Other administrative expenses	-2,189	-394	-96	-2,679
Adjustments to property, equipment and intangible assets	-1,004	-122	-27	-1,153
<b>Operating costs</b>	<b>-8,600</b>	<b>-1,102</b>	<b>-269</b>	<b>-9,971</b>
<b>Operating margin</b>	<b>6,593</b>	<b>1,970</b>	<b>489</b>	<b>9,052</b>
Net adjustments to loans	-3,817	-295	-102	-4,214
Other net provisions and net impairment losses on other assets	-323	-12	-11	-346
Other income (expenses)	57	6	1	64
Income (Loss) from discontinued operations	1,163	-	-	1,163
<b>Gross income (loss)</b>	<b>3,673</b>	<b>1,669</b>	<b>377</b>	<b>5,719</b>
Taxes on income	-950	-348	-62	-1,360
Charges (net of tax) for integration and exit incentives	-1,493	-52	-16	-1,561
Effect of purchase price allocation (net of tax)	1,962	-2	-	1,960
Levies and other charges concerning the banking industry (net of tax)	-434	-78	-	-512
Impairment (net of tax) of goodwill and other intangible assets	-912	-	-	-912
Minority interests	-28	-4	-25	-57
<b>Net income (loss)</b>	<b>1,818</b>	<b>1,185</b>	<b>274</b>	<b>3,277</b>

The International Branches are reported in the geographical breakdown with reference to the country where the branches are located. As far as taxes on income are concerned, since Intesa Sanpaolo did not apply the option for the scheme of income exemption for international branches (known as Branch exemption), these branches' income is also taxed in Italy.

In application of the new IFRS 15, in particular paragraphs 114 and 115, which require a breakdown of revenues from contracts with customers, the breakdown of fee and commission income and expense by geographical area of operations is provided below.

	Italy	Europe	Rest of the world	(millions of euro) Total
Fee and commission income	10,499	2,672	178	13,349
Fee and commission expense	-3,645	-1,368	-33	-5,046

**Breakdown by geographical area: balance sheet figures as at 31 December 2020<sup>(a)</sup>**

	Italy	Europe	Rest of the world	(millions of euro) Total
Loans to customers	392,185	53,987	15,400	461,572
Direct deposits from banking business	453,127	64,215	7,657	524,999

Breakdown by geographical area is carried out with reference to the location of Group entities.

(a) Figures from the reclassified financial statements, as described in the Report on operations.

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## Part M – Disclosure of leases

This section provides the information required by IFRS 16 that is not included in other parts of the financial statements, divided between lessee and lessor.

### SECTION 1 - LESSEE

#### QUALITATIVE INFORMATION

The Intesa Sanpaolo Group essentially has real estate and car or other vehicle lease contracts in place. There are also other types of lease contracts, for residual amounts, mainly relating to hardware.

As at 31 December 2020, there were 10,326 lease contracts (7,650 as at 31 December 2019), 7,275 of which (5,152 as at 31 December 2019) relating to real estate leases, for a total value of rights of use of 1,806 million euro (1,498 million euro as at 31 December 2019). The combination with the UBI Group more than offsets the effects of the branch merger and space optimisation plan implemented by the Parent Company.

Real estate lease contracts include, for the most part, properties designated for use as offices or bank branches. The contracts, within Italy, normally have a term of more than 12 months and typically have renewal and termination options that can be exercised by the lessor and the lessee in accordance with the law or specific contractual provisions. These contracts usually do not include the option to purchase at the end of the lease or significant restoration costs for the companies. On the basis of the characteristics of the Italian lease contracts and the provisions of Law 392/1978, in the event of the signing of a new lease contract with a contractual term of six years and the option to automatically renew the contract after six years for another six years, the total term of the lease will be set at twelve years. This general rule is superseded if there are new elements or specific situations within the contract. Within the international scope, contractual terms may vary according to local practice, while generally not exceeding a period of 5 years, subject to renewal. In the case of the international subsidiaries as well, these contracts do not provide for either an option to purchase at the end of the lease or significant restoration costs for the companies.

The contracts relating to other leases mainly involve motor vehicles and hardware. For vehicles, these are long-term rental contracts relating to the company fleet made available to employees (mixed use) or to the organisational structures of the individual companies. These contracts generally have a four-year term, with monthly payments, no renewal option and do not include the option to purchase the asset. The contract may be extended depending on the management of the car fleet and there may be a penalty in the event of early termination.

Lease contracts other than those relating to real estate and cars primarily relate to hardware and are immaterial in amount.

The amounts of the sale or leaseback transactions carried out in 2020 were insignificant.

Sub-leasing transactions are immaterial and are connected to intra-group transactions.

Lastly, the Group makes use of the exemptions allowed by IFRS 16 for short-term leases (i.e. with a term of less than or equal to 12 months) or leases of low value assets (i.e. with a value of 5,000 euro or less).

**QUANTITATIVE DISCLOSURES**

Part B - Assets in the Notes to the consolidated financial statements contains information on the rights of use acquired through leases (Table 9.1 - Property and equipment used in operations: breakdown of assets measured at cost and Table 9.4 - Investment property: breakdown of assets measured at fair value) and Part B - Liabilities contains information on the lease payables (Table 1.1 - Financial liabilities measured at amortised cost: breakdown of amounts due to banks and Table 1.2 - Financial liabilities measured at amortised cost: breakdown of amounts due to customers and Table 1.6 bis – Amounts due to customers: breakdown). In particular, the rights of use acquired through leases amounted to 1,806 million euro (1,498 million euro as at 31 December 2019), of which 1,703 million euro relating to real estate leases (1,464 million euro as at 31 December 2019). Lease payables amounted to 1,747 million euro (1,496 million euro as at 31 December 2019). See the abovementioned sections for more details.

Part C of the Notes to the consolidated financial statements contains information on the interest expense on lease payables and other charges connected to rights of use acquired through leases, and on the income from sub-leasing transactions. See the specific sections for more details.

The table below provides a breakdown of the amortisation and depreciation charges for assets consisting of the right of use among the various categories, in line with the disclosure of property and equipment/intangible assets.

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>Depreciation charges by asset class</b>	-	-
<b>Property and equipment used in operations</b>	<b>242</b>	<b>222</b>
a) buildings	226	210
b) furniture	-	-
c) electronic equipment	4	3
d) other	12	9
<b>Property and equipment for investment</b>	-	-
a) buildings	-	-
<b>TOTAL</b>	<b>242</b>	<b>222</b>

As at 31 December 2020, there was no property and equipment relating to commitments for leases not yet commenced.

There is no other information that needs to be reported in addition to that already contained in this section.

## SECTION 2 - LESSOR

### QUALITATIVE INFORMATION

The Intesa Sanpaolo Group undertakes leasing transactions, as lessor, primarily through the Parent Company, Intesa Sanpaolo, the subsidiary UBI Leasing and various international subsidiaries, specifically PBZ Leasing, VUB Leasing, CIB Leasing and Intesa Leasing Beograd.

The transactions primarily consist of finance leases of real estate and industrial and commercial assets. The companies are also present on the market with lease products relating to capital goods, industrial vehicles, boats and pleasure craft. The risks associated with the ownership rights to the leased assets within Italy are managed through the compulsory subscription of an all-risk insurance policy, either offered through concessionary agreements or taken out directly by the customer with their insurer.

Operating leases refer to both real estate and vehicles and equipment.

The Notes to the consolidated financial statements report the following:

- finance leases (Part B, Assets: Table 4.1 - Financial assets measured at amortised cost: breakdown of amounts due from banks and Table 4.2 - Financial assets measured at amortised cost: breakdown of loans to customers);
- assets leased under operating leases contained in caption 90 Property and equipment and described in Part B, Assets (Table 9.4 - Investment property: breakdown of assets measured at fair value); this consists of real estate no longer used in operations by the Group, which is leased to third parties or held for possible appreciation in value. The amounts involved are immaterial.

See the abovementioned sections for more details.

Part C of the Notes to the consolidated financial statements contains information on interest income on finance leases and other income from finance and operating leases. See the specific sections for more details.

## 2. Finance leases

### *2.1. Breakdown by time bands of payments to be received and reconciliation with finance leases recorded as assets*

This table provides the breakdown by time bands of lease payments to be received and the reconciliation between lease payments to be received and finance leases in accordance with IFRS 16, paragraph 94. In particular, the lease payments to be received, representing the sum of the minimum payments due as principal and interest, are shown net of the adjustment allowances and the unguaranteed residual value due to the lessor. The reconciliation with finance leases, shown in the financial statements under financial assets measured at amortised cost, is performed by subtracting the unearned finance income and adding the unguaranteed residual value.

	31.12.2020	31.12.2019
	(millions of euro)	
<b>Time bands</b>	<b>Payments to be received</b>	<b>Payments to be received</b>
Up to 1 year	2,936	2,287
Between 1 and 2 years	2,413	1,860
Between 2 and 3 years	2,074	1,640
Between 3 and 4 years	1,695	1,267
Between 4 and 5 years	1,440	1,065
Over 5 years	4,872	4,341
<b>Total lease payments to be received</b>	<b>15,430</b>	<b>12,460</b>
<b>Reconciliation with loans</b>	<b>-123</b>	<b>104</b>
Not accrued gains (+)	2,648	2,101
Unguaranteed residual value (-)	-2,771	-1,997
<b>Loans for leases</b>	<b>15,553</b>	<b>12,356</b>

## 2.2. Other information

## 2.2.1 Classification of finance leases by type of leased asset

The table shows the classification of finance leases by credit quality (performing and non-performing) and by type of leased asset. The amounts are shown net of adjustments.

Finance leases	(millions of euro)	
	Performing exposures	Non-performing exposures
<b>A. Real estate assets</b>	<b>10,778</b>	<b>1,453</b>
<b>B. Operating assets</b>	<b>1,993</b>	<b>69</b>
<b>C. Movable assets</b>	<b>1,185</b>	<b>63</b>
- Motor vehicles	849	41
- Aircraft and rolling stock	214	21
- Other	122	1
<b>D. Intangible assets</b>	<b>12</b>	<b>-</b>
- Trademarks	12	-
- Software	-	-
- Other	-	-

## 2.2.2 Classification of assets under finance leases

The table below provides a breakdown by category of leased asset (not yet transferred to property and equipment) relating to lease receivables, net of adjustments.

	(millions of euro)		
	Unexercised assets	Assets withdrawn following termination	Other assets
<b>A. Real estate assets</b>	<b>15</b>	<b>219</b>	<b>11,997</b>
<b>B. Operating assets</b>	<b>-</b>	<b>1</b>	<b>2,061</b>
<b>C. Movable assets</b>	<b>53</b>	<b>-</b>	<b>1,195</b>
- Motor vehicles	40	-	850
- Aircraft and rolling stock	1	-	234
- Other	12	-	111
<b>D. Intangible assets</b>	<b>-</b>	<b>-</b>	<b>12</b>
- Trademarks	-	-	12
- Software	-	-	-
- Other	-	-	-
<b>TOTAL</b>	<b>68</b>	<b>220</b>	<b>15,265</b>

Unexercised assets are assets still held by customers, for which the repurchase option has not been exercised, related to positions that do not show any deterioration in credit quality. Assets withdrawn following termination relate to terminated contracts, where the customer has not yet been released from the contractual obligations, despite having returned the asset covered by the lease contract. The category "other assets" includes the assets underlying the other lease receivables not included in the previous columns.

### 3. Operating lease

#### 3.1. Breakdown of payments to be received by time bands

This refers to lease instalments to be received for owned real estate assets.

Time bands	(millions of euro)	
	31.12.2020	31.12.2019
	Payments to be received for leases	Payments to be received for leases
Up to one year	15	11
Over one year up to 2 years	11	8
Over 2 years up to 3 years	8	7
Over 3 years up to 4 years	10	11
Over 4 years up to 5 years	9	8
For over 5 years	19	13
<b>Total</b>	<b>72</b>	<b>58</b>

#### 3.2. Other information

There is no other information that needs to be reported in addition to that already contained in this section.



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# Certification of the consolidated financial statements pursuant to Art. 154 bis of Legislative Decree 58/1998

1. The undersigned Carlo Messina (as Managing Director and CEO) and Fabrizio Dabbene (as Manager responsible for preparing the Company's financial reports) of Intesa Sanpaolo, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of 24 February 1998, do hereby certify to:
  - the adequacy in relation to the Company's features and
  - the actual application of the administrative and accounting procedures employed to draw up the consolidated financial statements during 2020.
2. Verification of the appropriateness and effective application of the administrative and accounting procedures employed to draw up the consolidated financial statements as at 31 December 2020 was based on methods defined by Intesa Sanpaolo consistently with the COSO and – as to the IT component – COBIT models, which are internationally accepted frameworks for internal control systems<sup>65</sup>.
3. The undersigned also certify that:
  - 3.1 The Consolidated financial statements as at 31 December 2020:
    - have been prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of 19 July 2002;
    - correspond to the results of the books and accounts;
    - give a true and fair presentation of the assets, liabilities, profit or loss and financial position of the issuer and of the companies included in the scope of consolidation.
  - 3.2 The report on operations includes a fair review of the development and operating margin, as well as of the position of the issuer and the companies included in the consolidation, together with a description of the main risks and uncertainties that they face.

23 March 2021

Carlo Messina  
Managing Director and CEO

Fabrizio Dabbene  
Manager responsible for preparing  
the Company's financial reports

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<sup>65</sup> The COSO Framework was prepared by the Committee of Sponsoring Organizations of the Treadway Commission, the U.S. organisation dedicated to improving the quality of financial reporting through ethical standards and an effective system for corporate governance and organisation. The COBIT Framework - Control Objectives for IT and related technology is a set of rules prepared by the IT Governance Institute, the U.S. organisation whose aim is to define and improve the standards of corporate IT.

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Independent Auditors' Report on the  
Consolidated financial statements



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(Translation from the Italian original which remains the definitive version)

## **Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014**

*To the shareholders of  
Intesa Sanpaolo S.p.A.*

### **Report on the audit of the consolidated financial statements**

#### *Opinion*

We have audited the consolidated financial statements of the Intesa Sanpaolo Group (the "group"), which comprise the consolidated balance sheet as at 31 December 2020, the consolidated income statement, statement of consolidated comprehensive income, statement of changes in consolidated shareholders' equity and consolidated statement of cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Intesa Sanpaolo Group as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of Intesa Sanpaolo S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost*

*Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost"*

*Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Assets": Section 4 "Financial assets measured at amortised cost"*

*Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 8.1 "Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown"*

*Notes to the consolidated financial statements "Part E – Information on risks and relative hedging policies": Section 1.1 "Credit risk"*

Key audit matter	Audit procedures addressing the key audit matter
<p>Lending to customers is one of the group's core activities. Loans and receivables with customers recognised under financial assets at amortised cost, totalled €505,165 million at 31 December 2020, accounting for 50% of total assets.</p> <p>Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €4,359 million.</p> <p>For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks.</p> <p>Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, an assessment of any guarantees, the impact of macroeconomic variables, future scenarios and risks of the</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>— gaining understanding of the parent's and group companies' processes and IT environments in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers;</li> <li>— assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses;</li> <li>— analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging);</li> <li>— analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein, as well as the adjustments made as a result of the effects of the Covid-19 pandemic. We carried out these procedures with the assistance of experts of the KPMG network;</li> <li>— selecting a sample of exposures tested collectively, checking the application of</li> </ul>



Key audit matter	Audit procedures addressing the key audit matter
<p>sectors in which the parent's and group companies' customers operate.</p> <p>The complexity of the directors' estimation process has increased in 2020 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios, requiring an adjustment to the valuation processes and methods.</p> <p>For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.</p>	<p>the measurement models applied and checking that the impairment rates applied complied with those provided for in such models;</p> <ul style="list-style-type: none"><li>— selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received;</li><li>— analysing the significant changes in the financial asset categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments;</li><li>— assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets at amortised cost, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.</li></ul>

*Classification and measurement of financial assets and liabilities at fair value*

*Notes to the consolidated financial statements "Part A – Accounting policies": paragraph A.2.1 "Financial assets measured at fair value through profit or loss", paragraph A.2.2 "Financial assets measured at fair value through other comprehensive income", paragraph A.2.4 "Hedging transactions", paragraph A.2.13 "Financial liabilities held for trading", paragraph A.2.14 "Financial liabilities designated at fair value", paragraph A.4 "Information on fair value"*

*Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Assets": Section 2 "Financial assets measured at fair value through profit or loss", Section 3 "Financial assets measured at fair value through other comprehensive income", Section 3-bis "Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39", Section 5 "Hedging derivatives"*

*Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Liabilities": Section 2 "Financial liabilities held for trading", Section 3 "Financial liabilities designated at fair value", Section 3-bis "Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39", Section 4 "Hedging derivatives"*

*Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 4 "Profits (losses) on trading", Section 5 "Fair value adjustments in hedge accounting", Section 7 "Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss", Section 7-bis "Profits (losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39"*



*Notes to the consolidated financial statements "Part E – Information on risks and relative hedging policies": paragraph 1.2 "Market risks", paragraph 1.3 "Derivatives and hedging policies", paragraph 3.2 "Financial risks"*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>Trading in and holding financial instruments are one of the parent's and group companies' core activities. The consolidated financial statements at 31 December 2020 include financial assets and financial liabilities at fair value totalling €294,408 million and €146,360 million, respectively.</p> <p>A portion thereof, equal to roughly €52,660 million and €130,613 million, respectively, is made up of financial assets and liabilities at fair value without a quoted price on an active market. The parent's and group companies' directors have classified them in levels 2 and 3 of the fair value hierarchy.</p> <p>Classifying and, especially, measuring financial instruments with fair value levels 2 and 3 require a high level of judgement by the directors due to the complex models and parameters used.</p> <p>This complexity has increased in 2020 following the Covid-19 emergency which has severely affected current economic conditions and forward-looking macroeconomic scenarios.</p> <p>For the above reasons, we believe that the classification and measurement of financial assets and liabilities at fair value are a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>— gaining an understanding of the parent's and group companies' processes and IT environments in relation to the trading, classification and measurement of financial instruments;</li><li>— assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the classification and measurement of financial instruments with fair value levels 2 and 3, also in the light of the financial effects of the Covid-19 pandemic. We carried out these procedures with the assistance of experts of the KPMG network;</li><li>— checking, on a sample basis, that the financial instruments had been correctly classified on the basis of their fair value level;</li><li>— for a sample of financial instruments with fair value levels 2 and 3, assessing the reasonableness of the main parameters used by the directors for their measurement, also in the light of the financial effects of the Covid-19 pandemic. We carried out this procedure with the assistance of experts of the KPMG network;</li><li>— analysing the changes in the composition of the financial instrument portfolios compared to the previous year end and discussing the results with the relevant internal departments;</li><li>— assessing the appropriateness of the disclosures about financial instruments and related fair value levels, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.</li></ul>





*Measurement of intangible assets with an indefinite useful life*

*Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.7 "Intangible assets"*

*Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Assets": Section 10 "Intangible assets"*

*Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 15 "Net adjustments to/recoveries on intangible assets", Section 19 "Goodwill impairment"*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>As a result of a number of business combinations carried out in previous years, the group recognised intangible assets with an indefinite useful life, amounting to €5,064 million at the reporting date and comprising goodwill of €3,154 million and trademarks of €1,882 million.</p> <p>Net impairment losses on goodwill recognised in profit or loss during the year totalled €981 million.</p> <p>As disclosed in the notes to the consolidated financial statements, in accordance with IFRS 3, the parent's directors allocated the intangible assets with an indefinite useful life to certain cash-generating units ("CGU") they had identified.</p> <p>As in the past, the directors tested the reporting-date carrying amounts for impairment in order to identify any impairment loss on the CGU to which the intangible assets with an indefinite useful life have been allocated compared to their recoverable amount. The directors calculated the recoverable amount on the basis of the value in use by discounting the expected future cash flows.</p> <p>Impairment testing requires complex valuations and a high level of judgement, especially in relation to:</p> <ul style="list-style-type: none"> <li>— the expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of group's sector and the directors' forecasts about the group's future performance;</li> <li>— the financial parameters to be used to discount the cash flows.</li> </ul> <p>The complexity of the directors' estimation process has increased in 2020 following the Covid-19 emergency which has severely affected current economic conditions and forward-looking macroeconomic scenarios.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>— gaining an understanding of the process adopted to prepare the impairment tests approved by the parent's directors;</li> <li>— gaining an understanding of the process used to draft the group's business plan approved by the parent's directors;</li> <li>— checking any discrepancies between the previous year historical and business plan figures, in order to check the accuracy of the forecasting process;</li> <li>— analysing the criteria used to identify the CGU and tracing the carrying amounts of the assets and liabilities allocated thereto to the consolidated financial statements;</li> <li>— analysing the key assumptions used by the directors to determine the CGU's value in use. Our analyses included checking that the method applied was consistent with that applied in the previous years and comparing the key assumptions used to external information, where available, also in the light of the financial effects of the Covid-19 pandemic. We carried out these procedures with the assistance of experts of the KPMG network;</li> <li>— checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing;</li> <li>— assessing the appropriateness of the disclosures about intangible assets with an indefinite useful life and the related impairment test, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.</li> </ul>



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**Key audit matter****Audit procedures addressing the key audit matter**

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For the above reasons, we believe that the measurement of intangible assets with an indefinite useful life is a key audit matter.

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*Recognition of the business combination of the UBI Banca Group and the purchase price allocation ("PPA")*

*Notes to the consolidated financial statements "Part G - Business combinations": paragraph G.1.2 "Other information"*

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**Key audit matter****Audit procedures addressing the key audit matter**

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During 2020, the parent acquired the entire share capital of Unione di Banche Italiane S.p.A. ("UBI Banca") for €4,109 million (the "transaction").

The transaction includes a binding agreement for the transfer of a business unit, comprising a group of branches resulting from the transaction, together with their employees and customer relationships, to BPER Banca S.p.A..

Since the transaction qualifies as a business combination, the parent's directors have applied the accounting treatment required by IFRS 3 and have therefore identified the acquisition date, determined the cost of the business combination and allocated it (PPA).

The allocation of the cost of the business combination, which is the difference between the consideration transferred and the fair value of the net assets acquired gave rise to a gain from bargain purchase of €2,505 million, which has been recognised in the 2020 income statement.

Considering the materiality of the transaction and the complex valuations involved, which required a high level of judgement by the parent's directors to carry out the PPA procedure, we believe that the recognition of the business combination is a key audit matter.

Our audit procedures included:

- analysing the contract documents relating to the transaction;
  - checking the compliance of the accounting treatment applied by the group to the transaction with the IFRS;
  - checking, on a sample basis, the accuracy of the accounting entries;
  - assessing the valuation approach, assumptions and methods used to measure the acquisition-date fair value of the assets acquired and liabilities assumed, especially loans and receivables with customers and banks, securities issued, amounts due to customers, deferred tax assets and identifiable intangible assets (customer relationships). We carried out this procedure with the assistance of experts of the KPMG network;
  - checking the recognition of the business unit that will be transferred to BPER Banca S.p.A. in 2021, including by analysing the arrangements signed by the parties, examining the sale prices and the resulting loss recognised in profit or loss and analysing the report prepared by the external advisor engaged by the directors;
  - assessing the appropriateness of the disclosures about the business combination.
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*Classification and measurement of non-performing loan portfolios held for sale*

*Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.9 "Non-current assets held for sale and discontinued operations and related liabilities"*

*Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Assets": Section 12 "Non-current assets held for sale and discontinued operations and related liabilities"*

*Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 8 "Net losses/recoveries for credit risk"*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>During 2020, the group commenced negotiations for the sale of non-performing loan portfolios for a net €1.2 billion (compared to a carrying amount of €4 billion). The sales are expected to be completed during 2021.</p> <p>In these consolidated financial statements, the directors have:</p> <ul style="list-style-type: none"><li>— reclassified the loans to assets held for sale in accordance with IFRS 5;</li><li>— measured the non-performing loan portfolios held for sale considering their forecast sale and based on their best estimate of the loans' net realisable value for the purposes of calculating the related expected credit loss in accordance with IFRS 9.</li></ul> <p>The increase in the expected credit loss has been recognised in the 2020 income statement under net impairment losses for credit risk with customers, which total €4,359 million.</p> <p>Estimating the net realisable value of non-performing loans held for sale requires a high level of judgement by the directors due to the complex valuation models used. This complexity has increased in 2020 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios.</p> <p>For the above reasons, we believe that the classification and measurement of non-performing loan portfolios held for sale are a key audit matter, considering the complexity of the estimation process and the significant effects on the consolidated financial statements.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>— obtaining and analysing the documentation relating to the non-performing loan portfolios held for sale to check their compliance with the classification criteria of IFRS 5;</li><li>— obtaining and analysing the report of the parent's advisors engaged to estimate the above portfolios' net realisable value. We carried out this procedure with the assistance of experts of the KPMG network;</li><li>— assessing the appropriateness of the methods used and the reasonableness of the parameters adopted by the directors to estimate the above portfolios' net realisable value. We carried out this procedure with the assistance of experts of the KPMG network;</li><li>— assessing the appropriateness of the disclosures about the classification and measurement of non-performing loan portfolios held for sale.</li></ul>



### *Responsibilities of the parent's directors and management control committee for the consolidated financial statements*

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The management control committee is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

### *Auditors' responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit



evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

#### *Other information required by article 10 of Regulation (EU) no. 537/14*

On 10 May 2011, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2012 to 31 December 2020.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the management control committee, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

## **Report on other legal and regulatory requirements**

#### *Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98*

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2020 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's



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consolidated financial statements at 31 December 2020 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2020 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

*Statement pursuant to article 4 of the Consob regulation implementing  
Legislative decree no. 254 of 30 December 2016*

The directors of Intesa Sanpaolo S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254 of 30 December 2016.

We have checked that the directors had approved such non-financial statement.

In accordance with article 3.10 of Legislative decree no. 254 of 30 December 2016, we attested the compliance of the non-financial statement separately.

Milan, 24 March 2021

KPMG S.p.A.

(signed on the original)

Mario Corti  
Director



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# Attachments to the Intesa Sanpaolo Group Financial Statements

## Consolidated reconciliation statements

### Reconciliation between published consolidated financial statements and adjusted consolidated financial statements

Reconciliation between the published consolidated balance sheet as at 31.12.2019 and the adjusted consolidated balance sheet as at 31.12.2019

Reconciliation between published consolidated income statement for 2019 and adjusted consolidated income statement for 2019

### Reconciliation between adjusted/published consolidated financial statements and restated consolidated financial statements

Reconciliation between published consolidated balance sheet as at 31 December 2019 and restated consolidated balance sheet as at 31 December 2019

Reconciliation between published consolidated income statement for 2019 and the restated consolidated income statement for 2019

Reconciliation between the consolidated income statement for 2020 and the restated consolidated income statement for 2020

## Restated consolidated financial statements

Restated consolidated balance sheet

Restated consolidated Income Statement

### Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between consolidated balance sheet and reclassified consolidated balance sheet

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

## **Reconciliation between published consolidated financial statements and adjusted consolidated financial statements**

**Reconciliation between the published consolidated balance sheet as at 31.12.2019 and the adjusted consolidated balance sheet as at 31.12.2019**

The published consolidated balance sheet as at 31 December 2019 did not require any adjustments.

**Reconciliation between published consolidated income statement for 2019 and adjusted consolidated income statement for 2019**

The published consolidated income statement for 2019 did not require any adjustments.

## **Reconciliation between adjusted/published consolidated financial statements and restated consolidated financial statements**

**Reconciliation between published consolidated balance sheet as at 31 December 2019 and restated consolidated balance sheet as at 31 December 2019**

Assets		(millions of euro)		
		31.12.2019	Changes in the scope of consolidation (a)	31.12.2019 Restated
10.	Cash and cash equivalents	9,745	-	9,745
20.	Financial assets measured at fair value through profit or loss	49,414	-	49,414
	<i>a) financial assets held for trading</i>	45,152	-	45,152
	<i>b) financial assets designated at fair value</i>	195	-	195
	<i>c) other financial assets mandatorily measured at fair value</i>	4,067	-	4,067
30.	Financial assets measured at fair value through other comprehensive income	72,410	-	72,410
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	168,202	31	168,233
40.	Financial assets measured at amortised cost	467,815	-	467,815
	<i>a) due from banks</i>	49,027	-	49,027
	<i>b) loans to customers</i>	418,788	-	418,788
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	612	37	649
50.	Hedging derivatives	3,029	-	3,029
60.	Fair value change of financial assets in hedged portfolios (+/-)	1,569	-	1,569
70.	Investments in associates and companies subject to joint control	1,240	-	1,240
80.	Technical insurance reserves reassured with third parties	28	-	28
90.	Property and equipment	8,878	4	8,882
100.	Intangible assets	9,211	-	9,211
	<i>of which:</i>			
	- <i>goodwill</i>	4,055	-	4,055
110.	Tax assets	15,467	9	15,476
	<i>a) current</i>	1,716	-	1,716
	<i>b) deferred</i>	13,751	9	13,760
120.	Non-current assets held for sale and discontinued operations	494	-	494
130.	Other assets	7,988	387	8,375
<b>Total assets</b>		<b>816,102</b>	<b>468</b>	<b>816,570</b>

(a) The restatement refers to the inclusion in the Group of the company RBM Assicurazione Salute S.p.A.



		(millions of euro)		
Liabilities and Shareholders' Equity		31.12.2019	Changes in the scope of consolidation (a)	31.12.2019 Restated
10.	Financial liabilities measured at amortised cost	519,382	-	519,382
	<i>a) due to banks</i>	103,324	-	103,324
	<i>b) due to customers</i>	331,181	-	331,181
	<i>c) securities issued</i>	84,877	-	84,877
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	826	-	826
20.	Financial liabilities held for trading	45,226	-	45,226
30.	Financial liabilities designated at fair value	4	-	4
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	75,935	-	75,935
40.	Hedging derivatives	9,288	-	9,288
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	527	-	527
60.	Tax liabilities	2,321	1	2,322
	<i>a) current</i>	455	-	455
	<i>b) deferred</i>	1,866	1	1,867
70.	Liabilities associated with non-current assets held for sale and discontinued operations	41	-	41
80.	Other liabilities	12,070	52	12,122
90.	Employee termination indemnities	1,134	-	1,134
100.	Allowances for risks and charges	3,997	1	3,998
	<i>a) commitments and guarantees given</i>	482	-	482
	<i>b) post-employment benefits</i>	232	-	232
	<i>c) other allowances for risks and charges</i>	3,283	1	3,284
110.	Technical reserves	89,136	107	89,243
120.	Valuation reserves	-157	-	-157
125.	Valuation reserves pertaining to insurance companies	504	-	504
130.	Redeemable shares	-	-	-
140.	Equity instruments	4,103	-	4,103
150.	Reserves	13,279	-	13,279
160.	Share premium reserve	25,075	-	25,075
170.	Share capital	9,086	-	9,086
180.	Treasury shares (-)	-104	-	-104
190.	Minority interests (+/-)	247	307	554
200.	Net income (loss) (+/-)	4,182	-	4,182
<b>Total liabilities and shareholders' equity</b>		<b>816,102</b>	<b>468</b>	<b>816,570</b>

(a) The restatement refers to the inclusion in the Group of the company RBM Assicurazione Salute S.p.A.

**Reconciliation between published consolidated income statement for 2019 and the restated consolidated income statement for 2019**

	2019	Change in the scope of consolidation (a)	Servicing UTP (b)	(millions of euro) 2019 Restated
10. Interest and similar income	10,193	-	-	10,193
<i>of which: interest income calculated using the effective interest rate method</i>	10,565	-	-	10,565
20. Interest and similar expense	-3,269	-	-	-3,269
<b>30. Interest margin</b>	<b>6,924</b>	-	-	<b>6,924</b>
40. Fee and commission income	9,658	-	-	9,658
50. Fee and commission expense	-2,159	-	-	-2,159
<b>60. Net fee and commission income</b>	<b>7,499</b>	-	-	<b>7,499</b>
70. Dividend and similar income	117	-	-	117
80. Profits (Losses) on trading	506	-	-	506
90. Fair value adjustments in hedge accounting	-61	-	-	-61
100. Profits (Losses) on disposal or repurchase of:	1,385	-	-	1,385
<i>a) financial assets measured at amortised cost</i>	97	-	-	97
<i>b) financial assets measured at fair value through other comprehensive income</i>	1,218	-	-	1,218
<i>c) financial liabilities</i>	70	-	-	70
Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	123	-	-	123
<i>a) financial assets and liabilities designated at fair value</i>	-103	-	-	-103
<i>b) other financial assets mandatorily measured at fair value</i>	226	-	-	226
Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,991	-	-	3,991
<b>120. Net interest and other banking income</b>	<b>20,484</b>	-	-	<b>20,484</b>
130. Net losses/recoveries for credit risks associated with:	-2,201	-	-	-2,201
<i>a) financial assets measured at amortised cost</i>	-2,175	-	-	-2,175
<i>b) financial assets measured at fair value through other comprehensive income</i>	-26	-	-	-26
135. Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-9	-	-	-9
140. Profits (Losses) on changes in contracts without derecognition	-6	-	-	-6
<b>150. Net income from banking activities</b>	<b>18,268</b>	-	-	<b>18,268</b>
160. Net insurance premiums	10,147	441	-	10,588
170. Other net insurance income (expense)	-12,673	-357	-	-13,030
<b>180. Net income from banking and insurance activities</b>	<b>15,742</b>	<b>84</b>	-	<b>15,826</b>
190. Administrative expenses:	-9,692	-19	-98	-9,809
<i>a) personnel expenses</i>	-5,825	-4	-	-5,829
<i>b) other administrative expenses</i>	-3,867	-15	-98	-3,980
200. Net provisions for risks and charges	-73	-	-	-73
<i>a) commitments and guarantees given</i>	23	-	-	23
<i>b) other net provisions</i>	-96	-	-	-96
210. Net adjustments to / recoveries on property and equipment	-523	-	-	-523
220. Net adjustments to / recoveries on intangible assets	-692	-	-	-692
230. Other operating expenses (income)	774	-	-	774
<b>240. Operating expenses</b>	<b>-10,206</b>	<b>-19</b>	<b>-98</b>	<b>-10,323</b>
Profits (Losses) on investments in associates and companies subject to joint control	53	-	-	53
Valuation differences on property, equipment and intangible assets measured at fair value	-13	-	-	-13
270. Goodwill impairment	-	-	-	-
280. Profits (Losses) on disposal of investments	96	-	-	96
<b>290. Income (Loss) before tax from continuing operations</b>	<b>5,672</b>	<b>65</b>	<b>-98</b>	<b>5,639</b>
300. Taxes on income from continuing operations	-1,564	-19	32	-1,551
<b>310. Income (Loss) after tax from continuing operations</b>	<b>4,108</b>	<b>46</b>	<b>-66</b>	<b>4,088</b>
320. Income (Loss) after tax from discontinued operations	64	-	-	64
<b>330. Net income (loss)</b>	<b>4,172</b>	<b>46</b>	<b>-66</b>	<b>4,152</b>
340. Minority interests	10	-46	66	30
<b>350. Parent Company's net income (loss)</b>	<b>4,182</b>	-	-	<b>4,182</b>

(a) The restatement refers to the economic results of 2019 of RBM Assicurazione Salute S.p.A.

(b) Effect related to the fees due to Prelios following the UTP loans servicing agreement, effective from the end of 2019.

**Reconciliation between consolidated balance sheet as at 31 December 2020 and restated consolidated balance sheet as at 31 December 2020**

The published consolidated balance sheet as at 31 December 2020 did not require any adjustments.

**Reconciliation between the consolidated income statement for 2020 and the restated consolidated income statement for 2020**

	2020	Changes in the scope of consolidation (a)	(millions of euro) 2020 Restated
10. Interest and similar income	10,183	-	10,183
<i>of which: interest income calculated using the effective interest rate method</i>	10,277	-	10,277
20. Interest and similar expense	-2,451	-	-2,451
<b>30. Interest margin</b>	<b>7,732</b>	-	<b>7,732</b>
40. Fee and commission income	10,312	-	10,312
50. Fee and commission expense	-2,334	-	-2,334
<b>60. Net fee and commission income</b>	<b>7,978</b>	-	<b>7,978</b>
70. Dividend and similar income	86	-	86
80. Profits (Losses) on trading	628	-	628
90. Fair value adjustments in hedge accounting	71	-	71
100. Profits (Losses) on disposal or repurchase of:	633	-	633
<i>a) financial assets measured at amortised cost</i>	-193	-	-193
<i>b) financial assets measured at fair value through other comprehensive income</i>	870	-	870
<i>c) financial liabilities</i>	-44	-	-44
110. Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	-9	-	-9
<i>a) financial assets and liabilities designated at fair value</i>	57	-	57
<i>b) other financial assets mandatorily measured at fair value</i>	-66	-	-66
Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,463	-	3,463
<b>120. Net interest and other banking income</b>	<b>20,582</b>	-	<b>20,582</b>
130. Net losses/recoveries for credit risks associated with:	-4,364	-	-4,364
<i>a) financial assets measured at amortised cost</i>	-4,356	-	-4,356
<i>b) financial assets measured at fair value through other comprehensive income</i>	-8	-	-8
135. Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-81	-	-81
140. Profits (Losses) on changes in contracts without derecognition	-29	-	-29
<b>150. Net income from banking activities</b>	<b>16,108</b>	-	<b>16,108</b>
160. Net insurance premiums	10,842	165	11,007
170. Other net insurance income (expense)	-12,802	-88	-12,890
<b>180. Net income from banking and insurance activities</b>	<b>14,148</b>	<b>77</b>	<b>14,225</b>
190. Administrative expenses:	-12,160	-7	-12,167
<i>a) personnel expenses</i>	-7,562	-2	-7,564
<i>b) other administrative expenses</i>	-4,598	-5	-4,603
200. Net provisions for risks and charges	-793	-	-793
<i>a) commitments and guarantees given</i>	4	-	4
<i>b) other net provisions</i>	-797	-	-797
210. Net adjustments to / recoveries on property and equipment	-578	-	-578
220. Net adjustments to / recoveries on intangible assets	-818	-	-818
230. Other operating expenses (income)	3,347	-	3,347
<b>240. Operating expenses</b>	<b>-11,002</b>	<b>-7</b>	<b>-11,009</b>
250. Profits (Losses) on investments in associates and companies subject to joint control	-16	-	-16
260. Valuation differences on property, equipment and intangible assets measured at fair value	-42	-	-42
270. Goodwill impairment	-981	-	-981
280. Profits (Losses) on disposal of investments	101	-	101
<b>290. Income (Loss) before tax from continuing operations</b>	<b>2,208</b>	<b>70</b>	<b>2,278</b>
300. Taxes on income from continuing operations	-59	-21	-80
<b>310. Income (Loss) after tax from continuing operations</b>	<b>2,149</b>	<b>49</b>	<b>2,198</b>
320. Income (Loss) after tax from discontinued operations	1,136	-	1,136
<b>330. Net income (loss)</b>	<b>3,285</b>	<b>49</b>	<b>3,334</b>
340. Minority interests	-8	-49	-57
<b>350. Parent Company's net income (loss)</b>	<b>3,277</b>	-	<b>3,277</b>

(a) The restatement refers to the economic results of the first four months of 2020 of RBM Assicurazione Salute S.p.A.

## **Restated consolidated financial statements**

Restated consolidated balance sheet

Assets	31.12.2020	31.12.2019 Restated	(millions of euro) Changes	
			amount	%
10. Cash and cash equivalents	9,814	9,745	69	0.7
20. Financial assets measured at fair value through profit or loss	58,246	49,414	8,832	17.9
<i>a) financial assets held for trading</i>	53,165	45,152	8,013	17.7
<i>b) financial assets designated at fair value</i>	3	195	-192	-98.5
<i>c) other financial assets mandatorily measured at fair value</i>	5,078	4,067	1,011	24.9
30. Financial assets measured at fair value through other comprehensive income	57,858	72,410	-14,552	-20.1
35. Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	177,170	168,233	8,937	5.3
40. Financial assets measured at amortised cost	615,260	467,815	147,445	31.5
<i>a) due from banks</i>	110,095	49,027	61,068	
<i>b) loans to customers</i>	505,165	418,788	86,377	20.6
45. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,211	649	562	86.6
50. Hedging derivatives	1,134	3,029	-1,895	-62.6
60. Fair value change of financial assets in hedged portfolios (+/-)	2,400	1,569	831	53.0
70. Investments in associates and companies subject to joint control	1,996	1,240	756	61.0
80. Technical insurance reserves reassured with third parties	93	28	65	
90. Property and equipment	10,850	8,882	1,968	22.2
100. Intangible assets	8,194	9,211	-1,017	-11.0
<i>of which:</i>				
- <i>goodwill</i>	3,154	4,055	-901	-22.2
110. Tax assets	19,503	15,476	4,027	26.0
<i>a) current</i>	2,326	1,716	610	35.5
<i>b) deferred</i>	17,177	13,760	3,417	24.8
120. Non-current assets held for sale and discontinued operations	28,702	494	28,208	
130. Other assets	10,183	8,375	1,808	21.6
<b>Total assets</b>	<b>1,002,614</b>	<b>816,570</b>	<b>186,044</b>	<b>22.8</b>



Liabilities and Shareholders' Equity		31.12.2020	31.12.2019 Restated	(millions of euro) Changes	
				amount	%
10.	Financial liabilities measured at amortised cost	630,146	519,382	110,764	21.3
	<i>a) due to banks</i>	115,947	103,324	12,623	12.2
	<i>b) due to customers</i>	422,365	331,181	91,184	27.5
	<i>c) securities issued</i>	91,834	84,877	6,957	8.2
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,935	826	1,109	
20.	Financial liabilities held for trading	59,033	45,226	13,807	30.5
30.	Financial liabilities designated at fair value	3,032	4	3,028	
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	77,207	75,935	1,272	1.7
40.	Hedging derivatives	7,088	9,288	-2,200	-23.7
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	733	527	206	39.1
60.	Tax liabilities	3,029	2,322	707	30.4
	<i>a) current</i>	284	455	-171	-37.6
	<i>b) deferred</i>	2,745	1,867	878	47.0
70.	Liabilities associated with non-current assets held for sale and discontinued operations	35,676	41	35,635	
80.	Other liabilities	14,439	12,122	2,317	19.1
90.	Employee termination indemnities	1,200	1,134	66	5.8
100.	Allowances for risks and charges	5,964	3,998	1,966	49.2
	<i>a) commitments and guarantees given</i>	626	482	144	29.9
	<i>b) post-employment benefits</i>	324	232	92	39.7
	<i>c) other allowances for risks and charges</i>	5,014	3,284	1,730	52.7
110.	Technical reserves	96,811	89,243	7,568	8.5
120.	Valuation reserves	-515	-157	358	
125.	Valuation reserves pertaining to insurance companies	809	504	305	60.5
130.	Redeemable shares	-	-	-	
140.	Equity instruments	7,441	4,103	3,338	81.4
150.	Reserves	17,461	13,279	4,182	31.5
160.	Share premium reserve	27,444	25,075	2,369	9.4
170.	Share capital	10,084	9,086	998	11.0
180.	Treasury shares (-)	-130	-104	26	25.0
190.	Minority interests (+/-)	450	554	-104	-18.8
200.	Net income (loss) (+/-)	3,277	4,182	-905	-21.6
<b>Total liabilities and shareholders' equity</b>		<b>1,002,614</b>	<b>816,570</b>	<b>186,044</b>	<b>22.8</b>

## Restated consolidated Income Statement

		(millions of euro)			
		2020	2019	Changes	
		Restated	Restated	amount	%
10.	Interest and similar income	10,183	10,193	-10	-0.1
	<i>of which: interest income calculated using the effective interest rate method</i>	10,277	10,565	-288	-2.7
20.	Interest and similar expense	-2,451	-3,269	-818	-25.0
<b>30.</b>	<b>Interest margin</b>	<b>7,732</b>	<b>6,924</b>	<b>808</b>	<b>11.7</b>
40.	Fee and commission income	10,312	9,658	654	6.8
50.	Fee and commission expense	-2,334	-2,159	175	8.1
<b>60.</b>	<b>Net fee and commission income</b>	<b>7,978</b>	<b>7,499</b>	<b>479</b>	<b>6.4</b>
70.	Dividend and similar income	86	117	-31	-26.5
80.	Profits (Losses) on trading	628	506	122	24.1
90.	Fair value adjustments in hedge accounting	71	-61	132	
100.	Profits (Losses) on disposal or repurchase of:	633	1,385	-752	-54.3
	<i>a) financial assets measured at amortised cost</i>	-193	97	-290	
	<i>b) financial assets measured at fair value through other comprehensive income</i>	870	1,218	-348	-28.6
	<i>c) financial liabilities</i>	-44	70	-114	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	-9	123	-132	
	<i>a) financial assets and liabilities designated at fair value</i>	57	-103	160	
	<i>b) other financial assets mandatorily measured at fair value</i>	-66	226	-292	
	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,463	3,991	-528	-13.2
<b>120.</b>	<b>Net interest and other banking income</b>	<b>20,582</b>	<b>20,484</b>	<b>98</b>	<b>0.5</b>
130.	Net losses/recoveries for credit risks associated with:	-4,364	-2,201	2,163	98.3
	<i>a) financial assets measured at amortised cost</i>	-4,356	-2,175	2,181	
	<i>b) financial assets measured at fair value through other comprehensive income</i>	-8	-26	-18	-69.2
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-81	-9	72	
140.	Profits (Losses) on changes in contracts without derecognition	-29	-6	23	
<b>150.</b>	<b>Net income from banking activities</b>	<b>16,108</b>	<b>18,268</b>	<b>-2,160</b>	<b>-11.8</b>
160.	Net insurance premiums	11,007	10,588	419	4.0
170.	Other net insurance income (expense)	-12,890	-13,030	-140	-1.1
<b>180.</b>	<b>Net income from banking and insurance activities</b>	<b>14,225</b>	<b>15,826</b>	<b>-1,601</b>	<b>-10.1</b>
190.	Administrative expenses:	-12,167	-9,809	2,358	24.0
	<i>a) personnel expenses</i>	-7,564	-5,829	1,735	29.8
	<i>b) other administrative expenses</i>	-4,603	-3,980	623	15.7
200.	Net provisions for risks and charges	-793	-73	720	
	<i>a) commitments and guarantees given</i>	4	23	-19	-82.6
	<i>b) other net provisions</i>	-797	-96	701	
210.	Net adjustments to / recoveries on property and equipment	-578	-523	55	10.5
220.	Net adjustments to / recoveries on intangible assets	-818	-692	126	18.2
230.	Other operating expenses (income)	3,347	774	2,573	
<b>240.</b>	<b>Operating expenses</b>	<b>-11,009</b>	<b>-10,323</b>	<b>686</b>	<b>6.6</b>
250.	Profits (Losses) on investments in associates and companies subject to joint control	-16	53	-69	
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-42	-13	29	
270.	Goodwill impairment	-981	-	981	
280.	Profits (Losses) on disposal of investments	101	96	5	5.2
<b>290.</b>	<b>Income (Loss) before tax from continuing operations</b>	<b>2,278</b>	<b>5,639</b>	<b>-3,361</b>	<b>-59.6</b>
300.	Taxes on income from continuing operations	-80	-1,551	-1,471	-94.8
<b>310.</b>	<b>Income (Loss) after tax from continuing operations</b>	<b>2,198</b>	<b>4,088</b>	<b>-1,890</b>	<b>-46.2</b>
320.	Income (Loss) after tax from discontinued operations	1,136	64	1,072	
<b>330.</b>	<b>Net income (loss)</b>	<b>3,334</b>	<b>4,152</b>	<b>-818</b>	<b>-19.7</b>
340.	Minority interests	-57	30	-87	
<b>350.</b>	<b>Parent Company's net income (loss)</b>	<b>3,277</b>	<b>4,182</b>	<b>-905</b>	<b>-21.6</b>

## **Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements**

Reconciliation between consolidated balance sheet and reclassified consolidated balance sheet

(millions of euro)

Assets		31.12.2020 Consolidated figure (including UBI Group)	31.12.2019 Restated
<b>Due from banks</b>		<b>108,040</b>	<b>47,170</b>
Caption 40a (partial)	Financial assets measured at amortised cost - Due from banks	108,015	47,164
Caption 20a (partial)	Financial assets held for trading - Due from banks	-	-
Caption 20b (partial)	Financial assets designated at fair value - Due from banks	-	-
Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Due from banks	25	6
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Due from banks	-	-
<b>Loans to customers</b>		<b>461,572</b>	<b>395,229</b>
<i>Loans to customers measured at amortised cost</i>		<i>460,143</i>	<i>394,093</i>
Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers	452,918	388,881
- Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (concession rights - financial component)	-	-670
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	7,225	5,882
<i>Loans to customers at fair value through other comprehensive income and through profit or loss</i>		<i>1,429</i>	<i>1,136</i>
Caption 20a (partial)	Financial assets held for trading - Loans to customers	21	24
Caption 20b (partial)	Financial assets designated at fair value - Loans to customers	-	-
Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Loans to customers	1,135	748
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Loans to customers	273	364
<b>Financial assets measured at amortised cost which do not constitute loans</b>		<b>47,102</b>	<b>25,888</b>
Caption 40a (partial)	Financial assets measured at amortised cost - Debt securities (banks)	2,080	1,863
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	45,022	24,025
<b>Financial assets at fair value through profit or loss</b>		<b>57,065</b>	<b>48,636</b>
Caption 20a (partial)	Financial assets held for trading	53,143	45,128
Caption 20b (partial)	Financial assets designated at fair value - Debt securities	3	195
Caption 20c (partial)	Other financial assets mandatorily measured at fair value	3,919	3,313
<b>Financial assets at fair value through other comprehensive income</b>		<b>57,585</b>	<b>72,046</b>
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income	57,585	72,046
<b>Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39</b>		<b>177,170</b>	<b>168,233</b>
Caption 35	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	177,170	168,233
<b>Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39</b>		<b>1,211</b>	<b>649</b>
Caption 45 39	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,211	649
<b>Investments in associates and companies subject to joint control</b>		<b>1,996</b>	<b>1,240</b>
Caption 70	Investments in associates and companies subject to joint control	1,996	1,240
<b>Property, equipment and intangible assets</b>		<b>19,044</b>	<b>17,157</b>
<i>Assets owned</i>		<i>17,238</i>	<i>15,659</i>
Caption 90 (partial)	Property and equipment	9,044	7,384
Caption 100	Intangible assets	8,194	9,211
- Caption 100 (partial)	Intangible assets (concession rights - intangible component)	-	-936
<i>Rights of use acquired under leases</i>		<i>1,806</i>	<i>1,498</i>
Caption 90 (partial)	Property and equipment	1,806	1,498
<b>Tax assets</b>		<b>19,503</b>	<b>15,476</b>
Caption 110	Tax assets	19,503	15,476
<b>Non-current assets held for sale and discontinued operations</b>		<b>28,702</b>	<b>494</b>
Caption 120	Non-current assets held for sale and discontinued operations	28,702	494
<b>Other assets</b>		<b>23,624</b>	<b>24,352</b>
Caption 10	Cash and cash equivalents	9,814	9,745
+ Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (concession rights - financial component)	-	670
Caption 50	Hedging derivatives	1,134	3,029
Caption 60	Fair value change of financial assets in hedged portfolios (+/-)	2,400	1,569
Caption 80	Technical insurance reserves reassured with third parties	93	28
+Caption 100 (partial)	Intangible assets (concession rights - intangible component)	-	936
Caption 130	Other assets	10,183	8,375
<b>Total Assets</b>		<b>1,002,614</b>	<b>816,570</b>

		(millions of euro)	
Liabilities		31.12.2020 Consolidated figure (including UBI Group)	31.12.2019 Restated
<b>Due to banks at amortised cost</b>		<b>115,943</b>	<b>103,316</b>
Caption 10 a) Financial liabilities measured at amortised cost - Due to banks		115,947	103,324
- Caption 10 a) (partial) Financial liabilities measured at amortised cost - Due to banks (of which lease payables)		-4	-8
<b>Due to customers at amortised cost and securities issued</b>		<b>512,463</b>	<b>414,578</b>
Caption 10 b) Financial liabilities measured at amortised cost - Due to customers		422,365	331,181
Caption 10 c) Financial liabilities measured at amortised cost - Securities issued		91,834	84,877
- Caption 10 b) (partial) Financial liabilities measured at amortised cost - Due to customers (of which lease payables)		-1,736	-1,480
<b>Financial liabilities held for trading</b>		<b>59,033</b>	<b>45,226</b>
Caption 20 Financial liabilities held for trading		59,033	45,226
<b>Financial liabilities designated at fair value</b>		<b>3,032</b>	<b>4</b>
Caption 30 Financial liabilities designated at fair value		3,032	4
<b>Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39</b>		<b>1,928</b>	<b>818</b>
Caption 15 Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39		1,935	826
- Caption 15 (partial) Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (of which lease payables)		-7	-8
<b>Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39</b>		<b>77,207</b>	<b>75,935</b>
Caption 35 Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39		77,207	75,935
<b>Tax liabilities</b>		<b>3,029</b>	<b>2,322</b>
Caption 60 Tax liabilities		3,029	2,322
<b>Liabilities associated with non-current assets held for sale and discontinued operations</b>		<b>35,676</b>	<b>41</b>
Caption 70 Liabilities associated with non-current assets held for sale and discontinued operations		35,676	41
<b>Other liabilities</b>		<b>24,007</b>	<b>23,433</b>
Caption 40 Hedging derivatives		7,088	9,288
Caption 50 Fair value change of financial liabilities in hedged portfolios (+/-)		733	527
Caption 80 Other liabilities		14,439	12,122
Caption 10 a) (partial) Financial liabilities measured at amortised cost - Due to banks (of which lease payables)		4	8
Caption 10 b) (partial) Financial liabilities measured at amortised cost - Due to customers (of which lease payables)		1,736	1,480
Caption 15 (partial) Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (of which lease payables)		7	8
<b>Technical reserves</b>		<b>96,811</b>	<b>89,243</b>
Caption 110 Technical reserves		96,811	89,243
<b>Allowances for risks and charges</b>		<b>7,164</b>	<b>5,132</b>
Caption 90 Employee termination indemnities		1,200	1,134
Caption 100 a) Allowances for risks and charges - Loan commitments and guarantees given		626	482
Caption 100 b) Allowances for risks and charges - Post-employment benefits		324	232
Caption 100 c) Allowances for risks and charges - Other allowances for risks and charges		5,014	3,284
<b>Share capital</b>		<b>10,084</b>	<b>9,086</b>
Caption 170 Share capital		10,084	9,086
<b>Reserves</b>		<b>44,775</b>	<b>38,250</b>
Caption 130 Redeemable shares		-	-
Caption 150 Reserves		17,461	13,279
Caption 160 Share premium reserve		27,444	25,075
- Caption 180 Treasury shares		-130	-104
<b>Valuation reserves</b>		<b>-515</b>	<b>-157</b>
Caption 120 Valuation reserves		-515	-157
<b>Valuation reserves pertaining to insurance companies</b>		<b>809</b>	<b>504</b>
Caption 125 Valuation reserves pertaining to insurance companies		809	504
<b>Equity instruments</b>		<b>7,441</b>	<b>4,103</b>
Caption 140 Equity instruments		7,441	4,103
<b>Minority interests</b>		<b>450</b>	<b>554</b>
Caption 190 Minority interests		450	554
<b>Net income (loss)</b>		<b>3,277</b>	<b>4,182</b>
Caption 200 Net income (loss) (+/-)		3,277	4,182
<b>Total Liabilities and Shareholders' Equity</b>		<b>1,002,614</b>	<b>816,570</b>

**Reconciliation between restated consolidated income statement and reclassified consolidated income statement**

		(millions of euro)	
Captions		2020	2019
		Consolidated figure (including UBI Group) Restated	Restated
<b>Net interest income</b>		<b>7,783</b>	<b>7,005</b>
	Caption 30 Interest margin	7,732	6,924
-	Caption 30 (partial) Interest margin - Intragroup transactions between Banks/Other companies and the Insurance Segment	-32	-31
-	Caption 30 (partial) Interest margin - Reclassification of operations of entities not subject to management and coordination	81	115
-	Caption 30 (partial) Interest margin (Effect of purchase price allocation)	77	91
-	Caption 70 (partial) Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (Dividends received and paid within securities lending operations)	4	15
+	Caption 80 (partial) Hedging swap differentials	-61	-79
+	Caption 190 a (partial) Personnel expenses (Time value employee termination indemnities and other)	-18	-28
+	Caption 200 (partial) Net provisions for risks and charges (Time value allowances for risks and charges)	-	-2
<b>Net fee and commission income</b>		<b>8,303</b>	<b>7,962</b>
	Caption 60 Net fee and commission income	7,978	7,499
-	Caption 60 (partial) Net fee and commission income - Contribution of insurance business	235	290
-	Caption 60 (partial) Net fee and commission income - Reclassification of operations of entities not subject to management and	3	25
-	Caption 60 (partial) Net fee and commission income (Effect of purchase price allocation)	1	-
+	Caption 80 (partial) Profits (Losses) on trading (Placement of Certificates)	39	197
+	Caption 110 a (partial) Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (a) financial assets and liabilities designated at fair value (Placement of Certificates)	93	-
+	Caption 110 b (partial) Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Return components of insurance policies taken out for the benefit of financial advisor networks)	3	6
+	Caption 190 b (partial) Other administrative expenses (Recovery of other expenses)	-49	-55
<b>Income from insurance business</b>		<b>1,353</b>	<b>1,268</b>
	Caption 115 Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,463	3,991
	Caption 160 Net insurance premiums	11,007	10,588
	Caption 170 Other net insurance income (expense)	-12,890	-13,030
+	Caption 30 (partial) Interest margin - Intragroup transactions between Banks/Other companies and the Insurance Segment	32	31
+	Caption 60 (partial) Net fee and commission income - Contribution of insurance business	-235	-290
+	Caption 80 (partial) Intragroup transactions between Banks/Other companies and the Insurance Segment	42	-14
+	Caption 135 (partial) Impairment of securities through other comprehensive income - share attributable to insured parties	-63	-6
+	Caption 210 (partial) Net adjustments to / recoveries on property and equipment	-3	-2
<b>Profits (Losses) on financial assets and liabilities designated at fair value</b>		<b>1,572</b>	<b>1,928</b>
	Caption 80 Profits (Losses) on trading	628	506
	Caption 90 Fair value adjustments in hedge accounting	71	-61
	Caption 110 a Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (a) financial assets and liabilities designated at fair value	57	-103
	Caption 110 b Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value	-66	226
	Caption 100 b Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other	870	1,218
	Caption 100 c Profits (Losses) on disposal or repurchase of financial liabilities	-44	70
+	Caption 70 (partial) Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	87	117
-	Caption 70 (partial) Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (Dividends received and paid within securities lending operations)	-4	-15
-	Caption 80 (partial) Profits (Losses) on trading (Placement of Certificates)	-39	-197
-	Caption 80 (partial) Intragroup transactions between Banks/Other companies and the Insurance Segment	-42	14
-	Caption 80 (partial) Hedging swap differentials	61	79
-	Caption 80 (partial) Profits (losses) on trading (Components relating to Profits (losses) on investments in associates and companies subject to joint control (carried at equity))	-47	-
-	Caption 80 (partial) Profits (Losses) on trading (Effect of purchase price allocation)	18	-
-	Caption 90 (partial) Fair value adjustments in hedge accounting - Reclassification of operations of entities not subject to management and coordination	4	11
+	Caption 100 a (partial) Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) - Effect associated with profits (losses) on trading	87	103
-	Caption 100 b (partial) Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income (Effect of purchase price allocation)	-4	-
-	Caption 110 a (partial) Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (a) financial assets and liabilities designated at fair value (Placement of Certificates)	-93	-
-	Caption 110 b (partial) Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Return components of insurance policies taken out for the benefit of financial advisor networks)	-12	-23
-	Caption 110 b (partial) Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Charges concerning the banking industry)	31	-13
-	Caption 100 c (partial) Profits (Losses) on disposal or repurchase of financial liabilities - Reclassification of operations of entities not subject to management and coordination (Effect of purchase price allocation)	-	-13
+	Caption 200 b (partial) Net provisions for risks and charges (Charges related to the sale of NTV)	-	9
+	Caption 230 (partial) Other operating expenses (income) (Trading and valuation of other assets)	9	-



Captions		(millions of euro)	
		2020	2019
		Consolidated figure (including UBI Group)	Restated
		Restated	Restated
<b>Other operating income (expenses)</b>		<b>12</b>	<b>4</b>
Caption 70	Dividend and similar income	86	117
Caption 230	Other operating expenses (income)	3,347	774
+ Caption 30 (partial)	Interest margin - Reclassification of operations of entities not subject to management and coordination	-81	-115
+ Caption 60 (partial)	Net fee and commission income - Reclassification of operations of entities not subject to management and coordination	-3	-25
- Caption 70 (partial)	Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	-87	-117
+ Caption 80 (partial)	Profits (losses) on trading (Components relating to Profits (losses) on investments in associates and companies subject to joint control (carried at equity))	47	-
+ Caption 90 (partial)	Fair value adjustments in hedge accounting - Reclassification of operations of entities not subject to	-4	-11
+ Caption 110 b) (partial)	Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Return components of insurance policies taken out for the benefit of financial advisor networks)	-	-
- Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	-19	-16
- Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	-845	-738
- Caption 230 (partial)	Other operating expenses (income) (Non-recurring expenses)	18	50
- Caption 230 (partial)	Other operating expenses (income) (Valuation effects of other assets)	66	25
- Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-	-
- Caption 230 (partial)	Other operating expenses (income) (Profits/losses on disposal of repurchased property and equipment)	-	-
- Caption 230 (partial)	Other operating expenses (income) (Charges/revenues from integration)	-	-1
- Caption 230 (partial)	Other operating expenses (income) (Effect of purchase price allocation)	-2,505	-
- Caption 230 (partial)	Other operating expenses (income) (Trading and valuation of other assets)	-9	-
+ Caption 250 (partial)	Profits (losses) on investments in associates and companies subject to joint control (carried at equity)	1	61
<b>Operating income</b>		<b>19,023</b>	<b>18,167</b>
<b>Personnel expenses</b>		<b>-6,139</b>	<b>-5,748</b>
Caption 190 a)	Personnel expenses	-7,564	-5,829
- Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	1,406	52
- Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	18	28
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	1	1
<b>Other administrative expenses</b>		<b>-2,679</b>	<b>-2,601</b>
Caption 190 b)	Other administrative expenses	-4,603	-3,980
- Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	269	45
- Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	710	526
- Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	49	55
- Caption 190 b) (partial)	Other administrative expenses (Effect of purchase price allocation)	33	-
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	845	738
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	18	15
<b>Adjustments to property, equipment and intangible assets</b>		<b>-1,153</b>	<b>-1,058</b>
Caption 210	Net adjustments to / recoveries on property and equipment	-578	-523
Caption 220	Net adjustments to / recoveries on intangible assets	-818	-692
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment	3	2
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	27	20
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	7	4
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Effect of purchase price allocation)	-2	-
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Entities not subject to management and coordination -	14	19
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	117	48
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	-	3
- Caption 220 (partial)	Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	77	61
<b>Operating costs</b>		<b>-9,971</b>	<b>-9,407</b>
<b>Operating margin</b>		<b>9,052</b>	<b>8,760</b>
<b>Net adjustments to loans</b>		<b>-4,214</b>	<b>-2,089</b>
Caption 140	Profits/losses from changes in contracts without derecognition	-29	-6
Caption 200 a)	Net provisions for risks and charges for credit risk related to commitments and guarantees given	4	23
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans	-274	-14
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	-1	8
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	34	28
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans	-4,356	-2,119
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	-	-15
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost (Charges for integration)	21	6
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - (Effect of purchase price allocation)	428	-
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Loans	-7	-
+ Caption 200 b) (partial)	Net provisions for risks and charges (Provisions for non-recurring expenses)	-34	-

## Attachments to the consolidated financial statements

		(millions of euro)	
Captions		2020	2019
		Consolidated figure (including UBI Group) Restated	Restated
<b>Other net provisions and net impairment losses on other assets</b>		<b>-346</b>	<b>-254</b>
Caption 135	Net losses/recoveries pertaining to insurance companies pursuant to IAS 39	-81	-9
Caption 260	Valuation differences on property, equipment and intangible assets measured at fair value	-42	-13
Caption 200 b)	Net provisions for risks and charges - Other net provisions	-797	-96
	Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Return components of insurance policies taken out for the benefit of financial advisor networks)	9	17
+ Caption 110 b) (partial)			
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	1	-41
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (Banks)	-1	-
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Debt securities	-1	-26
- Caption 135 (partial)	Impairment of securities through other comprehensive income - share attributable to insured parties	63	6
- Caption 200 b) (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	-	2
- Caption 200 b) (partial)	Net provisions for risks and charges (Effect of purchase price allocation)	109	-
- Caption 200 b) (partial)	Net provisions for risks and charges (Charges related to the sale of NTV)	-	-9
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Charges for integration)	450	-29
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (settlement of tax litigation)	5	-9
- Caption 200 b) (partial)	Net provisions for risks and charges (Provisions for non-recurring expenses)	34	-
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	-7	-4
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	-	-3
+ Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-	-
+ Caption 230 (partial)	Other operating expenses (income) (Valuation effects of other assets)	-66	-25
+ Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	-22	-15
<b>Other income (expenses)</b>		<b>64</b>	<b>55</b>
Caption 250	Profits (Losses) on investments in associates and companies subject to joint control	-16	53
Caption 280	Profits (Losses) on disposal of investments	101	96
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	82	103
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities	-	-
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) - (Effect of purchase price allocation)	-	-
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) - Effect associated with profits (losses) on trading	-87	-103
+ Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (settlement of tax litigation)	-5	9
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Entities not subject to management and coordination -	-14	-19
+ Caption 230 (partial)	Other operating expenses (income) (Profits/losses on disposal of repurchased property and equipment)	-	-
+ Caption 230 (partial)	Other operating expenses (income) (Non-recurring expenses)	-18	-50
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)	-1	-61
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries	22	15
- Caption 280 (partial)	Profits (Losses) on disposal of investments (Effect of purchase price allocation)	-	12
<b>Income (Loss) from discontinued operations</b>		<b>1,163</b>	<b>88</b>
Caption 320	Income (Loss) after tax from discontinued operations	1,136	64
+ Caption 320 (partial)	Income (Loss) after tax from discontinued operations (Taxes)	27	24
<b>Gross income (loss)</b>		<b>5,719</b>	<b>6,560</b>
<b>Taxes on income</b>		<b>-1,360</b>	<b>-1,825</b>
Caption 300	Taxes on income from continuing operations	-80	-1,551
- Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	-729	-35
- Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	-226	-62
- Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	-229	-153
- Caption 300 (partial)	Taxes on income from continuing operations (Impairment of goodwill and other intangible assets)	-69	-
- Caption 320 (partial)	Income (Loss) after tax from discontinued operations - (Taxes)	-27	-24
<b>Charges (net of tax) for integration and exit incentives</b>		<b>-1,561</b>	<b>-106</b>
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost (Charges for integration)	-21	-6
+ Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	-1,406	-52
+ Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	-269	-45
+ Caption 200 (partial)	Net provisions for risks and charges (Charges for integration)	-450	29
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	-27	-20
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	-117	-48
+ Caption 230 (partial)	Other operating expenses (income) (Charges/revenues from integration)	-	1
+ Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	729	35

Captions		(millions of euro)	
		2020	2019
		Consolidated figure (including UBI Group) Restated	Restated
<b>Effect of purchase price allocation (net of tax)</b>		<b>1,960</b>	<b>-117</b>
+ Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	-77	-91
+ Caption 60 (partial)	Net fee and commission income (Effect of purchase price allocation)	-1	-
- Caption 80 (partial)	Profits (Losses) on trading (Effect of purchase price allocation)	-18	-
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	-34	-28
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) - (Effect of purchase price allocation)	-	-
+ Caption 100 b) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income (Effect of purchase price allocation)	4	-
+ Caption 100 c) (partial)	Profits (Losses) on disposal or repurchase of financial liabilities - Reclassification of operations of entities not subject to management and coordination (Effect of purchase price allocation)	-	13
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - (Effect of purchase price allocation)	-428	-
+ Caption 190 b) (partial)	Other administrative expenses (Effect of purchase price allocation)	-33	-
+ Caption 200 b) (partial)	Net provisions for risks and charges (Effect of purchase price allocation)	-109	-
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Effect of purchase price allocation)	2	-
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Effect of purchase price allocation)	-77	-61
- Caption 230 (partial)	Other operating expenses (income) (Effect of purchase price allocation)	2,505	-
+ Caption 280 (partial)	Profits (Losses) on disposal of investments (Effect of purchase price allocation)	-	-12
+ Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	226	62
<b>Levies and other charges concerning the banking industry (net of tax)</b>		<b>-512</b>	<b>-360</b>
+ Caption 110 b) (partial)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Charges concerning the banking industry)	-31	13
+ Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	-710	-526
+ Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	229	153
<b>Impairment (net of tax) of goodwill and other intangible assets</b>		<b>-912</b>	<b>-</b>
Caption 270	Goodwill impairment	-981	-
+ Caption 300 (partial)	Taxes on income from continuing operations (Impairment of goodwill and other intangible assets)	69	-
<b>Minority interests</b>		<b>-57</b>	<b>30</b>
Caption 340	Minority interests	-57	30
<b>Net income (loss)</b>		<b>3,277</b>	<b>4,182</b>

## Other consolidated attachments

## List of the IAS/IFRS endorsed by the European Commission as at 31 December 2020

ACCOUNTING STANDARDS		Regulation endorsement
IFRS 1	First-time Adoption of International Financial Reporting Standards	1126/2008 mod. 1260/2008 - 1274/2008 - 69/2009 - 70/2009 - 254/2009 - 494/2009 - 495/2009 - 1136/2009 - 1164/2009 - 550/2010 - 574/2010 - 662/2010 - 149/2011 - 1205/2011 - 475/2012 - 1254/2012 - 1255/2012 - 183/2013 - 301/2013 - 1174/2013 - 2173/2015 - 2343/2015 - 2441/2015 - 1905/2016 - 2067/2016 - 182/2018
IFRS 2	Share-based Payment	1126/2008 mod. 1261/2008 - 495/2009 - 243/2010 - 244/2010 - 1254/2012 - 1255/2012 - 28/2015 - 2067/2016 - 289/2018 - 2075/2019
IFRS 3	Business Combinations	1126/2008 mod. 495/2009 - 149/2011 - 1254/2012 - 1255/2012 - 1174/2013 - 1361/2014 - 28/2015 - 1905/2016 - 2067/2016 - 412/2019 - 2075/2019 - 551/2020
IFRS 4	Insurance Contracts	1126/2008 mod. 1274/2008 - 494/2009 - 1165/2009 - 1255/2012 - 1905/2016 - 2067/2016 - 1988/2017 - 2097/2020 (*) - 25/2021 (*)
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1126/2008 mod. 1274/2008 - 70/2009 - 494/2009 - 1142/2009 - 243/2010 - 475/2012 - 1254/2012 - 1255/2012 - 2343/2015 - 2067/2016
IFRS 6	Exploration for and Evaluation of Mineral Resources	1126/2008 - 2075/2019
IFRS 7	Financial Instruments: Disclosures	1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 495/2009 - 824/2009 - 1165/2009 - 574/2010 - 149/2011 - 1205/2011 - 475/2012 - 1254/2012 - 1255/2012 - 1256/2012 - 1174/2013 - 2343/2015 - 2406/2015 - 2067/2016 - 34/2020 - 25/2021 (*)
IFRS 8	Operating Segments	1126/2008 mod. 1274/2008 - 243/2010 - 632/2010 - 475/2012 - 28/2015
IFRS 9	Financial Instruments	2067/2016 - 498/2018 - 34/2020 - 25/2021 (*)
IFRS 10	Consolidated Financial Statements	1254/2012 mod. 313/2013 - 1174/2013 - 1703/2016
IFRS 11	Joint Arrangements	1254/2012 mod. 313/2013 - 2173/2015 - 412/2019
IFRS 12	Disclosure of Interests in Other Entities	1254/2012 mod. 313/2013 - 1174/2013 - 1703/2016 - 182/2018
IFRS 13	Fair Value Measurement	1255/2012 mod. 1361/2014 - 2067/2016
IFRS 15	Revenue from Contracts with Customers	1905/2016 - 1987/2017
IFRS 16	Leases	1986/2017 - 1434/2020 - 25/2021 (*)
IAS 1	Presentation of Financial Statements	1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 494/2009 - 243/2010 - 149/2011 - 475/2012 - 1254/2012 - 1255/2012 - 301/2013 - 2113/2015 - 2406/2015 - 1905/2016 - 2067/2016 - 2075/2019 - 2014/2019
IAS 2	Inventories	1126/2008 mod. 70/2009 - 1255/2012 - 1905/2016 - 2067/2016
IAS 7	Statement of Cash Flows	1126/2008 mod. 1260/2008 - 1274/2008 - 70/2009 - 494/2009 - 243/2010 - 1254/2012 - 1174/2013 - 1990/2017
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1126/2008 mod. 1274/2008 - 70/2009 - 1255/2012 - 2067/2016 - 2075/2019 - 2104/2019
IAS 10	Events after the Reporting Period	1126/2008 mod. 1274/2008 - 70/2009 - 1142/2009 - 1255/2012 - 2067/2016
IAS 12	Income Taxes	1126/2008 mod. 1274/2008 - 495/2009 - 475/2012 - 1254/2012 - 1255/2012 - 1174/2013 - 1905/2016 - 2067/2016 - 1989/2017 - 412/2019
IAS 16	Property, Plant and Equipment	1126/2008 mod. 1260/2008 - 1274/2008 - 70/2009 - 495/2009 - 1255/2012 - 301/2013 - 28/2015 - 2113/2015 - 2231/2015 - 1905/2016
IAS 19	Employee Benefits	1126/2008 mod. 1274/2008 - 70/2009 - 475/2012 - 1255/2012 - 29/2015 - 2343/2015 - 402/2019
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1126/2008 mod. 1274/2008 - 70/2009 - 475/2012 - 1255/2012 - 2067/2016
IAS 21	The Effects of Changes in Foreign Exchange Rates	1126/2008 mod. 1274/2008 - 69/2009 - 494/2009 - 149/2011 - 475/2012 - 1254/2012 - 1255/2012 - 2067/2016
IAS 23	Borrowing costs	1126/2008 mod. 1260/2008 - 70/2009 - 2113/2015 - 2067/2016 - 412/2019
IAS 24	Related Party Disclosures	1126/2008 mod. 1274/2008 - 632/2010 - 475/2012 - 1254/2012 - 1174/2013 - 28/2015
IAS 26	Accounting and Reporting by Retirement Benefit Plans	1126/2008
IAS 27	Separate Financial Statements	1126/2008 mod. 1274/2008 - 69/2009 - 70/2009 - 494/2009 - 1254/2012 - 1174/2013 - 2441/2015
IAS 28	Investments in Associates and Joint Ventures	1126/2008 mod. 1274/2008 - 70/2009 - 494/2009 - 495/2009 - 1254/2012 - 1255/2012 - 2441/2015 - 1703/2016 - 2067/2016 - 182/2018 - 237/2019
IAS 29	Financial Reporting in Hyperinflationary Economies	1126/2008 mod. 1274/2008 - 70/2009
IAS 32	Financial Instruments: Presentation	1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 494/2009 - 495/2009 - 1293/2009 - 475/2012 - 1254/2012 - 1255/2012 - 1256/2012 - 301/2013 - 1174/2013 - 1905/2016 - 2067/2016
IAS 33	Earnings per Share	1126/2008 mod. 1274/2008 - 494/2009 - 495/2009 - 475/2012 - 1254/2012 - 1255/2012 - 2067/2016
IAS 34	Interim Financial Reporting	1126/2008 mod. 1274/2008 - 70/2009 - 495/2009 - 149/2011 - 475/2012 - 1255/2012 - 301/2013 - 1174/2013 - 2343/2015 - 2406/2015 - 1905/2016 - 2075/2019
IAS 36	Impairment of Assets	1126/2008 mod. 1274/2008 - 69/2009 - 70/2009 - 495/2009 - 243/2010 - 1254/2012 - 1255/2012 - 1374/2013 - 2113/2015 - 1905/2016 - 2067/2016
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1126/2008 mod. 1274/2008 - 495/2009 - 28/2015 - 1905/2016 - 2067/2016 - 2075/2019
IAS 38	Intangible Assets	1126/2008 mod. 1260/2008 - 1274/2008 - 70/2009 - 495/2009 - 243/2010 - 1254/2012 - 1255/2012 - 28/2015 - 2231/2015 - 1905/2016 - 2075/2019
IAS 39	Financial Instruments: Recognition and Measurement (except for certain rules on hedge accounting)	1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 494/2009 - 495/2009 - 824/2009 - 839/2009 - 1171/2009 - 243/2010 - 149/2011 - 1254/2012 - 1255/2012 - 1174/2013 - 1375/2013 - 28/2015 - 1905/2016 - 2067/2016 - 34/2020 - 25/2021 (*)
IAS 40	Investment Property	1126/2008 mod. 1274/2008 - 70/2009 - 1255/2012 - 1361/2014 - 2113/2015 - 1905/2016 - 400/2018
IAS 41	Agriculture	1126/2008 mod. 1274/2008 - 70/2009 - 1255/2012 - 2113/2015

(\*) Companies apply this Regulation at the latest as of the first financial year starting after 1 January 2021.









INTERPRETATIONS		Regulation endorsement
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	1126/2008 mod. 1260/2008 - 1274/2008
IFRIC 2	Members' Shares in Cooperative Entities and Similar Instruments	1126/2008 mod. 53/2009 - 1255/2012 - 301/2013 - 2067/2016
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1126/2008 mod. 1254/2012 - 2067/2016
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1126/2008
IFRIC 7	Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies	1126/2008 mod. 1274/2008
IFRIC 10	Interim Financial Reporting and Impairment	1126/2008 mod. 1274/2008 - 2067/2016
IFRIC 12	Service Concession Arrangements	254/2009 - 1905/2016 - 2067/2016 - 2075/2019
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1263/2008 mod. 1274/2008 - 633/2010 - 475/2012
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	460/2009 mod. 243/2010 - 1254/2012 - 2067/2016
IFRIC 17	Distributions of Non-cash Assets to Owners	1142/2009 mod. 1254/2012 - 1255/2012
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	662/2010 mod. 1255/2012 - 2067/2016 - 2075/2019
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1255/2012 - 2075/2019
IFRIC 21	Levies	634/2014
IFRIC 22	Foreign Currency Transaction and Advance Consideration	519/2018 - 2075/2019
IFRIC 23	Uncertainty over Income Tax Treatments	1595/2018
SIC 7	Introduction of the Euro	1126/2008 mod. 1274/2008 - 494/2009
SIC 10	Government Assistance - No Specific Relation to Operating Activities	1126/2008 mod. 1274/2008
SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	1126/2008 mod. 1274/2008
SIC 29	Service Concession Arrangements: Disclosures	1126/2008 mod. 1274/2008 - 254/2009
SIC 32	Intangible Assets - Web Site Costs	1126/2008 mod. 1274/2008 - 1905/2016 - 2075/2019



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# **Report and Parent Company's financial statements**

# Intesa Sanpaolo – Financial highlights and alternative performance measures <sup>(\*)</sup>

Income statement figures (millions of euro)		Changes	
		amount	%
Net interest income		-51	-1.0
Net fee and commission income		-342	-7.1
Profits (Losses) on financial assets and liabilities designated at fair value		-375	-22.4
Operating income		-130	-0.9
Operating costs		-274	-3.7
Operating margin		144	2.3
Net adjustments to loans		1,731	89.9
Net income (loss)		-2,405	-78.0

Figures restated on a consistent basis, where necessary and material.

2020	
2019	

(\*) For more detailed information on the Alternative Performance Measures, see the specific chapter of the Report on Operations in the consolidated financial statements.

Balance sheet figures (millions of euro)		Changes	
		amount	%
Loans to customers		6,242	1.8
Total assets		46,508	7.9
Direct customer deposits		33,274	9.8
Indirect customer deposits:		5,451	2.0
<i>of which: Assets under management</i>		2,044	1.1
Shareholders' equity		5,247	10.7

Figures restated on a consistent basis, where necessary and material.

31.12.2020

31.12.2019

### Capital ratios (%)

Common Equity Tier 1 capital (CET1) net of regulatory adjustments/Risk-weighted assets (Common Equity Tier 1 capital ratio)	13.3	11.5
TIER 1 Capital / Risk-weighted assets	15.4	12.9
Total owns funds / Risk-weighted assets	17.7	15.3
Risk-weighted assets (millions of euro)	334,337	296,173

31.12.2020	
31.12.2019	

### Profitability ratios (%)

Cost / Income	52.2	53.7
Net income / Shareholders' equity (ROE) <sup>(a)</sup>	1.5	7.4
Net income / Total assets (ROA) <sup>(b)</sup>	0.1	0.5

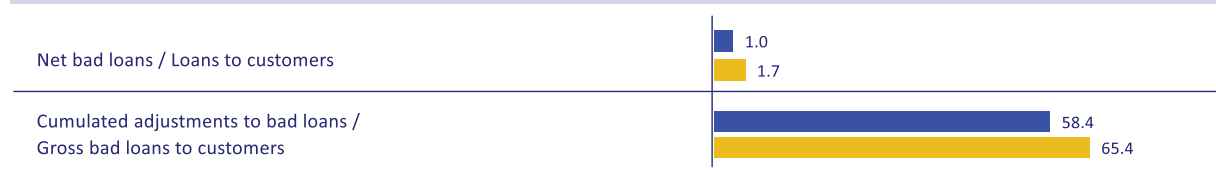
Figures restated on a consistent basis, where necessary and material.

(a) Ratio of net income to shareholders' equity at the end of the period. Shareholders' equity does not take account of AT 1 equity instruments and net income for the period.

(b) Ratio of net income to total assets.

2020 (Income statement figures)	
31.12.2020 (Balance sheet figures)	
2019 (Income statement figures)	
31.12.2019 (Balance sheet figures)	

### Risk ratios (%)



Operating structure	31.12.2020	31.12.2019	Changes amount
<b>Number of employees (*)</b>	<b>58,429</b>	<b>60,890</b>	<b>-2,461</b>
Italy	57,590	60,060	-2,470
Abroad	839	830	9
<b>Number of branches</b>	<b>3,318</b>	<b>3,536</b>	<b>-218</b>
Italy	3,304	3,521	-217
Abroad	14	15	-1

Figures restated on a consistent basis, where necessary and material.

(\*) The headcount shown refers to the actual number of employees at the end of the year, with part-time employees also counted as 1 unit.

31.12.2020   
 31.12.2019 

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# The Parent Company Intesa Sanpaolo results

## Introduction

Regarding the content of the Report on operations of the Intesa Sanpaolo S.p.A. separate financial statements 2020, reference is made to the Report of the consolidated financial statements.

## General aspects

The income statement and balance sheet of the Parent Company Intesa Sanpaolo as at and for the year ended 31 December 2020 are presented below.

The income statement is presented in a condensed reclassified format to enable a more immediate interpretation of the results.

In addition, for the purposes of like-for-like comparison, the figures for previous periods have been restated, where necessary, to retroactively reflect the effects of the corporate actions in 2020. The restatements concerned the merger of Banca Imi S.p.A. which took place on 20 July 2020, with accounting and tax effects from 1 January 2020.

Lastly, the income statement presented for comparison includes the agreement with Prelios S.p.A. for the servicing of exposures classified as “unlikely to pay”, effective from the end of 2019. In this regard, to enable a like-for-like comparison of the operating costs, the 2019 figures have been restated by including the expense for the fees to be paid to Prelios under “administrative expenses”, with the assumption that the aforementioned servicing agreement had taken effect from 1 January 2019 and considering that it will have a continuous impact on future income statements.

Breakdowns of restatements and reclassifications made in accordance with the layout established in Bank of Italy Circular 262 are provided in separate tables included in the attachments, as also required by Consob in its Communication 6064293 of 28 July 2006.

In summary, the reclassifications and aggregations are as follows:

- dividends relating to investments carried at equity, as well as those received and paid under the securities lending activities, which have been reallocated to Profits (losses) on financial assets and liabilities designated at fair value;
- differentials on derivatives, classified to the trading book and contracted to hedge transactions in foreign currencies, have been allocated among Net interest income owing to the close correlation;
- Profits (losses) on trading, Fair value adjustments in hedge accounting, and Profits (losses) on financial assets and liabilities measured at fair value through profit or loss, which have been reallocated to Profits (losses) on financial assets and liabilities designated at fair value;
- the share of the premium on the issue of the certificates paid to the networks for their placement, which is reclassified from Profits (Losses) on assets and liabilities designated at fair value to Net fee and commission income;
- Profits (losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income and on disposal or repurchase of financial liabilities, which have been reallocated to Profits (losses) on financial assets and liabilities designated at fair value;
- the recoveries of expenses, taxes and duties have been subtracted from Administrative expenses, instead of being included among Other income;
- Profits and losses on disposal or repurchase of financial assets measured at amortised cost, in the form of loans and debt securities with public entities, non-financial companies and others as counterparties, which have been allocated to Net adjustments to loans;
- Net losses/recoveries for credit risk, associated with financial assets measured at amortised cost, in the form of loans and debt securities with public entities, non-financial companies and others as counterparties, and Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income, in the form of loans, which have been allocated to Net adjustments to loans;
- Net losses/recoveries for credit risk, associated with financial assets measured at amortised cost, in the form of debt securities with governments and financial and insurance companies as counterparties, and Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income, in the form of debt securities, which have been allocated to Other net provisions and net impairment losses on other assets;
- the reversal in the time value of Employee termination indemnities and Allowances for risks and charges, which has been reclassified to Net interest income, as a phenomenon deriving directly from the application of the amortised cost criterion, in the absence of changes in projected future cash flows;
- Net impairment losses on equity investments in associates, as well as property and equipment and intangible assets (including property and other assets resulting from the enforcement of guarantees or purchase at auction and intended for sale on the market in the near future), which have been reclassified to Other net provisions and net impairment losses on other assets, which consequently include – in addition to the provisions for risks and charges, other than those relating to commitments and guarantees – the valuation effects of the assets other than loans, with the sole exception of impairment losses on intangible assets that have been reclassified, after tax, to Impairment of goodwill and other intangible assets;



- Profits and losses on disposal or repurchase of financial assets measured at amortised cost, in the form of debt securities with governments and financial and insurance companies as counterparties, which have been allocated to Other income (expenses). Profits (Losses) realised in correlation with trading activity represent an exception; they are classified to Profits (Losses) on financial assets and liabilities designated at fair value;
- Realised profits (losses) on equity investments and on other investments have been allocated to Other income (expenses). Accordingly, in addition to the income and expenses not strictly related to operations, this caption represents the summary of the effects from the realisation of assets other than loans;
- Charges (net of tax) for integration and exit incentives, which have been reclassified from Personnel expenses, Administrative expenses and, to a lesser extent, other captions of the income statement to a separate caption;
- the Effects of purchase price allocation, net of the tax effect, are indicated in a specific caption. They represent adjustments, impairment losses and effects from realisation for financial assets and liabilities and property and equipment and intangible assets which were measured at fair value as provided for by IFRS 3;
- levies and other charges aimed at maintaining the stability of the banking industry, which have been reclassified, after tax, to the specific caption;
- Impairment losses on goodwill, investments in subsidiaries and impairment losses on other intangible assets, which are shown, after tax.

### Reclassified income statement

	2020	2019	(millions of euro)	
			Changes amount	%
Net interest income	5,232	5,283	-51	-1.0
Net fee and commission income	4,492	4,834	-342	-7.1
Profits (Losses) on financial assets and liabilities designated at fair value	1,301	1,676	-375	-22.4
Other operating income (expenses)	2,623	1,985	638	32.1
Operating income	<b>13,648</b>	<b>13,778</b>	<b>-130</b>	<b>-0.9</b>
<b>Personnel expenses</b>	-4,421	-4,605	-184	-4.0
Other administrative expenses	-1,803	-1,924	-121	-6.3
Adjustments to property, equipment and intangible assets	-898	-867	31	3.6
Operating costs	<b>-7,122</b>	<b>-7,396</b>	<b>-274</b>	<b>-3.7</b>
<b>Operating margin</b>	<b>6,526</b>	<b>6,382</b>	<b>144</b>	<b>2.3</b>
<b>Net adjustments to loans</b>	-3,657	-1,926	1,731	89.9
Other net provisions and net impairment losses on other assets	-236	-210	26	12.4
Other income (expenses)	91	-41	132	
Income (Loss) from discontinued operations	1,153	88	1,065	
<b>Gross income (loss)</b>	<b>3,877</b>	<b>4,293</b>	<b>-416</b>	<b>-9.7</b>
Taxes on income	-257	-735	-478	-65.0
Charges (net of tax) for integration and exit incentives	-1,240	-51	1,189	
Effect of purchase price allocation (net of tax)	-74	-91	-17	-18.7
Levies and other charges concerning the banking industry (net of tax)	-366	-265	101	38.1
Impairment (net of tax) of goodwill, other intangible assets and controlling interests	-1,261	-67	1,194	
<b>Net income (loss)</b>	<b>679</b>	<b>3,084</b>	<b>-2,405</b>	<b>-78.0</b>

Figures restated on a consistent basis.

The income statement for 2020 posted net income of 679 million euro, compared with 3,084 million euro in 2019 (-2,405 million euro; -78%), while gross income, amounting to 3,877 million euro, was down by 416 million euro (-9.7%). It should be noted that the result for the current year included non-recurring items that make it not immediately comparable with the previous year. Specifically, 2020 benefited from the capital gain of 1,100 million euro from the sale to Nexi S.p.A. of the acquiring business in the payment systems area, completed in June 2020, but also reflected the costs connected with the integration of UBI Banca and the sale to BPER of the branches going concern (1,189 million euro, after tax) – in accordance with the provisions of the UBI Banca acquisition – as well as the full write down of the goodwill of the “Banca dei Territori” Division (1,086 million euro, after tax). In addition to these non-recurring items, there was an increase in other income (of

132 million euro) and a decrease in operating costs (of 274 million euro) during the year, offset by a decrease in operating income (of 130 million euro), higher net adjustments to loans (of 1,731 million euro), higher levies and other charges concerning the banking industry (of 101 million euro, after tax) and higher impairment on controlling interests (108 million euro, after tax), with consequent effect on the related taxation (lower taxes on income of 478 million euro).

Net interest income, amounting to 5,232 million euro, was down slightly (-1%). Although the average volume of loans increased compared to the previous year, the result reflected the fall in interest rates, in line with the market trend, together with the lower contribution from the hedging of core deposits, which fell slightly. Customer dealing contributed 3,850 million euro, down by 139 million euro on 2019. Interest on non-performing assets also fell by 169 million to 634 million, due to the reduction in the NPL stock. Interest on financial assets amounted to 565 million euro, a decrease of 83 million euro. The contribution of interbank transactions was negative at 142 million euro, representing a positive change of 120 million euro on 2019. Lastly, there was a significant increase in net interest income, which included the positive contribution of the TLTROs with the ECB, which amounted to 325 million euro, compared to 105 million euro for 2019.

Net fee and commission income amounted to 4,492 million euro, down 342 million euro (-7.1%) from 4,834 million euro for the previous year, reflecting the adverse effects of the COVID-19 health emergency. The performance was affected by the general fall in all the segments and, more specifically, in commercial banking (-83 million euro; -4.6%), management, dealing and financial consultancy (-105 million euro; -4.5%) and other net fee and commission income (-154 million euro; -21.9%).

In the commercial banking component there was a reduction in fees on guarantees given and received (-41 million euro) and in fees on current accounts (-32 million euro, of which -34 million euro due to commitment fees) and fees for collection and payment services (-12 million euro), whereas fees for ATM and credit card services were essentially stable (+1 million euro).

The fall in net fee and commission income from management, dealing and financial consultancy activities was mainly attributable to securities and derivatives (-63 million euro), insurance products (-25 million euro) and portfolio management schemes (-11 million euro). Fees and commissions from funds (-5 million euro) and other management and dealing commissions (-6 million euro) were also down, while there was a slight increase in fees and commissions for currency dealing (+2 million euro) and for the receipt and transmission of orders (+1 million euro).

Lastly, within other net fee and commission income, there was a decrease in fees on other loans (-153 million euro, of which -72 million euro attributable to fees on consumer credit).

Profits (Losses) on financial assets and liabilities designated at fair value amounted to 1,301 million euro, compared to 1,676 million euro for the previous year (-375 million euro; -22.4%). This caption was affected by the disruption in the financial markets, from March 2020, as a result of the COVID-19 pandemic, which led to a significant increase and volatility in the risk premium for all Eurozone countries.

The decrease was mainly due to the lower contribution from transactions in OCI securities and financial liabilities (-357 million euro), as a result of lower gains on the sale of OCI debt securities of 395 million euro, due to the lower volume of transactions during the year and change in the performance of their related markets. The decrease also reflected the losses on assets designated at fair value through profit or loss of 18 million euro, which included a positive contribution of 98 million euro from foreign exchange and trading operations, 82 million euro from hedge accounting, thanks to microhedging of securities issued and debt securities under assets, and 58 million euro from assets and liabilities designated at fair value in connection with transactions in certificates. However, this positive performance was offset by the reduction of 224 million euro in the income from assets mandatorily measured at fair value, mainly relating to debt securities resulting from securitisations, and the decrease of 32 million euro in the contribution from dividends.

Other operating income (expenses) amounted to 2,623 million euro compared to 1,985 million euro in 2019 (+638 million euro; +32.1%). The aggregate includes dividends from investees of 2,451 million euro (1,816 million euro in the previous year), with the remainder comprised of sundry operating income.

The change in this caption was almost entirely attributable to dividends, which increased by 635 million euro. More specifically, a total of 2,451 million euro of dividends were recognised in 2020 (Fideuram - Intesa Sanpaolo Private Banking S.p.A., 650 million euro; Eurizon Capital SGR S.p.A., 600 million euro; Intesa Sanpaolo Vita S.p.A., 504 million euro; Intesa Sanpaolo Holding International S.A., 500 million euro; Private Equity International S.A., 102 million euro; Bank of Alexandria, 89 million euro; Equiter S.p.A., 5 million euro; and other minor holdings, 1 million euro).

Sundry operating income increased by 4 million euro, mainly due to higher reimbursements for services rendered to third parties (+14 million euro), lower expenses for leasehold improvements (6 million euro) and higher net income from consumer credit and leasing (4 million euro), offset by lower net non-recurring income (-19 million euro).

As a result of these changes, Operating income amounted to 13,648 million euro, substantially stable with respect to the figure for the previous year, amounting to 13,778 million euro (-130 million euro; -0.9%).

Operating costs amounted to 7,122 million euro, down 3.7% on the previous year, due to the reduction in personnel expenses, which fell from 4,605 million euro to 4,421 million euro (-4%), and in other administrative expenses, which decreased from 1,924 million euro to 1,803 million euro (-6.3%).

With regard to personnel expenses, the reduction of 184 million euro was linked to the downsizing of the workforce, which generated savings that more than offset the contractual increases resulting from the renewal of the National Collective Bargaining Agreement, as well as the lower provision made for the variable component and the decrease in remuneration for extraordinary services and travel allowances due to the interruption of staff mobility from March 2020 as a result of the ongoing health emergency.

For other administrative expenses, the decrease of 121 million euro was mainly attributable to professional and insurance expenses (-32 million euro) due to the reduction in consulting costs, indirect personnel costs (-31 million euro), owing to less business-related travel due to the health emergency, and expenses for services rendered by third parties (-30 million euro) due to the reduction in operations as a result of COVID-19.

Administrative expenses included costs of around 55 million euro related to the COVID-19 pandemic, mainly due to the purchase of personal protective equipment, cleaning and sanitisation of premises, provision of remote working equipment and social initiatives to support local communities.

On the other hand, operating costs included an increase in depreciation and amortisation of property and equipment and intangible assets, from 867 million euro to 898 million euro (+31 million euro; +3.6%). The increase was attributable to the intangible assets (+43 million euro; +8.7%) and centred on internally produced software and digital training, which continued

the growth that started in 2019, with a further acceleration towards the end of 2020. For the property and equipment, there was a decrease (-12 million euro; -3.2%), mainly attributable to leased assets.

The performance of operating income and costs illustrated above resulted in an Operating margin of 6,526 million euro. On a like-for-like basis, the comparison with the 6,382 million euro for the previous year shows an increase of 144 million euro, or +2.3%.

Net adjustments to loans totalled 3,657 million euro, up by 1,731 million euro (+89.9%) on the previous year. For 2020, the adjustments to non-performing loans, totalling 2,933 million euro (2,364 million euro in 2019), consisted of 50.5% for bad loans, 43.1% for loans classified as unlikely to pay and 6.4% for non-performing past-due exposures. With regard to performing loans, the net adjustments as at 31 December 2020 amounted to 724 million euro (compared to writebacks of 438 million euro recorded in the previous year): the significant increase in adjustments was essentially due to the higher provisions necessitated by the revision of the scenario as a result of the pandemic, in application of the Conservative methods adopted by the Group and also taking into account the prospective scenario set out by the ECB and the Bank of Italy.

Other net provisions and net impairment losses on other assets amounted to -236 million euro, compared to -210 million euro for 2019. These related to provisions for legal disputes and other charges (116 million euro), net adjustments to debt securities measured at amortised cost not treated as loans and to debt securities measured at fair value through other comprehensive income (5 million euro), net adjustments to other assets (115 million euro), which included the result from the fair value measurement of real estate and valuable art assets, equipment and intangible assets, and net impairment losses on non-controlling interests, as well as other non-recurring expenses.

Other income (expenses), amounted to 91 million euro (-41 million euro as at 31 December 2019).

Profit from discontinued operations, entirely attributable to the acquiring business sold to Nexi S.p.A. through the payment systems agreement, amounted to 1,153 million euro, compared with 88 million euro in the previous year. The amount for 2020 included the capital gain of 1,100 million euro, before tax, from the completion of the transaction, plus the profit from the first half relating to the business sold.

Gross income amounted to 3,877 million euro, compared to 4,293 million euro for 2019 (-416 million euro; -9.7%).

Taxes on income calculated on the components contributing to gross income were negative at -257 million euro, compared to -735 million euro in the previous year. This caption was impacted by the change in relevance for tax purposes of the components of the income statement, which give rise to the difference compared to the nominal tax rates (IRES 27.5% and IRAP 5.56%). In addition, in both years, there is a considerable difference with respect to the nominal tax rates due to the tax regime for dividends and the profit from discontinued operations.

Charges (net of tax) for integration and exit incentives amounted to 1,240 million euro and mainly related to personnel expenses (734 million euro), net provisions for risks and charges (341 million euro) and other administrative expenses (130 million euro). The significant increase in this caption compared to 2019 (when the figure was 51 million euro) was mainly due to the recognition of the expenses related to the integration of UBI Banca, including, in particular, the expense related to the agreement for employee voluntary exits signed with the trade unions on 29 September (711.5 million euro after tax), the costs directly related to the IT migration and the integration of UBI (386.6 million euro after tax) and the expenses related to the disposal of the going concern to BPER (90.4 million euro after tax).

The Effect of purchase price allocation (net of the tax effect) amounted to -74 million euro, compared to -91 million euro for 2019 (-17 million euro; -18.7%). This caption comprises amounts attributable to the revaluation of loans, debts, real estate and the recognition of new intangible assets, in application of IFRS 3, upon recognition of acquisition of investments and/or aggregate assets. The expense recorded mainly related to amortisation or release through profit or loss due to the early termination of the revaluation of loans to customers.

Levies and other charges concerning the banking industry amounted to -366 million euro, after tax effects of 177 million euro, and included the ordinary, extraordinary and additional contributions to the resolution and deposit guarantee funds and the write-downs of the Atlante Fund I and the Italian Recovery Fund.

The Impairment of goodwill, other intangible assets and controlling investments (net of the related tax effect), amounted to -1,261 million euro, compared to -67 million euro in 2019. These related to the full impairment of the goodwill of the "Banca dei Territori" Division (1,086 million euro after tax), partly due to the increase in the carrying amount of the CGU as a result of the integration of UBI Banca, and the write down of several controlling equity investments (totalling 175 million euro after tax, including Intesa Sanpaolo Provis for 149.2 million euro, Pravex Bank for 13 million euro, Risanamento for 9.4 million euro, Intesa Sanpaolo Re.o.co for 2.7 million euro and Imi Fondi Chiusi Sgr S.p.A. for 0.6 million euro).

## Reclassified balance sheet

The reclassified balance sheet as at 31 December 2020 includes the results of the merger by incorporation of Banca Imi S.p.A., completed in July 2020 and with accounting and tax effects from 1 January 2020.

In addition, as with the income statement figures, it includes the restatement of the effects related to the agreement signed at the end of 2019 with Prelios S.p.A. for the servicing of exposures classified as “unlikely to pay”, with the assumption that this agreement had been effective from 1 January 2019.

Breakdowns of restatements, aggregations and reclassifications are provided in separate tables included in the attachments to the Parent Company’s financial statements, as also required by Consob in its Communication 6064293 of 28 July 2006.

The aggregations of the captions of the reclassified balance sheet related to:

- the separate presentation of financial assets constituting Due from banks and Loans to customers, regardless of the accounting portfolios to which they have been allocated;
- the separate presentation of financial assets not constituting loans, divided into financial assets measured at amortised cost, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, net of the amounts reclassified to Due from banks and Loans to customers;
- the presentation of debt securities, equities, quotas of UCI, derivatives held for trading, debt securities designated at fair value, and debt securities, equity securities and quotas of UCI mandatorily measured at fair value, in the caption Financial assets at fair value through profit or loss;
- the inclusion of Cash and cash equivalents in the residual caption Other assets;
- the inclusion of Hedging derivatives and Fair value change of financial assets/liabilities in hedged portfolios under Other assets/liabilities;
- the presentation of Property and equipment and Intangible assets in a single caption;
- the presentation of Due to customers at amortised cost and Securities issued in a single caption;
- the aggregation into one caption (Allowances for risks and charges) of allowances for specific purposes (Employee termination indemnities, Allowances for credit risk associated with commitments and financial guarantees given, Allowances on other commitments and other guarantees given, Post-employment benefits and Other allowances for risks and charges);
- the reclassification of Lease payables to banks and to customers to a specific sub-caption of Other liabilities;
- the presentation of Reserves as an aggregate and net of any treasury shares.

To provide a more effective presentation of the composition of the aggregates, derivatives recorded in Financial assets/liabilities held for trading are presented on a net basis in the tables and in the related comments.

Assets	31.12.2020	31.12.2019	(millions of euro)	
			Changes	
			amount	%
Due from banks	89,204	43,450	45,754	
Loans to customers	348,826	342,584	6,242	1.8
<i>Loans to customers measured at amortised cost</i>	347,767	341,048	6,719	2.0
<i>Loans to customers designated at fair value through other comprehensive income and through profit or loss</i>	1,059	1,536	-477	-31.1
Financial assets measured at amortised cost which do not constitute loans	33,283	22,554	10,729	47.6
Financial assets at fair value through profit or loss	56,277	55,756	521	0.9
Financial assets at fair value through other comprehensive income	40,716	58,349	-17,633	-30.2
Equity Investments	24,668	21,757	2,911	13.4
Property, equipment and intangible assets	10,132	11,242	-1,110	-9.9
<i>Assets owned</i>	9,106	10,184	-1,078	-10.6
<i>Rights of use acquired under leases</i>	1,026	1,058	-32	-3.0
Tax assets	14,216	14,412	-196	-1.4
Non-current assets held for sale and discontinued operations	1,798	469	1,329	
Other assets	12,612	14,651	-2,039	-13.9
<b>Total Assets</b>	<b>631,732</b>	<b>585,224</b>	<b>46,508</b>	<b>7.9</b>

Liabilities	31.12.2020	31.12.2019	(millions of euro)	
			Changes	
			amount	%
Due to banks at amortised cost	130,650	131,292	-642	-0.5
Due to customers at amortised cost and securities issued	359,708	327,725	31,983	9.8
Financial liabilities held for trading	60,830	53,944	6,886	12.8
Financial liabilities designated at fair value	2,810	5	2,805	-
Tax liabilities	832	1,139	-307	-27.0
Liabilities associated with non-current assets held for sale and discontinued operations	2,594	41	2,553	-
Other liabilities	15,143	18,021	-2,878	-16.0
<i>of which lease payables</i>	1,035	1,077	-42	-3.9
Allowances for risks and charges	5,051	4,190	861	20.5
<i>of which allowances for commitments and financial guarantees given</i>	404	391	13	3.3
Share capital	10,084	9,086	998	11.0
Reserves	35,122	31,242	3,880	12.4
Valuation reserves	1,176	1,389	-213	-15.3
Equity instruments	7,053	4,066	2,987	73.5
Net income (loss)	679	3,084	-2,405	-78.0
<b>Total liabilities and shareholders' equity</b>	<b>631,732</b>	<b>585,224</b>	<b>46,508</b>	<b>7.9</b>

Figures restated on a consistent basis, where necessary and material.

Comments are provided below on the main balance sheet aggregates as at 31 December 2020 compared with those as at 31 December 2019, restated on a like-for-like basis.

As at 31 December 2020, loans to customers totalled around 348.8 billion euro, up on 342.6 billion euro for the previous year (+6.2 billion euro; +1.8%).

As to loan quality, net non-performing exposures, excluding those represented by securities, decreased by 27% to 9.6 billion euro compared to 13.1 billion euro as at 31 December 2019.

This decrease was the result of the actions taken by the Bank, in accordance with the 2018-2021 Business Plan, aimed at halving the gross NPL to total loans to customers ratio at 6%, over the four-year period.

To this end, in the fourth quarter of 2020, the Bank sold NPLs for a total of 1.2 billion euro net of adjustments. In addition, also with reference to non-performing loans, at the end of the year, loans that will be sold in transactions scheduled for 2021 amounting to 2,324 million euro (267 million euro, net of adjustments) and loans related to the disposal of a pool of branches amounting to 1,449 million euro (1,441 million euro, net of adjustments) were classified as assets held for sale, as envisaged under the UBI Banca acquisition.

The performance of the individual components shows:

- a decrease in bad positions of 42% (from 5,909 million euro to 3,425 million euro);
- a reduction in loans classified as unlikely to pay, which fell from 6,521 million euro to 5,743 million euro, equal to 11.9%;
- a decrease in past-due loans, which amounted to 382 million euro compared to 660 million euro as at 31 December 2019.



Net performing loans, excluding those represented by securities and intragroup loans, amounted to 328.3 billion euro, compared to 315.9 billion euro as at 31 December 2019, representing an increase of 12.4 billion euro (+3.93%). The related average coverage was 0.57% (0.40% as at 31 December 2019).

Direct deposits, consisting of amounts due to customers at amortised cost and securities issued, as well as certificates, which are a form of funding not measured at amortised cost alternative to bonds, totalled 371.9 billion euro, up 33.3 billion euro (+9.8%) compared to 31 December 2019, of which around 36.1 billion euro attributable to non-securities funding and 1.3 billion euro to certificates, offset by a decrease of 4.1 billion euro in securities funding.

Net exposure to banks, consisting of amounts due from banks at amortised cost and held for trading, net of amounts due to banks at amortised cost, amounted to -41.4 billion euro compared to -87.8 billion euro as at 31 December 2019 (-46.4 billion euro), mainly due to the increase in the reserve requirement, within the amounts due from Central Banks.

Financial assets measured at amortised cost which do not constitute loans amounted to around 33.3 billion euro, up 10.7 billion euro (+47.6%) compared to the previous year, mainly as a result of the increase in debt securities with governments, financial companies and insurance companies.

Financial assets at fair value through profit or loss, which included financial and credit derivatives and debt and equity securities held for trading and other financial assets mandatorily measured at fair value, amounted to 56.3 billion euro, down slightly on the 55.8 billion euro as at 31 December 2019. Financial liabilities held for trading and designated at fair value, net of certificates, already included in direct deposits, amounted to 51.4 billion euro, up by 8.4 billion euro on the 43 billion euro in 2019. The change was attributable mainly to an increase in short selling (of 17.4 billion euro), partially offset by a reduction in the fair value of financial derivatives (of 9.5 billion euro).

Financial assets at fair value through other comprehensive income amounted to 40.7 billion euro. These assets, which consisted of equity investments and private equity interests of 3.3 billion euro and debt securities of 37.4 billion euro, decreased by almost 17.6 billion euro, primarily due to the latter component.

Equity investments, which amounted to approximately 24.7 billion euro, included controlling interests in subsidiaries, associates and companies subject to joint control, and were up 2.9 billion euro on the previous year (+13.4%), mainly as a result of the acquisition of full ownership of UBI Banca.

Property and equipment and intangible assets amounted to 10.1 billion euro, down 1.1 billion euro compared to the previous year (-9.9%), mainly due to the full impairment of the goodwill of the “Banca dei Territori” Division.

Tax assets, net of tax liabilities, amounted to around 13.4 billion euro and were slightly down by 0.1 billion euro (+0.8%) on 2019.

Allowances for risks and charges amounted to around 5.1 billion euro, up on 4.2 billion euro for 2019 (+0.9 billion euro), mainly due to the increase in allowances other than allowances for post-employment benefits and the financial commitments and guarantees given, partially offset by the reduction in employee termination indemnities. In particular, there was a significant increase in the provisions for personnel expenses, as a result of the expenditure commitments connected to the voluntary exits agreement signed with the trade unions on 29 September.

Non-current assets held for sale and discontinued operations and related liabilities contain assets and related liabilities which no longer refer to continuing operations as they are being disposed of. As at 31 December 2020, there were assets/groups of assets held for sale totalling 1.8 billion euro, while the associated liabilities amounted to 2.6 billion euro. This caption includes the receivables/payables and other assets/liabilities relating to the pool of branches to be sold to BPER in 2021, as well as the non-performing loans to be sold in the near future and several individual properties.

Shareholders' equity, including the net income of 679 million euro, amounted to 54.1 billion euro compared to 48.9 billion euro as at 31 December 2019.

With regard to the changes in shareholders' equity, in 2020 the share capital increased by 998 million euro (+11%) and the share premium reserve by 2.4 billion euro as a result of the capital increase to service the Voluntary Public Purchase and Exchange Offer (Public Offer) made by Intesa Sanpaolo S.p.A. on all the ordinary shares of UBI Banca S.p.A. In 2020, the Bank also carried out four new issuances of Additional Tier 1 capital instruments for a nominal amount of 750 million euro each, increasing the total amount of those instruments to 7 billion euro (around +3 billion euro). Lastly, the merger surplus from the incorporation of the subsidiary Banca Imi S.p.A. (2.1 billion euro), completed in July 2020, was allocated to retained earnings reserves.

Own funds amounted to around 59 billion euro. The calculation was carried out using the rules introduced, effective as of 1 January 2014, by European Regulation 575/2013 (CRR) and Directive 2013/36/EU (CRD IV) as part of the new regulatory framework of the European Union for banks and investment firms. Capital ratios remained high, far above the regulatory requirements. In particular, the Common Equity Tier 1 ratio was 13.3% according to the transitional rules in effect for 2020.



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## Other information

As provided for by article 2497 and subsequent articles of the Italian Civil Code, Intesa Sanpaolo exercises management and coordination activities for its direct and indirect subsidiaries, including companies which, on the basis of current laws, are not part of the Banking group, with the exception of Risanamento S.p.A. and its subsidiaries.

This Report on the Intesa Sanpaolo S.p.A. financial statements includes only a comment on the Bank's performance and related Alternative Performance Measures. For all other information required by laws or regulations, reference should be made to the consolidated financial statements and to the related Report on Operations, or the Notes to the Parent Company's financial statements, when illustrating specific themes.

Specifically, reference should be made to the Notes to these Parent Company's financial statements with regard to:

- information on the Bank's transactions with related parties, provided in Part H;
- information on financial and operational risks, illustrated in Part E;
- the list of subsidiaries, companies subject to joint control and companies subject to significant influence, provided in Part B;
- information on capital, provided in Part F.

Reference should instead be made to the consolidated financial statements with regard to:

- information on the main risks and uncertainties, as the same considerations as those illustrated in the corresponding paragraph of the chapter "Overview of 2020" of the consolidated financial statements also apply;
- risks linked to capital stability and to going concern issues, discussed in the chapter "Overview of 2020" and the Report on operations of the consolidated financial statements;
- information regarding obligations pursuant to article 15 of the Consob Market Regulation, with reference to subsidiaries located in non-EU member states, provided in Part E.

The information on the Intesa Sanpaolo Corporate Governance system pursuant to Art. 123-bis of the Consolidated Law on Finance is summarised in the Consolidated report on operations and provided in detail in the separate "Report on Corporate Governance and Ownership Structures" published together with these financial statements.

The information on remuneration pursuant to Art. 123-ter of the Consolidated Law on Finance is summarised in the Consolidated report on operations and provided in detail in the separate "Report on remuneration policy and compensation paid", published every year.

As regards the non-financial statement required by Legislative Decree 254/2016, note that the company has prepared the non-financial statement at consolidated level pursuant to Art. 4 of said Decree. Said document is published together with the consolidated financial statements.

Lastly, for a description of the Alternative Performance Measures used in the Report on Operations, see the specific chapter of the Report on Operations in the consolidated financial statements.

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## Forecast for 2021

For Intesa Sanpaolo, which will incorporate UBI Banca during 2021, net of the business line transferred to BPER Banca and the assets and liabilities subject to partial demerger to Intesa Sanpaolo Private Banking and Fideuram – Intesa Sanpaolo Private Banking, net income is expected to increase compared to 2020. In line with the 2018-2021 Business Plan, and subject to the ECB guidance provided after 30 September 2021, the expiry date of the recommendation of 15 December 2020, the dividend policy envisages the following, in addition to 694 million euro in cash dividends for 2020 to be paid out this May:

- for the 2020 results, a cash distribution from reserves, possibly by the end of 2021, 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 consolidated net income<sup>1</sup>,
- for the 2021 results, the payment of an amount of cash dividends corresponding to a payout ratio of 70% of the consolidated net income, to be partially distributed as interim dividend this year<sup>2</sup>.

The Board of Directors

Torino, 23 March 2021

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<sup>1</sup> Excluding from the consolidated 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.

<sup>2</sup> Subject to approval by the ECB and the Shareholders' Meeting of the amendment to the Articles of Association allowing the Board of Directors to pass resolution in respect of interim dividend distribution.

Distinguished Shareholders.

Pursuant to Article 2364 of the Italian Civil Code and Articles 7.3 and 29.3 of the Company's Articles of Association, we hereby submit for your approval the financial statements of the Parent Company Intesa Sanpaolo S.p.A. as at 31 December 2020 and the proposal for allocation of net income for the year.

The reclassifications made to the shareholders' equity items are described in section 12 of Part B - Liabilities of the Notes to the Financial Statements. You are also reminded that, pursuant to Article 6, paragraph 1, letter a) of Legislative Decree 38/2005 currently in force, a portion of net income corresponding to capital gains recognised in the income statement, net of the related tax charge and other than the net income from trading financial instruments and foreign exchange and hedging transactions, arising from application of the fair value criterion, must be recorded in an unavailable reserve. As at 31 December 2020, such amount was 127,964,928.21 euro.

On 15 December 2020, the European Central Bank, following its previous guidance in this regard, published a Recommendation on dividend policies during the COVID-19 epidemic whereby it asked significant credit institutions to exercise extreme prudence when deciding on or paying out dividends to remunerate shareholders and reserved the right to review this Recommendation before 30 September 2021, when, in the absence of materially adverse developments, the European Central Bank intends to repeal the Recommendation and return to assessing banks' capital and distribution plans based on the outcome of the normal supervisory cycle. The same recommendation was made by the Bank of Italy to the banks under its direct supervision.

Specifically, the European Central Bank generally recommends that distributions by banks should not exceed the lower of: *i*) 15% of their accumulated profit for the financial years 2019 and 2020; and *ii*) 20 basis points in terms of the Common Equity Tier 1 ratio.

In view of the above and considering our Bank's sound capital base, it is proposed the distribution of a total amount of around 694 million euro, equal to 20 basis points in terms of the Common Equity Tier 1 ratio at consolidated level, an amount that represents the lower of the two parameters indicated above and enables full compliance with the Recommendation of the European Central Bank.

It is proposed to allocate the net income for the year 2020 of Intesa Sanpaolo S.p.A. which amounts to 678,696,963.96 euro, as follows:

	(euro)
Net income for the year	678,696,963.96
Assignment of a dividend of 0.0274 euro for each of the 19,430,463,305 ordinary shares, for a total disbursement of	532,394,694.56
Assignment to the Allowance for charitable, social and cultural contributions	16,500,000.00
Assignment to the Extraordinary reserve of the residual net income	129,802,269.40

In view of the above and taking into account that the consolidated net income relating to 2020 is equal to 3,277 million euro, it is also proposed to resolve on a partial distribution of the Share Premium Reserve of 0.0083 euro for each of the 19,430,463,305 ordinary shares constituting the share capital for a total amount of 161,272,845.43 euro.

As a consequence, the total dividend amounts to 693,667,539.99 euro or 0.0357 euro for each of the 19,430,463,305 ordinary shares.

This assignment of reserves shall be subject to the same tax regime as the distribution of dividends.

If this proposal is approved, the consolidated capital requirements would show a Common Equity Tier 1 ratio of 14.7% and a Total Capital Ratio of 19.6%, both comfortably meeting the requirements of the EU Bodies and the Supervisory Authority. At Parent Company level as well, the capital requirements would be well above the minimum requirements.

We propose that the above distributions be made payable, in compliance with legal provisions, as of 26 May 2021, with detachment of the coupon on 24 May 2021.

Please note that dividends not distributed in respect of any own shares held by the Bank at the record date of 25 May 2021 shall be allocated to the Extraordinary Reserve.

If the proposal submitted is approved by you, and taking into account the reclassification to the Extraordinary Reserve of the total net positive amount of 2,080,191,860.89 euro relating to the merger differences arising from the cancellation of the shares of the merged subsidiary Banca IMI S.p.A., the shareholders' equity of Intesa Sanpaolo S.p.A. will be as shown in the table below.

Shareholders' equity	Annual report 2020	Changes	(millions of euro) Share capital and reserves of Annual Report 2020 after the Shareholders' Meeting resolutions
<b>Share capital</b>	<b>10,084</b>	-	<b>10,084</b>
Share premium reserve	27,603	-161	27,442
Reserves	7,609	130	7,739
Valuation reserves	1,176	-	1,176
Equity instruments	7,053	-	7,053
Treasury shares	-90	-	-90
<b>Total reserves</b>	<b>43,351</b>	<b>-31</b>	<b>43,320</b>
<b>TOTAL</b>	<b>53,435</b>	<b>-31</b>	<b>53,404</b>

We are aware of the need to maintain our capital strength, especially in the current difficult situation, but also of our Bank's solidity and the importance of passing on the value generated by the operations of our Group to our shareholders. Accordingly, we inform you that the Board of Directors, subject to the above-mentioned developments in the recommendations from the Supervisory Authorities, intends to call a shareholders' meeting to be held after 30 September this year and propose a distribution of retained earnings reserves, against the 2020 results, which when added to the above-mentioned dividends will lead to the payment of a total amount corresponding to a payout ratio of 75% of the 3,505 million euro adjusted consolidated net income<sup>3</sup>.

The Board of Directors

Torino, 23 March 2021

<sup>3</sup> 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.

# **Parent Company's financial statements**

## Balance sheet

Assets	31.12.2020	31.12.2019	(euro)	
			Changes amount	%
10. Cash and cash equivalents	5,402,330,985	6,013,356,038	-611,025,053	-10.2
20. Financial assets measured at fair value through profit or loss	57,072,628,465	22,973,103,973	34,099,524,492	
<i>a) financial assets held for trading</i>	53,737,448,596	19,871,692,215	33,865,756,381	
<i>b) financial assets designated at fair value</i>	1,163,237	195,028,564	-193,865,327	-99.4
<i>c) other financial assets mandatorily measured at fair value</i>	3,334,016,632	2,906,383,194	427,633,438	14.7
30. Financial assets measured at fair value through other comprehensive income	40,988,130,226	33,276,643,885	7,711,486,341	23.2
40. Financial assets measured at amortised cost	470,244,703,700	439,932,789,628	30,311,914,072	6.9
<i>a) due from banks</i>	90,616,181,852	122,454,605,998	-31,838,424,146	-26.0
<i>b) loans to customers</i>	379,628,521,848	317,478,183,630	62,150,338,218	19.6
50. Hedging derivatives	1,014,885,703	2,830,373,955	-1,815,488,252	-64.1
60. Fair value change of financial assets in hedged portfolios (+/-)	2,333,380,783	1,525,813,562	807,567,221	52.9
70. Equity investments	24,668,230,420	24,410,762,610	257,467,810	1.1
80. Property and equipment	6,557,904,180	6,688,430,072	-130,525,892	-2.0
90. Intangible assets	3,573,624,987	4,551,602,210	-977,977,223	-21.5
<i>of which:</i>				
- <i>goodwill</i>	67,487,402	1,242,487,402	-1,175,000,000	-94.6
100. Tax assets	14,216,445,687	14,016,892,094	199,553,593	1.4
<i>a) current</i>	1,428,233,703	1,480,236,864	-52,003,161	-3.5
<i>b) deferred</i>	12,788,211,984	12,536,655,230	251,556,754	2.0
110. Non-current assets held for sale and discontinued operations	1,798,133,896	469,027,127	1,329,106,769	
120. Other assets	3,861,580,219	3,739,834,486	121,745,733	3.3
<b>Total assets</b>	<b>631,731,979,251</b>	<b>560,428,629,640</b>	<b>71,303,349,611</b>	<b>12.7</b>



## Balance sheet

Liabilities and Shareholders' Equity	31.12.2020	31.12.2019	(euro)	
			Changes amount	%
10. Financial liabilities measured at amortised cost	491,392,699,923	476,324,527,437	15,068,172,486	3.2
<i>a) due to banks</i>	130,653,717,279	152,978,451,667	-22,324,734,388	-14.6
<i>b) due to customers</i>	288,693,749,406	247,937,370,294	40,756,379,112	16.4
<i>c) securities issued</i>	72,045,233,238	75,408,705,476	-3,363,472,238	-4.5
20. Financial liabilities held for trading	60,829,575,108	16,446,060,192	44,383,514,916	
30. Financial liabilities designated at fair value	2,810,054,443	1,914,031,202	896,023,241	46.8
40. Hedging derivatives	5,386,985,108	7,323,119,194	-1,936,134,086	-26.4
Fair value change of financial liabilities in hedged portfolios (+/-)	721,478,156	521,940,321	199,537,835	38.2
60. Tax liabilities	831,482,469	928,948,213	-97,465,744	-10.5
<i>a) current</i>	12,857,298	23,592,680	-10,735,382	-45.5
<i>b) deferred</i>	818,625,171	905,355,533	-86,730,362	-9.6
70. Liabilities associated with non-current assets held for sale and discontinued operations	2,594,333,881	41,034,565	2,553,299,316	
80. Other liabilities	8,000,290,475	7,500,204,651	500,085,824	6.7
90. Employee termination indemnities	926,629,701	1,057,087,202	-130,457,501	-12.3
100. Allowances for risks and charges	4,124,438,581	3,099,839,100	1,024,599,481	33.1
<i>a) commitments and guarantees given</i>	404,079,280	384,991,008	19,088,272	5.0
<i>b) post-employment benefits</i>	212,006,481	205,670,392	6,336,089	3.1
<i>c) other allowances for risks and charges</i>	3,508,352,820	2,509,177,700	999,175,120	39.8
110. Valuation reserves	1,175,672,767	1,374,623,166	-198,950,399	-14.5
120. Redeemable shares	-	-	-	-
130. Equity instruments	7,053,190,135	4,102,664,631	2,950,525,504	71.9
140. Reserves	7,609,176,236	3,399,458,545	4,209,717,691	
150. Share premium reserve	27,602,889,913	25,233,266,887	2,369,623,026	9.4
160. Share capital	10,084,445,148	9,085,663,010	998,782,138	11.0
170. Treasury shares (-)	-90,059,757	-60,813,066	29,246,691	48.1
180. Net income (loss) (+/-)	678,696,964	2,136,974,390	-1,458,277,426	-68.2
<b>Total liabilities and shareholders' equity</b>	<b>631,731,979,251</b>	<b>560,428,629,640</b>	<b>71,303,349,611</b>	<b>12.7</b>

## Income statement

		(euro)			
		2020	2019	Changes amount	%
10.	Interest and similar income	7,265,227,533	7,282,086,219	-16,858,686	-0.2
	<i>of which: interest income calculated using the effective interest rate method</i>	7,376,596,616	7,568,715,562	-192,118,946	-2.5
20.	Interest and similar expense	-2,037,749,884	-2,874,258,933	-836,509,049	-29.1
<b>30.</b>	<b>Interest margin</b>	<b>5,227,477,649</b>	<b>4,407,827,286</b>	<b>819,650,363</b>	<b>18.6</b>
40.	Fee and commission income	5,243,401,909	5,097,939,877	145,462,032	2.9
50.	Fee and commission expense	-847,625,430	-609,465,768	238,159,662	39.1
<b>60.</b>	<b>Net fee and commission income</b>	<b>4,395,776,479</b>	<b>4,488,474,109</b>	<b>-92,697,630</b>	<b>-2.1</b>
70.	Dividend and similar income	2,536,369,058	2,144,099,724	392,269,334	18.3
80.	Profits (Losses) on trading	463,395,069	38,655,668	424,739,401	
90.	Fair value adjustments in hedge accounting	36,167,928	-36,699,444	72,867,372	
100.	Profits (Losses) on disposal or repurchase of:	562,385,475	357,904,493	204,480,982	57.1
	<i>a) financial assets measured at amortised cost</i>	-200,010,161	-25,917,941	174,092,220	
	<i>b) financial assets measured at fair value through other comprehensive income</i>	782,793,418	214,497,933	568,295,485	
	<i>c) financial liabilities</i>	-20,397,782	169,324,501	-189,722,283	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	-51,273,079	17,662,586	-68,935,665	
	<i>a) financial assets and liabilities designated at fair value</i>	55,848,050	-95,452,555	151,300,605	
	<i>b) other financial assets mandatorily measured at fair value</i>	-107,121,129	113,115,141	-220,236,270	
<b>120.</b>	<b>Net interest and other banking income</b>	<b>13,170,298,579</b>	<b>11,417,924,422</b>	<b>1,752,374,157</b>	<b>15.3</b>
130.	Net losses/recoveries for credit risks associated with:	-3,377,134,142	-1,965,432,618	1,411,701,524	71.8
	<i>a) financial assets measured at amortised cost</i>	-3,369,195,440	-1,953,858,693	1,415,336,747	72.4
	<i>b) financial assets measured at fair value through other comprehensive income</i>	-7,938,702	-11,573,925	-3,635,223	-31.4
140.	Profits (Losses) on changes in contracts without derecognition	-6,847,805	-5,072,667	1,775,138	35.0
<b>150.</b>	<b>Net income from banking activities</b>	<b>9,786,316,632</b>	<b>9,447,419,137</b>	<b>338,897,495</b>	<b>3.6</b>
160.	Administrative expenses:	-8,573,392,874	-7,155,003,404	1,418,389,470	19.8
	<i>a) personnel expenses</i>	-5,521,457,139	-4,498,946,183	1,022,510,956	22.7
	<i>b) other administrative expenses</i>	-3,051,935,735	-2,656,057,221	395,878,514	14.9
170.	Net provisions for risks and charges	-629,401,493	-65,645,408	563,756,085	
	<i>a) commitments and guarantees given</i>	-14,342,480	-863,098	13,479,382	
	<i>b) other net provisions</i>	-615,059,013	-64,782,310	550,276,703	
180.	Net adjustments to / recoveries on property and equipment	-381,324,336	-391,583,737	-10,259,401	-2.6
190.	Net adjustments to / recoveries on intangible assets	-594,720,957	-536,880,647	57,840,310	10.8
200.	Other operating expenses (income)	620,289,244	807,164,212	-186,874,968	-23.2
<b>210.</b>	<b>Operating expenses</b>	<b>-9,558,550,416</b>	<b>-7,341,948,984</b>	<b>2,216,601,432</b>	<b>30.2</b>
220.	Profits (Losses) on equity investments	-154,091,601	-56,028,166	98,063,435	
230.	Valuation differences on property, equipment and intangible assets measured at fair value	-33,266,293	-10,204,141	23,062,152	
240.	Goodwill impairment	-1,155,000,000	-	1,155,000,000	-
250.	Profits (Losses) on disposal of investments	28,757,915	-111,598	28,869,513	
<b>260.</b>	<b>Income (Loss) before tax from continuing operations</b>	<b>-1,085,833,763</b>	<b>2,039,126,248</b>	<b>-3,124,960,011</b>	
270.	Taxes on income from continuing operations	638,567,347	34,130,294	604,437,053	
<b>280.</b>	<b>Income (Loss) after tax from continuing operations</b>	<b>-447,266,416</b>	<b>2,073,256,542</b>	<b>-2,520,522,958</b>	
290.	Income (Loss) after tax from discontinued operations	1,125,963,380	63,717,848	1,062,245,532	
<b>300.</b>	<b>Net income (loss)</b>	<b>678,696,964</b>	<b>2,136,974,390</b>	<b>-1,458,277,426</b>	<b>-68.2</b>

## Statement of comprehensive income

	2020	2019	Changes		(euro)
			amount	%	
<b>10. NET INCOME (LOSS)</b>	<b>678,696,964</b>	<b>2,136,974,390</b>	<b>-1,458,277,426</b>		<b>-68.2</b>
<b>Other comprehensive income (net of tax) that may not be reclassified to the income statement</b>	<b>-360,098,685</b>	<b>185,090,204</b>	<b>-545,188,889</b>		
20. Equity instruments designated at fair value through other comprehensive income	-273,450,666	-42,656,869	230,793,797		
30. Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-99,343,048	-	99,343,048		
40. Hedging of equity instruments designated at fair value through other comprehensive income	-	-	-		
50. Property and equipment	6,868,573	243,806,202	-236,937,629		-97.2
60. Intangible assets	-	-	-		
70. Defined benefit plans	5,826,456	-16,059,129	21,885,585		
80. Non current assets classified as held for sale	-	-	-		
90. Share of valuation reserves connected with investments carried at equity	-	-	-		
<b>Other comprehensive income (net of tax) that may be reclassified to the income statement</b>	<b>147,207,873</b>	<b>127,327,803</b>	<b>19,880,070</b>		<b>15.6</b>
100. Hedges of foreign investments	-	-	-		
110. Foreign exchange differences	-	-	-		
120. Cash flow hedges	57,941,774	-32,963,321	90,905,095		
130. Hedging instruments (not designated elements)	-	-	-		
140. Financial assets (other than equities) measured at fair value through other comprehensive income	89,266,099	160,291,124	-71,025,025		-44.3
150. Non-current assets held for sale and discontinued operations	-	-	-		
160. Share of valuation reserves connected with investments carried at equity	-	-	-		
<b>170. Total other comprehensive income (net of tax)</b>	<b>-212,890,812</b>	<b>312,418,007</b>	<b>-525,308,819</b>		
<b>180. TOTAL COMPREHENSIVE INCOME (Captions 10 + 170)</b>	<b>465,806,152</b>	<b>2,449,392,397</b>	<b>-1,983,586,245</b>		<b>-81.0</b>

## Changes in shareholders' equity as at 31 December 2020

(euro)

	31.12.2020									
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	other shares		retained earnings	other					
<b>AMOUNTS AS AT 31.12.2019</b>	9,085,663,010	-	25,233,266,887	2,620,031,391	779,427,154	1,374,623,166	4,102,664,631	-60,813,066	2,136,974,390	45,271,837,563
Changes in opening balances	-	-	-	-	-	-	-	-	-	-
<b>AMOUNTS AS AT 1.1.2020</b>	9,085,663,010	-	25,233,266,887	2,620,031,391	779,427,154	1,374,623,166	4,102,664,631	-60,813,066	2,136,974,390	45,271,837,563
<b>ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)</b>										
Reserves	-	-	-	2,124,474,390	-	-	-	-	-2,124,474,390	-
Dividends and other allocations	-	-	-	-	-	-	-	-	-12,500,000	-12,500,000
<b>CHANGES IN THE PERIOD</b>										
Changes in reserves	-	-	4,634,860	1,875,305,322	209,937,979	13,940,413	-	-	-	2,103,818,574
Operations on shareholders' equity										
Issue of new shares	998,782,138	-	2,364,988,166	-	-	-	-	15,423,396	-	3,379,193,700
Purchase of treasury shares	-	-	-	-	-	-	-	-44,670,087	-	-44,670,087
Dividends	-	-	-	-	-	-	-	-	-	-
Changes in equity instruments	-	-	-	-	-	-	2,950,525,504	-	-	2,950,525,504
Derivatives on treasury shares	-	-	-	-	-	-	-	-	-	-
Stock options	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-212,890,812	-	-	678,696,964	465,806,152
<b>SHAREHOLDERS' EQUITY AS AT 31.12.2020</b>	10,084,445,148	-	27,602,889,913	6,619,811,103	989,365,133	1,175,672,767	7,053,190,135	-90,059,757	678,696,964	54,114,011,406

(a) Includes dividends and amounts allocated to the charity allowance of the Parent Company.

## Changes in shareholders' equity as at 31 December 2019

	(euro)									
	31.12.2019									
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	other shares		retained earnings	other					
<b>AMOUNTS AS AT 31.12.2018</b>	9,085,469,852	-	24,925,954,843	3,789,063,006	580,686,746	1,080,919,802	4,102,664,631	-39,659,294	3,685,594,819	47,210,694,405
Changes in opening balances	-	-	-	-	-	-	-	-	-	-
<b>AMOUNTS AS AT 1.1.2019</b>	9,085,469,852	-	24,925,954,843	3,789,063,006	580,686,746	1,080,919,802	4,102,664,631	-39,659,294	3,685,594,819	47,210,694,405
<b>ALLOCATION OF NET INCOME</b>										
<b>OF THE PREVIOUS YEAR (a)</b>										
Reserves				222,727,057					-222,727,057	-
Dividends and other allocations									-3,462,867,762	-3,462,867,762
<b>CHANGES IN THE PERIOD</b>										
Changes in reserves			307,312,044	-1,391,758,672	198,740,408	-18,714,643				-904,420,863
<b>Operations on shareholders' equity</b>										
Issue of new shares	193,158							9,184,010		9,377,168
Purchase of treasury shares								-30,337,782		-30,337,782
Dividends										-
Changes in equity instruments										-
Derivatives on treasury shares										-
Stock options										-
<b>Total comprehensive income for the period</b>	-	-	-	-	-	312,418,007	-	-	2,136,974,390	2,449,392,397
<b>SHAREHOLDERS' EQUITY AS AT 31.12.2019</b>	9,085,663,010	-	25,233,266,887	2,620,031,391	779,427,154	1,374,623,166	4,102,664,631	-60,813,066	2,136,974,390	45,271,837,563

(a) Includes dividends and amounts allocated to the charity allowance of the Parent Company.

## Statement of cash flows

	2020	2019
		(euro)
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Cash flow from operations</b>	<b>-2,371,802,450</b>	<b>4,284,196,502</b>
Net income (loss) (+/-)	678,696,964	2,136,974,390
Gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit and loss (-/+)	-5,859,422,819	430,144,514
Gains/losses on hedging activities (-/+)	-36,167,928	36,699,444
Net losses/recoveries for credit risk (+/-)	3,585,541,872	2,290,736,569
Adjustments to/net recoveries on property, equipment and intangible assets (+/-)	976,045,293	928,464,384
Net provisions for risks and charges and other costs/revenues (+/-)	1,902,643,200	349,860,084
Taxes, duties and tax credits to be paid/collected(+/-)	-636,520,178	-103,632,907
Net adjustments to/recoveries on discontinued operations net of tax effect (-/+)	-	580,265
Other adjustments (+/-)	-2,982,618,854	-1,785,630,241
<b>2. Cash flow from / used in financial assets</b>	<b>-44,103,039,995</b>	<b>-8,733,476,554</b>
Financial assets held for trading	5,425,641,906	-2,234,701,675
Financial assets designated at fair value	193,952,071	-92,727,758
Other financial assets mandatorily measured at fair value	-71,578,282	2,011,123,391
Financial assets measured at fair value through other comprehensive income	17,664,635,156	-1,334,227,853
Financial assets measured at amortised cost	-68,732,046,636	-9,278,921,460
Other assets	1,416,355,790	2,195,978,801
<b>3. Cash flow from / used in financial liabilities (*)</b>	<b>41,374,549,139</b>	<b>6,466,091,485</b>
Financial liabilities measured at amortised cost	36,587,024,184	7,189,107,970
Financial liabilities held for trading	6,714,952,826	1,785,194,860
Financial liabilities designated at fair value	2,725,597,691	92,991,220
Other liabilities	-4,653,025,562	-2,601,202,565
<b>Net cash flow from (used in) operating activities</b>	<b>-5,100,293,306</b>	<b>2,016,811,433</b>
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash flow from</b>	<b>3,810,968,915</b>	<b>2,117,346,687</b>
Sales of investments in associates and companies subject to joint control	344,364,396	10,744,005
Dividends collected on investments in associates and companies subject to joint control	2,450,848,103	2,093,438,488
Sales of property and equipment	36,556,416	13,164,194
Sales of intangible assets	-	-
Sales of subsidiaries and business branches	979,200,000	-
<b>2. Cash flow used in</b>	<b>-2,029,874,080</b>	<b>-1,768,795,669</b>
Purchases of investments in associates and companies subject to joint control	-890,764,121	-574,612,952
Purchases of property and equipment	-299,523,548	-386,334,765
Purchases of intangible assets	-839,586,411	-807,847,952
Purchases of subsidiaries and business branches	-	-
<b>Net cash flow from (used in) investing activities</b>	<b>1,781,094,835</b>	<b>348,551,018</b>
<b>C. FINANCING ACTIVITIES</b>		
Issues/purchases of treasury shares	-29,246,691	-21,153,772
Share capital increases	2,749,100,248	-233,386,742
Dividend distribution and other	-12,500,000	-3,462,867,762
<b>Net cash flow from (used in) financing activities</b>	<b>2,707,353,557</b>	<b>-3,717,408,276</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>-611,844,914</b>	<b>-1,352,045,825</b>
<b>RECONCILIATION</b>		
<b>Financial statement captions</b>		
Cash and cash equivalents at beginning of period	6,013,356,038	7,363,132,608
Net increase (decrease) in cash and cash equivalents	-611,844,914	-1,352,045,825
Cash and cash equivalents: foreign exchange effect	819,861	2,269,255
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>5,402,330,985</b>	<b>6,013,356,038</b>

LEGEND: (+) from (-) used in

(\*) With regard to the disclosure required by par. 44 B of IAS 7, it is noted that the changes in liabilities deriving from financing activities amount to +41.4 billion euro (cash flow from) and comprise +36.6 billion euro in cash flows, +9.4 billion euro in fair value changes and -4.6 billion euro in other changes.



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# Part A – Accounting policies

## A.1 – GENERAL CRITERIA

### SECTION 1 – DECLARATION OF COMPLIANCE WITH IAS/IFRS

As set forth by Legislative Decree 38 of 28 February 2005, Intesa Sanpaolo's financial statements have been prepared in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as provided for by EC Regulation 1606 of 19 July 2002.

The financial statements as at 31 December 2020 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Article 43 of Legislative Decree 136/2015<sup>(\*)</sup>, with Regulation of 22 December 2005, which issued Circular 262/05, and with the subsequent updates of 18 November 2009, 21 January 2014, 22 December 2014, 15 December 2015, 22 December 2017 and 30 November 2018<sup>4</sup>.

These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the financial statements.

The Parent Company's financial statements have been prepared using the IAS/IFRS in force as at 31 December 2020 (including the SIC and IFRIC interpretation documents) as listed in the attachments to the consolidated financial statements.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which came into force in 2020.

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<sup>(\*)</sup> Art. 43 of Legislative Decree 136/2015 confirmed to the Bank of Italy the powers concerning the layouts of financial statements already previously attributed to the same Authority by Legislative Decree 38/2005.

<sup>4</sup> The provisions governing the financial statements of Banks (Circular 262/05) were supplemented with regard to the impacts of COVID-19, measures in support of the economy and amendments to IAS/IFRS by communication from the Bank of Italy dated 15 December 2020.

## IFRS endorsed as at 31.12.2020 in force since 2020

Regulation endorsement	Title	Effective date
2075/2019	Amendments to References to the Conceptual framework in IFRS Standards (*)	01/01/2020 First financial year starting on or after 01/01/2020
2014/2019	Amendments to IAS 1 Presentation of Financial Statements - Definition of Material	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material	01/01/2020 First financial year starting on or after 01/01/2020
34/2020	Amendments to IFRS 9 Financial Instruments - Interest Rate Benchmark Reform (**)	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Interest Rate Benchmark Reform (**)	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform (**)	01/01/2020 First financial year starting on or after 01/01/2020
551/2020	Amendments to IFRS 3 Business Combinations: Definition of a business combination	01/01/2020 First financial year starting on or after 01/01/2020
1434/2020	Amendments to IFRS 16 Leasing - Leases Covid 19-Related Rent Concessions	01/06/2020 First financial year starting on or after 01/01/2020

(\*) The document amends references to Conceptual Framework in: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32.

(\*\*) Regulation n. 34/2020, approved on 15 January 2020, application of which is compulsory from 1 January 2020, with an option of early adoption that the Intesa Sanpaolo Group decided to use for Financial Statement 2019.

As may be seen from the foregoing table, some amendments to existing accounting standards, endorsed by the European Commission in 2019 and 2020, are applicable on a mandatory basis for the first time starting in 2020, but none of them is particularly significant for the Bank.

The specific endorsing Regulations were as follows:

- Regulation 2075/2019 of 29 November 2019, which adopted several amendments to the IFRS relating to references to the Conceptual Framework. The amendments are designed to update the references – in the various IAS/IFRS and interpretations – to the previous framework, by replacing them with the references to the framework revised in March 2018. The Conceptual Framework is not an accounting standard and is therefore not subject to endorsement, whereas this particular document was subject to endorsement because it amends some IAS/IFRS;
- Regulation 2104/2019 of 29 November 2019, which adopted several amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which clarifies the definition of material information. The materiality depends on the nature and significance of the information or both. An entity shall also verify whether an item of information, either individually or in combination with other information, is material in the overall context of the financial statements;
- Regulation 551/2020 of 21 April 2020 – Amendments to IFRS 3, which adopts the amendments introduced with the IASB publication of 22 October 2018 "Definition of a Business (Amendments to IFRS 3)", which provides clarification and further elements for analysis regarding the definition of the term "business" in the framework of business combinations. With the amendments introduced, aimed at facilitating practical application, a definition of "business" is provided, according to the meaning of "a set of activities and assets" that may be performed and managed to provide goods or services to customers and that generates investment income (such as dividends or interest) or other income from ordinary activities. It is also clarified that a business – for the purposes of application of par. 3 of IFRS 3 for the identification of a business combination – consists of factors of production and processes applied to such factors that are capable of contributing to the creation of production. The changes made also include an optional concentration test, which should help companies determine whether an acquired set of activities and assets is a business or a group of assets. The clarifications provided do not entail any changes to the practices already followed by Intesa Sanpaolo with regard to the definition of a business.

With Regulation 1434/2020 of 9 October 2020, the European Commission endorsed the Amendment to IFRS 16 "COVID-19-Related Rent Concessions", published by the IASB on 28 May 2020 in order to provide a practical expedient to lessees, i.e. the option not to apply the rules of accounting for lease modifications in the event of rent concessions due to causes attributable to COVID-19.

In the current economic scenario, and given the large number of contracts affected by the relief measures provided for in the various pieces of legislation, it could be very burdensome for lessees to apply the current provisions of IFRS 16 concerning lease modification. The practical expedient, optional and temporary, applies solely to rent concessions that occur as a direct consequence of the Covid-19 pandemic and only if all the following conditions are met:

- the revised consideration is substantially equal to or less than the original consideration;
- the rent reduction refers to payments originally due by 30 June 2021 or earlier;
- no other substantial modifications have been made to the terms of the lease contract.

Lessees that apply the practical expedient are required to provide disclosure in their financial statements and interim reports:

- whether they have applied the practical expedient to all eligible rent concessions or, if not, the nature of the contracts to which they have applied the practical expedient; and
- the amount taken to the income statement during the reporting period as a result of the application of the practical expedient.

The resulting accounting entries will depend on the various types of rent concessions (for example, reduction of rent, deferral of payment of some instalments or forgiveness of rent), but in any event will entail the recognition of the benefit of the concession in the income statement.

No exemptions are provided for lessors, which are required to assess whether rent concessions constitute modifications of the lease contract and to account for them accordingly.

As provided for in Article 2 of the Regulation, the amendments are applicable from 1 June 2020 for financial years starting on or after 1 January 2020. The IASB set the date of entry into force of the amendments to IFRS 16 on 1 June 2020 and the European Commission deemed it appropriate to apply the provisions of the Regulation with retroactive effect to ensure the certainty of the law for the affected issuers and in accordance with other accounting standards.

Intesa Sanpaolo does not apply this practical expedient, taking into consideration the immateriality of its impacts.

Finally, the Bank has exercised the option of early adoption of Regulation (EU) 34/2020 of 15 January 2020 for the 2019 Financial Statements, which adopted the document issued by the IASB in September 2019 on "Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)", application of which is mandatory with effect from 1 January 2020. This regulation introduced several amendments regarding hedge accounting designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform resulting in the discontinuation of existing hedges and difficulties in designating new hedging relationships.

These changes are part of the project to analyse the accounting effects of the Interest Rate Benchmark Reform or IBOR Reform. This relates to the developments concerning the revision or replacement of certain interest rate benchmarks used to set interest rates in various jurisdictions, such as LIBOR, TIBOR and, in Europe, EONIA, based on the indications from the G20 and the Financial Stability Board.

The IASB dealt with the possible accounting impacts of the IBOR Reform through a project divided into two phases: the first phase focused on the possible accounting impacts in the period prior to the replacement of the existing benchmark rates with new rates (pre-replacement issues); and the second phase of the project, which concluded with the publication in August 2020 of the document "Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IAS 16", endorsed by Regulation 25/2021 of 13 January 2021, instead involves the analysis of the possible accounting impacts deriving from the application of the new rates and other less urgent issues (replacement issues).

Phase 1 of the project, which ended with the publication of the above-mentioned Regulation 34/2020, introduced several changes to prevent the discontinuation of existing hedges. The IASB considers that, in this scenario, the discontinuation of hedges solely due to the effect of uncertainty does not provide useful information for the users of financial statements and has therefore decided to make some temporary exceptions to the existing regulations to prevent these distortions, which can be applied until the reform of the interest rate benchmarks has been completed.

In this regard, the IASB has identified the following hedge accounting provisions that may be affected by the interest rate benchmark reform in the pre-replacement phase:

- 1) *Highly probable requirement*: IAS 39 and IFRS 9 require that forecast transactions must meet the highly probable requirement in order to be designated as the hedged item.
- 2) *Prospective and retrospective assessment of hedge effectiveness* concerning the passing of the effectiveness tests required by IFRS 9 and IAS 39 to allow the application of hedge accounting.
- 3) *Designation of risk components*: IFRS 9 and IAS 39 allow the designation of a non-contractually specified risk component when it can be separately identified and reliably measured.

For each of these provisions, the IASB has introduced a simplification, which assumes that the interest rate benchmarks used to set existing interest rates will not be changed as a result of the interbank rate reform.

The amendments are applicable on a mandatory basis from 1 January 2020, with the option of early application, which the Bank has exercised for the purposes of preparation of the 2019 financial statements.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which will become mandatory on 1 January 2021 – for financial statements reflecting the calendar year – or after this date, and for which Intesa Sanpaolo has not exercised the option of early adoption.

## IFRS endorsed as at 31.12.2020 applicable subsequent to 31.12.2020

Regulation endorsement	Title	Effective date
2097/2020	Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9	01/01/2021 First financial year starting on or after 01/01/2021
25/2021 (*)	Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	01/01/2021 First financial year starting on or after 01/01/2021

(\*) Regulation n. 25/2021 has been endorsed on 13 January 2021.

The publication of Regulation 2097/2020 of 15 December 2020 endorsed the extension of the temporary exemption from applying IFRS 9 (amendments to IFRS 4 Insurance Contracts) published by the IASB on 25 June 2020, which is relevant only at the Intesa Sanpaolo Group level.

Finally, Regulation 25/2021 of 13 January 2021 endorsed "Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16" published by the IASB on 27 August 2020 regarding issues pertaining to phase two of the interest rate reform project.

The main amendments implemented relate to:

- Modification/derecognition

The issue concerns the accounting treatment of amendments to existing contracts to reflect the new interest rates and whether they are to be accounted for - pursuant to IFRS 9 - as a modification or a derecognition. In this regard, the legislation aims to safeguard the amendments relating to the IBOR reform:

- o it is clarified that amendments - following the IBOR reform - relating to the replacement of the existing IBOR rate with the new risk-free rate, even in the absence of amendments to the contractual conditions, do not constitute a derecognition event but are to be considered a modification from an accounting standpoint; and
- o a practical expedient is proposed allowing such amendments, applied on equivalent economic bases, to be represented with a prospective adjustment of the effective interest rate, with impacts on net interest income in future periods (and not by applying modification accounting pursuant to IFRS 9).

Similar changes regarding contract amendments were also made to IFRS 16 Leasing and IFRS 4 Insurance Contracts, in line with the provisions regarding financial instruments summarised above.

- Hedge accounting

In phase two of the project, the IASB analysed the impact on hedging relationships of amendments caused by the IBOR reform on financial instruments part of a hedging relationship and which may constitute potential new triggers for the discontinuation of the hedges, establishing several exceptions to IAS 39 (and to IFRS 9 for those who have also adopted it for hedges) that make it possible not to apply discontinuation following an update of the documentation of the hedging relationship (due to modification of the hedged risk, the hedged underlying or the hedging derivative, or of the method for verifying hedge effectiveness). Any cases of ineffectiveness must nonetheless be recognised in the income statement.

In addition, some amendments were applied with regard to the designation of separately identifiable risk components. When a hedging relationship is modified as a result of the reform or new hedging relationships are designated, an alternative interest rate designated as a non-contractually specified risk component might not meet the separately identifiable requirement since the alternative interest rate market might not be sufficiently developed on the designation date. In this regard, it has been established that an alternative interest rate meets this requirement if the entity reasonably expects that the designation will become separately identifiable within 24 months. The amendments introduced by the IASB thus aim at not discontinuing existing hedge relationships as a result of the reform. Accordingly, no impacts on Intesa Sanpaolo are foreseen.

- Disclosure

Disclosure is to be further enhanced, in addition to the supplements to IFRS 7 already implemented within the framework of the phase one amendments, with the addition of qualitative and quantitative disclosure requirements to be met in the financial statements with regard to the nature and risks associated with the IBOR reform, the management of such risks and progress in the process of transitioning to the new rates.

Adoption of these amendments will be mandatory for financial statements for periods beginning on or after 1 January 2021, with the possibility of optional early adoption. Following the analyses, the Bank did not deem it necessary to utilise the possibility of early application of the amendments for the 2020 financial statements.

The table below shows the new international financial reporting standards or amendments to existing standards that have not yet been endorsed by the European Commission.

**IFRS not endorsed as at 31.12.2020**

<b>Standard/ Interpretation</b>	<b>Title</b>	<b>Date of issue</b>
IFRS 17	Insurance Contracts	18/05/2017
<b>Standard/ Interpretation</b>	<b>Amendments</b>	<b>Date of issue</b>
IAS 1	Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	23/01/2020
IAS 1	Presentation of Financial Statements: Classification of Liabilities as Current or Non-current - Deferral of Effective Date	15/07/2020
IFRS 3	Business Combination	14/05/2020
IAS 16	Property, Plant and Equipment	14/05/2020
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	14/05/2020
IFRS 17	Insurance Contracts	25/06/2020

**SECTION 2 – GENERAL PREPARATION PRINCIPLES**

The financial statements are made up of the Balance sheet, the Income statement, the Statement of comprehensive income, the Changes in shareholders' equity, the Statement of cash flows, the Notes to the financial statements and the related comparative information; the Report on operations prepared by the Directors, on the economic results achieved and on Intesa Sanpaolo's balance sheet and financial position has also been included. For information to be included in the Report on operations as required by regulatory provisions, reference should be made to the Consolidated Report on Operations. In compliance with the provisions of Article 5 of Legislative Decree 38/2005, the financial statements have been drawn up in euro as functional currency.

The amounts indicated in the Parent Company's financial statements are expressed in euro, while figures in the Notes to the Parent Company's financial statements as well as those in the Report on operations are expressed in millions of euro, unless otherwise specified.

The financial statements are prepared with the application of the general principles set out by IAS 1 and the specific financial reporting standards endorsed by the European Commission and illustrated in Part A.2 of these Notes to the Parent Company's financial statements, as well as in compliance with the general assumptions set forth by the Conceptual Framework for the preparation and presentation of Financial Statements issued by IASB.

No exceptions to the application of IAS/IFRS have been made.

The Report on operations and the Notes to the Parent Company's financial statements contain all information required by international accounting standards, by current regulations, by the Bank of Italy and by Consob (Italian Securities and Exchange Commission), in addition to other information which is not compulsory but is nonetheless deemed to be necessary in order to give a true and fair presentation of the Bank's situation. In addition, account was taken of documents providing interpretation and support with the application of accounting standards in relation to the impacts of COVID-19 issued by European regulatory and supervisory authorities and the standard-setters illustrated in further detail in Section 4 - Other aspects.

The balance sheets and the related details in the notes present, in accordance with IFRS 5, among components related to discontinued operations, in addition to several real properties, the bad loans and UTP portfolios subject to sale in 2021 and assets and liabilities relating to the branches subject to sale to BPER within the framework of the UBI Banca acquisition.

The financial statement forms and the Notes to the financial statements show, in addition to the figures for the reference period, the comparative figures as at 31 December 2019. In that regard, it is noted that on 20 July 2020 the merger by incorporation of the subsidiary Banca IMI was finalised, with accounting and tax effects backdated to 1 January 2020. Note that, in line with the provisions of Circular 262 of the Bank of Italy, the balance sheet, income statement and statement of comprehensive income accounts, as well as the tables of the notes to the financial statements referring to the previous year (31 December 2019) were not restated to include the amounts of Banca IMI, and, therefore, are not readily comparable. It is also noted that the tables of the Note to the financial statements relating to the annual changes, the amounts of the merged company Banca IMI – unless otherwise indicated – have been included among "Other increases".

The Attachments include the reconciliation statements to the balance sheet and income statement originally published in the 2019 financial statements, together with specific reconciliations between the 2019 financial statements and the reclassified statements included in the Report on operations accompanying these financial statements.

**Contents of financial statement forms****Balance sheet and income statement**

The compulsory forms of the balance sheet and income statement are made up of captions, subcaptions and further detailed information (specified as the "of which" items in the captions and subcaptions). For the purposes of completeness with respect

to the compulsory forms defined by the Bank of Italy, captions which do not have amounts for the reporting year and the previous year have also been shown. In the income statement revenues are indicated without sign, whereas costs are preceded by the minus sign.

#### **Statement of comprehensive income**

The statement of comprehensive income shows, starting from the net income/(loss) for the year, the income components recognised as a balancing entry in valuation reserves, net of the tax effect, in compliance with international financial reporting standards.

Comprehensive income is represented by providing separate recognition of the income components that will not be reversed to the income statement in the future and those which, conversely, could later be reclassified to income/(loss) for the year under specific conditions. Similarly to the balance sheet and the income statement, with respect to the compulsory forms defined by the Bank of Italy, captions which do not present amounts for the reporting year and the previous year are in any case included. Negative amounts are preceded by the minus sign.

#### **Changes in shareholders' equity**

The statement of changes in shareholders' equity presents shareholders' equity accounts and changes which occurred in the reference year and in the previous year, broken down in share capital, reserves, reserves from retained earnings, valuation reserves and net income. Treasury shares are deducted from shareholders' equity. The table is presented by inverting the rows and the columns with respect to the same form provided for by the updating of Bank of Italy Circular 262/2005.

#### **Statement of cash flows**

The statement of cash flows registered in the reference year and in the previous year is prepared using the indirect method, on the basis of which cash flows from operating activities are represented by net income adjusted for the effects of non-cash transactions.

Cash flows are broken down into flows from operating activities, from investing activities and from financing activities.

In the form, cash flows generated in the year are indicated without sign, whereas cash flows absorbed are preceded by the minus sign.

#### **Contents of the Notes to the Parent Company's financial statements**

The Notes to the Parent Company's financial statements include the information provided for by International Financial Reporting Standards and Circular 262 issued by the Bank of Italy on 22 December 2005 and subsequently amended, applicable for the preparation of these financial statements.

### **SECTION 3 – SIGNIFICANT EVENTS AFTER THE REPORTING DATE**

Reference is made to the similar section of the Consolidated financial statements.



## SECTION 4 - OTHER ASPECTS

**RISKS, UNCERTAINTIES AND IMPACTS OF THE COVID-19 EPIDEMIC**

In its communication of 15 December 2020 concerning the “impacts of COVID-19 and measures to support the economy and amendments to IAS/IFRS”, the Bank of Italy, supplemented the provisions governing bank financial statements set out in “Circular 262 - Bank financial statements: layouts and preparation”, with the aim of providing the market information on the effects that the COVID-19 outbreak and the consequent measures to support the economy have had on the strategies, objectives and risk management policies, and on the operating performance and financial position of intermediaries.

In defining the additions, the Bank of Italy took into account, where applicable, the documents published in recent months by the European regulatory and supervisory bodies and by the standard setters aimed at clarifying the methods of application of the IAS/IFRS in the current context, with particular reference to IFRS 9, as well as to the required information for the amendment to IFRS 16 COVID-19-Related Rent Concessions.

In fact, during 2020, in line with the evolution of the health and economic situation, regulatory measures were put in place, mainly providing interpretation and support for the application of financial reporting standards in relation to the impacts of COVID-19. The following table shows the most relevant documents and their scope of application.

Issuing body	Date	Title	Classification	Main topic	
				Measurement	Financial reporting
EBA	25.3.20	Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID 19 measures	X		
ESMA	25.3.20	Public Statement. Accounting implications of the COVID 19 outbreak on the calculation of expected credit losses in accordance with IFRS 9		X	
IFRS Foundation	27.3.20	IFRS 9 and Covid-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the covid-19 pandemic		X	
ECB	1.4.20	IFRS 9 in the context of the coronavirus (COVID 19) pandemic		X	
EBA	2.4.20	Guidelines on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis	X		
ESMA	20.5.20	Implications of the COVID-19 outbreak on the half-yearly financial reports			X
EBA	2.6.20	Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID 19 crisis	X		X
ESMA	28.10.20	European common enforcement priorities for 2020 annual financial reports			X
EBA	2.12.20	Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis	X		
ECB	4.12.20	Identification and measurement of credit risk in the context of the coronavirus (COVID 19) pandemic	X	X	

The measures adopted by the regulators, aimed essentially at clarifying the treatment of moratoria, indicating the minimum conditions for clear financial reporting in this context, uniformly guiding the definition of prospective scenarios and allowing flexibility in defining credit assessments, have gradually strengthened and adapted the regulatory framework - that was already being developed in the first months of 2020 and was progressively fine-tuned during the year - to the evolving situation. It should be noted, however, that the guidelines provided by the regulators allow / invite the intermediaries to exercise flexibility and their own expert judgment in making decisions, bearing in mind that the guidelines provided do not constitute a "relaxation" of the rules but rather the granting of further necessary discretion in the current difficult context. For the Financial Statements at 31 December 2020, the Bank has therefore decided to maintain the approaches adopted starting from the 2020 Half-yearly Report, summarised in the following paragraphs and further detailed in Part E of the Notes to the consolidated financial statements, with the appropriate refinements and adjustments stemming from the longer time frame available for their implementation, as well as the evolution of the related health and economic situation.

In these circumstances, it should be stressed that from the very beginning of the dramatic public health and social emergency that swept Italy, Intesa Sanpaolo has been fully committed to tackle the difficult situation effectively, whilst ensuring the continuity of its processes and services, in spite of considerable operating costs and additional investments. As illustrated in

more detail in the Report on operations to the consolidated financial statements, the main solutions successfully adopted to deal with the emergency, mitigate the risk, and ensure continuity of service, related to remote working, measures adopted at the branches, process digitisation, and actions taken on the systemic processes.

Although the COVID-19 outbreak did not lead to the suspension of the Bank or Group's activities or the disappearance of the reference markets in which it operates, it nevertheless contributed to creating a climate of extreme uncertainty. In this regard, it bears recalling that the preparation of the consolidated financial statements in accordance with IFRS requires - as usual - that the management make estimates and assumptions that affect the amount reported in the financial statements concerning assets, liabilities, income and expenses recognised in the financial year, as well as other comprehensive income. As indicated in greater detail in the specific paragraph of these Notes (Part A - A2 – Main financial statement captions" - Use of estimates and assumptions in preparing financial reports), the estimates made by the management are based on historical experience and other reasonable assumptions. The main areas of uncertainty in the estimate include those relating to loan losses, the fair value of financial instruments (including derivatives), corporate income taxes, employee benefits, goodwill and intangible assets, impairment of non-financial assets, derecognition of financial assets and liabilities and provisions for risks and charges. COVID-19, as the first global pandemic in over a century, continues to significantly affect the markets in which our Group operates. Governments around the world have imposed on the one hand a series of specific measures to contain the epidemic, including company closures, travel restrictions and quarantines and, on the other hand, they are trying to avoid the economic slowdown and favour a rapid recovery once the health crisis is over. This has caused and continues to cause greater volatility and uncertainty in the financial sector and markets, which has also been reflected in key areas for determination of estimates. The Bank therefore used estimates, assumptions and judgments that reflect this uncertainty. In the current situation of uncertainty, the Group's assessments are also supported, as detailed below, by sensitivity analyses, subject to specific disclosure, to provide users of the financial statements a more complete and transparent understanding of these phenomena.

#### *Intesa Sanpaolo Group macroeconomic scenarios for the valuation of loans in the 2020 financial statements*

To partially reduce this picture of uncertainty, the regulators intervened (ECB first and foremost: *IFRS 9 in the context of the coronavirus - COVID 19 - pandemic*), calling on credit institutions to base their prospective scenarios for the valuation of loans according to IFRS 9 on the macroeconomic projections made by the ECB itself and by the national central banks. Consequently, for the purposes of loan valuation, the Parent Company's Research Department, in cooperation with the Chief Risk Officer Area, has produced IFRS 9 scenarios consistent with the scenarios (baseline, mild and severe) published on 10 December 2020 by the ECB and the Bank of Italy, in line with the guidance provided by the ECB in its letter of 4 December 2020 "*Identification and measurement of credit risk in the context of the coronavirus pandemic*". The scenarios were produced using the current model (Oxford Economics multi-country model) to reconstruct the paths of the variables not provided by the Eurosystem. In fact, the Central Banks specifically projected the trend of the main macroeconomic variables (punctually incorporated in the scenario) and provided an accompanying commentary that was used as the basis for completing the projection of all the variables used in the satellite models in a consistent manner.

In particular, only the ECB and some National Central Banks (e.g. the Bundesbank) also provided alternative scenarios (one less optimistic and one more optimistic), but only for a few fundamental variables (real GDP growth, inflation, unemployment), while the Bank of Italy only provided a sensitivity analysis of GDP to several worst case scenarios. Accordingly, the reconstruction of the alternative scenarios for the Italian economy has been carried out in a way that makes them as consistent as possible with the description of the alternative scenarios from the Eurosystem and the real growth projection for the Eurozone provided by the ECB for each of those scenarios.

For the international subsidiary banks of the International Subsidiary Banks Division and Banca Intesa Russia, the assessments were made in line with the approach adopted centrally, taking into account the lower sophistication of some of the entities. In particular, the banks that adopt internal satellite models for the purposes of estimating the Point in Time (PIT) Forward Looking PD introduced local scenarios in line with that of the ECB of December 2020 or with the scenarios issued by the local Regulator.

For a table illustration of the scenarios actually used in the valuation of loans, please refer to the specific section of Part E of the Notes to the consolidated financial statements, which also contains, as specified below, further details on the sensitivity of the ECL to changes in macroeconomic scenarios.

#### *Sensitivity analysis in the light of alternative scenarios*

As already done in previous years and as also recommended in the recent ESMA guidelines (document "*European common enforcement priorities for 2020 annual financial reports*"), in its Notes to the consolidated financial statements, the Group provides sensitivity analyses on the issues indicated below in order to allow users of the financial statements a better understanding of the Group's valuation choices in this particular context. In particular, reference should be made to the following parts of the Notes to the Consolidated financial statements, regarding:

- the effects of a change in one or more non-observable parameters used in the valuation techniques adopted to determine the fair value, the financial assets and liabilities measured at fair value level 3 (Part A - A.4.2 Valuation processes and sensitivity);
- sensitivity analysis for real estate assets measured at fair value. The analysis essentially concerned the properties of the Parent Company Intesa Sanpaolo and UBI, which represent the Core perimeter of the Group's real estate assets (Part A - A.4.5 Fair value hierarchy - Sensitivity of property valuations);
- sensitivity of the Value in use of Cash Generating Units for which intangible assets with indefinite useful lives remain (Part B – Assets: Section 10 Intangible assets);
- sensitivity to changes in interest rates of net defined benefit liabilities (Part B - Liabilities: Section 10.5 Post-employment defined benefit plans);
- sensitivity analysis of IFRS 9 ECL in order to analyse the variability with respect to individual alternative scenarios (Part E - Section 2 Credit risk management and policies);
- sensitivity of net interest income, assuming a change in interest rates, and sensitivity analysis of the banking book to price risk for listed assets recognised in the HTCS category (Part E - Banking book: interest rate risk and e price risk);

- scenario analysis relating to the evolution of stock prices, interest rates, credit spreads, foreign exchange rates and commodity prices for trading activity (Part E - Trading book: interest rate risk and price risk);
- sensitivity of the fair value of the portfolio of financial assets of insurance companies with respect to interest rate movements, credit spreads and equity prices (Part E - Insurance risks: Financial risks).

#### *Measurement of goodwill in the COVID-19 scenario*

In the current volatile market environment, measuring the recoverable amount of intangible assets is also particularly difficult. The COVID-19 pandemic and the related restrictions adopted by the various governments in an effort to contain its spread had a significant impact on the GDP of both the Eurozone and Italy in 2020. As a result, the growth estimates originally envisaged in the Business Plan for 2020 and 2021 have proved to be no longer sustainable. The continued challenging environment for growth in industrial production and the expectation that monetary authorities will prolong their expansionary measures suggest that a scenario of very low interest rates is likely for quite some time.

This situation has affected the impairment tests pursuant to IAS 36, which must be carried out at least once a year to verify the recoverable amount of the intangible assets with indefinite useful lives recognised on the balance sheet, which consist of the brand name and goodwill for Intesa Sanpaolo. In line with the ESMA guidance, which consider the effects resulting from the COVID-19 pandemic as an indicator of impairment and require particular attention during the verification activities, during preparation of the financial statements as at 31 December 2020, when conducting the annual impairment testing of goodwill, the effects of the COVID-19 pandemic were carefully considered. For more details of impairment testing on goodwill and brand name, reference is made to Part B - Information on the Consolidated balance sheet, in the consolidated financial statements.

#### *Loan classification and valuation in the COVID-19 scenario*

As shown by the relevant legislation on the subject, reported above, COVID-19 had a particular impact on the issues of classification of credit exposures, specifically the aspects linked to payment moratoria, as well as for the purpose of determining the Expected Credit Losses (ECL) pursuant to IFRS 9.

In terms of classification of credit exposures, the COVID-19 outbreak primarily resulted in the need, also recognised by the banking system and institutions (governments and regulators), to offer general payment suspension measures (moratoria) to already performing customers, using simplified procedures and without any penalties for the parties involved – both banks and customers. These measures, partly governed by national regulations and partly decided autonomously by the banks, were the subject of a specific regulation, summarised in the EBA Guidelines ("*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*"). In summary, the granting by banks and financial intermediaries - according to the aforementioned Guidelines - of legislative moratoria, or even private ones (as long as in relation to an objective context-related need that affects several financed parties and not the individual loan), does not automatically constitute a default event, with consequent classification of the loan as non-performing, or a forbearance measure, with transfer to Stage 2. The EBA sets out the conditions for the qualification of general payment moratoria, as well as the terms for the granting and the duration of the moratoria and for the applicability of the exemption.

With regard to loan valuation, the Intesa Sanpaolo Group has adopted a prudential approach since the Interim Statement at 31 March 2020 regarding the adjustment of the ECL results stemming from the IFRS 9 models in use, in the context of the uncertain but expected further worsening of economic conditions - even dramatic in the short term - while taking into account the effects of the public support measures made promptly available by the national authorities and supported by the accommodative policy of the ECB.

This approach was gradually rendered more sophisticated and consistent by defining management overlays, which were gradually enriched following the improved perception of the evolution of the crisis (partly drawn up in the ECL estimates starting from the updates of the macroeconomic forecasts previously described), the definition of new frameworks to assess expected vulnerabilities (e.g. updating the CRA framework, introducing micro-sector vulnerabilities), as well as the results of the operational responses adopted by the Group (e.g. re-rating campaigns, campaigns to revitalise and restructure the Businesses segment, priority analysis of the portfolio of moratoria, etc.). All the initiatives were characterized by timeliness and intensity and were supported by adequate monitoring of prospective risk in the set up and managerial decision phase.

For a more in-depth discussion of the aspects briefly summarized herein, in particular for management overlay issues adopted by the Group in the context of the COVID pandemic, please refer to Part E - Section 2: Credit risk management policies of the Consolidated financial statements.

*Economic impacts resulting from COVID-19 on the 2020 financial statements*

Reference is made to the specific paragraph in the Report on Operations of the Consolidated financial statements for a detailed explanation of the "Impacts of the epidemic on the operating results, business activities and risk profile", in particular with regard to the valuation of credit positions, of which the portfolio of the Parent Company Intesa Sanpaolo SpA comprises the main part.

Among the indirect impacts resulting from COVID-19 there is also the write-down of the entire residual goodwill of the Banca dei Territori Division carried out also as a result of the update of the macroeconomic scenario at the end of 2020, especially with reference to the expected trend in interest rates.

To complete the disclosure, in line with the provisions of said Communication of 15 December of the Bank of Italy, which supplements Circular 262, also see the quantitative information on the loans subject to COVID-19 support measures and the related net adjustments for credit risk published, respectively:

- in Part B – Information on the Parent Company's balance sheet – Assets, in the tables:
  - o 3.3a Loans measured at fair value through other comprehensive income subject to Covid-19 support measures: gross amount and total adjustments;
  - o 4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross amount and total adjustments;
- in Part C – Information on the Parent Company's income statement:
  - o 8.1a Net adjustments for credit risk associated with loans measured amortised cost subject to Covid-19 support measures: breakdown;
  - o 8.2a Net adjustments for credit risk associated with loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown;

Lastly, for quantitative information on transfers between different stages of credit risk and loans subject to COVID-19 support measures broken down by category of non-performing exposures, refer to the following tables in Part E (Section 2 "Risks of the prudential consolidation") in these Parent Company's financial statements:

- A.1.5a Loans subject to Covid-19 support measures: transfers between stages of credit risk (gross amounts);
- A.1.7a Loans subject to Covid-19 support measures: gross and net amounts.

**CHANGES IN CONTRACTS DUE TO COVID-19**

The detailed information required by the specific instructions of Circular 262 of the Bank of Italy on changes in contracts due to COVID-19 in light of the provisions of IFRS 9 and IFRS 16 is provided below.

*Changes in contracts and derecognition (IFRS 9)*

The moratoria granted by the Bank, in line with the EBA guidelines, comply with some specific requirements. More specifically, they must:

- be offered without distinction to a large group of (performing) borrowers or following legislative provisions;
- not provide a waiver of contractual interest or principal but solely a deferral/extension of payments.

Since the granted moratoria provide solely a deferral/extension of the period in which payments are due, the application of a moratorium does not therefore entail the derecognition of the loan.

*Amendment to IFRS 16*

Although the subject in question is not relevant for the Bank, it is specified that with reference to lease contracts (on the lessee side), having assessed the nature of the existing contracts and the active role played by the Bank in supporting the economy, Intesa Sanpaolo decided not to apply the "practical expedient" introduced under IFRS 16 - Leases on discounts and deferral of payments on existing lease contract payables.

**OTHER ASPECTS****Option for the national fiscal consolidation provisions**

Intesa Sanpaolo and the Group's Italian companies have adopted the "national fiscal consolidation", set forth by Articles 117-129 of the Combined Tax Regulations, introduced by Legislative Decree 344/2003. It provides an option, based on which the total net income or fiscal loss of every subsidiary taking part in the fiscal consolidation procedure – together with withholding tax, tax deductions and tax credits – is transferred to the parent company, which determines a single taxable income or loss carried forward (that is the result of the sum of its own income/loss and of the income/loss of the participating subsidiaries) and, consequently, a sole tax debit/credit. Based on this option, Group companies that opted for the "national fiscal consolidation" determine the tax charge pertaining to them and the corresponding taxable income is transferred to the Parent Company. Taking into account that the national tax consolidation approach was also applied within the UBI Banca Group, the positive outcome of the Public Purchase and Exchange Offer promoted by Intesa Sanpaolo resulted in the simultaneous presence, in 2020, of two distinct tax consolidation schemes within the single Intesa Sanpaolo Group. This situation will be resolved in 2021 when, as a result of the incorporation of UBI Banca into Intesa Sanpaolo, the tax consolidation scheme coordinated by the incorporated company will be interrupted and the companies of the former UBI Group will enter the tax consolidation scheme of the incorporating company with effect from 1 January 2021.

**Set up of a VAT Group**

Intesa Sanpaolo and all of the Italian companies in the Group that meet the requirements for participation opted to set up the VAT Group, governed by Articles from 70-bis to 70-duodecies of Presidential Decree 633/1972.

This option takes effect from 1 January 2019 and has a duration of three years, automatically renewed each year, unless revoked.

As a result of this option, the tax will not apply to either the provision of services and sales of goods between participating parties, with a few exceptions. Sales of goods and provision of services by a participating party to an external party shall be considered made out by the group. Sales of goods and provision of services by an external party to a participating party shall be considered made to the group. Taking into account that a similar option was also exercised within the former UBI Group, the positive outcome of the Public Purchase and Exchange Offer promoted by Intesa Sanpaolo resulted in the simultaneous presence, in 2020, of two separate VAT groups within the single Intesa Sanpaolo Group; this situation should be resolved at the latest by the end of the 2021 financial year, also as a result of the planned incorporation of UBI Banca into Intesa Sanpaolo and the further rationalisation measures that will be implemented during 2021.

**“Cooperative compliance” regime**

Intesa Sanpaolo applied for and obtained from the Italian Revenue Agency admission to the “cooperative compliance” regime set out in Legislative Decree 128/2015. The admission is effective from the tax period 2017.

The purpose of this regime is to promote the use of enhanced forms of communication and cooperation based on the reciprocal trust between the tax authorities and the taxpayer, as well as favouring the prevention and resolution of tax disputes, in the common interest of the parties.

Under the regime, Intesa Sanpaolo is required to maintain an appropriate system of recognition, measurement and management of tax risk as well as act in a cooperative and transparent manner, and the Italian Revenue Agency is required to promote a relationship based on the principles of transparency, cooperation and fairness. The gradual adoption of this regime by the main Italian subsidiaries is now also under way.

In addition to Intesa Sanpaolo, the following companies applied for admission and were admitted to the regime: Fideuram (with effect from 2018), as well as Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Fideuram Vita, Eurizon SGR and Epsilon SGR (with effect from 2019).

Intesa Sanpaolo Private Banking, Fideuram Investimenti SGR (from 1 January 2021, Fideuram Asset Management SGR), Sanpaolo Invest SIM and Siref applied for admission, which will presumably be granted in 2021 with effect from 2020.

**Certification pursuant to Article 154 bis of the Consolidated Law on Finance and non-EU subsidiaries**

Please refer to Part E of the Notes to the consolidated financial statements for information on the disclosure about the Certification pursuant to Article 154 bis of the Consolidated Law on Finance and subsidiaries based in non-European countries that are considered significant on the basis of the Consob regulations.

**Auditing**

KPMG S.p.A. audited Intesa Sanpaolo's financial statements, in execution of the Shareholders' Meeting resolution of 10 May 2011, which appointed the company as independent auditor for the years from 2012 to 2020, included.

**Other aspects**

A reformulation of the rules on the transparency of government grants laid down in Article 1, paragraphs 125-129 of Law No. 124/2017 has been introduced in Article 35 of Decree Law 34/2019 (the “Growth Decree”), converted by Law 58/2019. This reformulation indicates that the scope of transparency obligations applies to information regarding grants, subsidies, advantages, contributions or aid, in cash or in kind, “not of a general character and which do not represent consideration, remuneration or compensation” effectively disbursed by public authorities and the entities indicated in Article 2-bis of Legislative Decree 33/2013.

In the light of this reformulation, additional interpretative clarification provided in Assonime Circular No. 32 of 23 December 2019 has confirmed that the transparency obligation applies to awards of economic benefits arising from a bilateral relationship between a public entity and a specific beneficiary. Sums received by a company as consideration for a service rendered, as remuneration for an assignment received or as compensation for damages are expressly excluded. Economic advantages received in application of a general regime, such as tax or contribution relief accessible to all parties who meet certain conditions, are also excluded.

In consideration of the above, there were no cases to report in 2020 for Intesa Sanpaolo.

In the interest of completeness, reference should also be made to the National State Aid Registry, available for public consultation on the relevant website, in which aid measures and the related individual aid packages granted and recorded in the system by the managing entities are published, although, given the foregoing, for Intesa Sanpaolo the circumstances indicated therein for the year 2020 are not subject to financial statement transparency obligations pursuant to paragraphs 125 and 125-bis.

**A.2 – MAIN FINANCIAL STATEMENT CAPTIONS**

To ensure uniformity in the accounting policies used for the financial statements, the Intesa Sanpaolo Group has adopted an internal set of rules and policies for the various operational and organisational areas.

The methodological document used for the application of the accounting standards is the Group Accounting Policies, which describes the application models adopted by the Group, within the framework of the standards and the legislation applicable to the various companies/subsidiaries, and sets out the choices made when the regulations envisage alternative or optional accounting treatments.



With regard to the valuation processes, the Group, in the document "Guidelines for the valuation of Balance Sheet Items", has drawn up the principles and regulatory framework for the valuation of the balance sheet items and the roles and responsibilities of the Corporate Bodies, the Manager responsible for preparing the Company's financial reports and the Parent Company's corporate functions involved in the valuation process; the prerequisites for the existing valuation processes and the control system necessary to ensure proper valuation; the general valuation processes based on accounting standards specific to the various categories of balance sheet items being measured (assets and liabilities); and the rules for guidance and coordination of Group Companies on the valuation of balance sheet items.

The guidelines and policies also include the Business Model Rules, the Rules on the measurement of expected credit loss in accordance with IFRS 9 (Impairment Policy), and the Fair Value Policy, in addition to more specific documents relating to non-performing loans, equity investments, and the management of hedging financial instruments.

Finally, with regard to prudential supervision, the Group has drawn up a specific document called Harmonised Prudential Supervision Rules.

In general, these documents are approved by the competent Corporate Bodies. They are updated by the management structures in response to needs arising both from external factors (e.g. changes in regulations) and from internal factors within the Group (e.g. new operations and products) and are subject to a specific approval process, based on the significance and scope of the changes made.

## 1. Financial assets measured at fair value through profit or loss (FVTPL)

### *Classification criteria*

This category contains the financial assets not classified as Financial assets measured at fair value through other comprehensive income or as Financial assets measured at amortised cost. This caption includes in particular:

- financial assets held for trading, essentially consisting of debt securities and equity instruments and the positive value of derivative contracts held for trading;
- financial assets mandatorily measured at fair value through profit or loss, consisting of financial assets that do not meet the requirements for measurement at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not solely envisage payments of principal and interest on the principal amount outstanding (SPPI Test not passed) or that are not held under a Hold to Collect business model or a Hold to Collect and Sell business model;
- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. In relation to this case, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss only if it eliminates or significantly reduces a measurement inconsistency.

This caption therefore includes:

- debt securities and loans that are included in an Other/Trading business model (i.e., that do not come under the Hold to Collect or Hold to Collect and Sell business models) or that do not pass the SPPI Test, including the portions of syndicated loans subscribed or other types of loans that are originally intended to be sold and are not part of a Hold to Collect and Sell business model;
- equity instruments – that do not qualify as investments in subsidiaries, associates or joint ventures – held for trading purposes or for which the option was not exercised, upon initial recognition, to designate them at fair value through other comprehensive income;
- quotas of UCI (Undertakings for Collective Investment).

This caption also includes the derivatives, recognised under financial assets held for trading, which are presented as assets if the fair value is positive and as liabilities if the fair value is negative. The positive and negative current values arising from transactions with the same counterparty – also between derivatives allocated to the trading book and hedging derivatives, as envisaged by the Bank of Italy Circular 262 – may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.

Derivatives also include those embedded in combined financial contracts – where the host contract is a financial liability – which are subject to separate accounting when:

- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- the embedded instruments, even though separate, fully meet the definition of derivative;
- the combined instruments are not measured at fair value with changes in fair value recognised through profit or loss.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through profit or loss to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.

For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".



*Recognition criteria*

Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments, at disbursement date for loans and at trade date for derivative contracts.

On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or revenues directly attributable to the instrument.

*Measurement criteria*

After initial recognition, the financial assets measured at fair value through profit or loss are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.

For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc.. For equities and derivative instruments that have equities as underlying assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

For more information regarding the criteria for the determination of fair value, see the Section "A.4 – Information on Fair Value".

*Derecognition criteria*

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

**2. Financial assets measured at fair value through other comprehensive income (FVOCI)***Classification criteria*

This category includes the financial assets that meet both the following conditions:

- the financial asset is held under a business model whose objective is achieved both through the collection of expected contractual cash flows and through sale (Hold to Collect and Sell business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

This caption also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.

In particular, this caption includes:

- debt securities that can be attributed to a Hold to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income;
- loans that are attributable to a Hold to Collect and Sell business model and have passed the SPPI Test, including the portions of syndicated loans subscribed or other types of loans that are originally intended to be sold and are part of a Hold to Collect and Sell business model.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets.

In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date.

In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from shareholders' equity to net income (loss).

For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

#### *Recognition criteria*

Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.

#### *Measurement criteria*

After initial recognition, the Assets classified at fair value through other comprehensive income, other than equity instruments, are measured at fair value, with the recognition in profit or loss of the impact resulting from the application of the amortised cost, the impairment effects and any exchange rate effect, whereas the other gains and losses resulting from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. Upon the total or partial sale, the cumulative gain or loss in the valuation reserve is transferred, in whole or in part, to the income statement.

Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in Other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold. The only component related to these equities that is recognised through profit or loss is their dividends.

Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.

For the equity instruments included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

For more information regarding the criteria for the determination of fair value, see the Section "A.4 – Information on Fair Value".

Financial assets measured at fair value through other comprehensive income – both in the form of debt securities and loans – are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, in the same way as Assets measured at amortised cost, with the consequent recognition through profit or loss of a value adjustment to cover the expected losses. More specifically, for instruments classified as stage 1 (i.e., financial assets at origination, when not impaired, and instruments for which there has not been a significant increase in credit risk since the initial recognition date), a 12-month expected loss is recognised on the initial recognition date and at each subsequent reporting date. For instruments classified as stage 2 (performing for which there has been a significant increase in credit risk since the initial recognition date) and as stage 3 (credit-impaired exposures), a lifetime expected loss for the financial instrument is recognised.

Equity instruments are not subject to the impairment process.

See the paragraph below "Impairment of financial assets" for more details.

#### *Derecognition criteria*

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

### 3. Financial assets measured at amortised cost

#### *Classification criteria*

This category includes the financial assets (in particular loans and debt securities) that meet both the following conditions:

- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Hold to Collect business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

More specifically, the following are recognised in this caption:

- loans to banks in their various forms that meet the requirements referred to above;
- loans to customers in their various forms that meet the requirements referred to above;
- debt securities that meet the requirements referred to above.

This category also includes the operating loans and receivables connected to the provision of financial activities and services as defined by the Consolidated Law on Banking and the Consolidated Law on Finance (e.g. for the distribution of financial products and servicing activities).

According to the general rules established by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from the amortised cost category to one of the other two categories established by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised through profit or loss in the event of reclassification to Financial assets measured at fair value through profit or loss and under Shareholders' equity, in the specific valuation reserve, in the event of reclassification to Financial assets measured at fair value through other comprehensive income.

For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

#### *Recognition criteria*

Initial recognition of the financial asset occurs at settlement date for debt securities and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.

In particular, for loans, the disbursement date is usually the same as the date of signing of the contract. Should this not be the case, a commitment to disburse funds is made along with the subscription of the contract, which will cease to exist upon disbursement of the loan. The loan is recognised based on its fair value, equal to the amount disbursed or subscription price, inclusive of the costs/revenues directly attributable to the single loan and determinable from inception, even when settled at a later date. Costs that, even with the aforementioned characteristics, are reimbursed by the borrower or are classifiable as normal internal administrative costs are excluded.

Repurchase agreements and reverse repurchase agreements are recognised as funding or lending transactions. Specifically, repurchase agreements are recognised as payables for the spot amount received, whereas reverse repurchase agreements are recognised as receivables for the spot amount paid.

#### *Measurement criteria*

After the initial recognition, these financial assets are measured at amortised cost, using the effective interest method. The assets are recognised in the balance sheet at an amount equal to their initial carrying amount less principal repayments, plus or minus the cumulative amortisation (calculated using the effective interest method) of the difference between this initial amount and the amount at maturity (typically attributable to costs/income directly attributable to the individual asset) and adjusted by any provision for losses. The effective interest rate is the rate that exactly discounts estimated future cash payments of the asset, as principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to that financial asset. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/income directly attributable to a financial asset over its expected lifetime.

The amortised cost method is not used for assets, measured at historical cost, whose short duration makes the effect of discounting negligible, or for assets without a definite maturity or revocable loans.

The measurement criteria, as described in more detail in the paragraph "Impairment of financial assets", are closely linked to the inclusion of these instruments in one of the three stages of credit risk established by IFRS 9, the last of which (stage 3) consists of non-performing financial assets and the remaining (stages 1 and 2) of performing financial assets.

With regard to the accounting representation of the above measurement effects, the adjustments for this type of asset are recognised in profit or loss:

- on initial recognition, for an amount equal to the 12-month expected credit loss;
- on subsequent measurement of the asset, when the credit risk has not increased significantly since initial recognition, in relation to changes in the amount of adjustments for the 12-month expected credit losses;
- on subsequent measurement of the asset, when the credit risk has increased significantly since initial recognition, in relation to the recognition of adjustments for expected credit losses over the contractually agreed remaining lifetime of the asset;
- on subsequent measurement of the asset, where – after a significant increase in credit risk has occurred since initial recognition – the increase is no longer "significant" due to the alignment of the cumulative value adjustments to take account of the change from a lifetime expected credit loss to a 12-month expected credit loss for the instrument.

These financial assets, when they are performing, are subject to an assessment, aimed at establishing the value adjustments

to be recognised in the financial statements, at the level of individual loan (or “tranches” of securities), according to the risk parameters consisting of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), derived from the AIRB models, and duly adjusted to take account of the provisions of IFRS 9.

If, in addition to a significant increase in credit risk, there is also objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset – classified as “non-performing”, like all the other relationships with the same counterparty – and the present value of the estimated future cash flows, discounted using the original effective interest rate. The amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and, as detailed in the paragraph “Impairment of financial assets”, takes account of forward-looking information and possible alternative recovery scenarios.

Non-performing assets include financial assets classified as bad, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/IFRS and EU Supervisory Regulations.

The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees. The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest.

If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement. The size of the recovery must not lead the carrying value of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

Recoveries on impairment with time value effects are recognised in net interest income.

In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual conditions may be subsequently modified by the parties to the contract. When the contractual clauses are subject to change during the lifetime of an instrument, it is necessary to verify whether the original asset should continue to be recognised in the balance sheet or whether, instead, the original instrument needs to be derecognised and a new financial instrument needs to be recognised.

In general, changes to a financial asset lead to its derecognition and the recognition of a new asset when they are “substantial”. The assessment of the “substantial nature” of the change must be made using both qualitative and quantitative information. In some cases, in fact, it may be clear, without resorting to complex analysis, that the changes introduced substantially modify the characteristics and/or contractual flows of a particular asset while, in other cases, further analysis (including quantitative analysis) will need to be carried out to assess the effects of the changes and verify whether or not to derecognise the asset and recognise a new financial instrument.

The qualitative and quantitative analyses aimed at defining the “substantial nature” of contractual changes made to a financial asset must therefore consider:

- the purposes for which the changes were made: e.g. renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty:
  - o the former, aimed at “retaining” the customer, involve a borrower that is not in financial difficulty. This category includes all renegotiations aimed at aligning the cost of the debt to market conditions. These operations involve a change in the original conditions of the contract, usually requested by the borrower and relating to aspects concerning the cost of the debt, with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer could borrow from another intermediary and the bank would incur a decrease in expected future revenues;
  - o the latter, carried out for “reasons of credit risk” (forbearance measures), relate to the bank’s attempt to maximise the recovery of the cash flows of the original loan. The underlying risks and rewards, following the changes, are not normally substantially transferred and, consequently, the accounting representation that provides the most relevant information for the readers of the financial statements (apart from the triggers discussed below) is “modification accounting” – which involves the recognition through profit or loss of the difference between the carrying value and the present value of the modified cash flows discounted at the original interest rate – rather than derecognition;
- the presence of specific triggers that affect the contractual characteristics and/or cash flows of the financial instrument (such as, for example, a change in currency or a modification of the type of risk the financial instrument is exposed to, when correlated to equity and commodity parameters), which are considered to result in derecognition due to their impact (expected to be significant) on the original contractual cash flows.

*Derecognition criteria*

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

**4. Hedging transactions**

Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

*Classification criteria: type of hedge*

Hedging transactions are aimed at neutralising potential losses on a specific item or group of items, attributable to a certain risk, if such a risk should actually occur.

The following types of hedging transactions are used:

- fair value hedge, which has the objective of covering exposure to changes in the fair value (attributable to the different risk categories) of assets and liabilities in the balance sheet, or on a portion of these, of groups of assets/liabilities, of binding commitments and portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 endorsed by the European Commission. Fair value macro hedges are aimed at reducing fluctuations in the fair value, as a result of interest rate risk, of a sum of money flowing from a portfolio of financial assets or liabilities. Net amounts resulting from mismatches between assets and liabilities cannot be subject to macro hedges;
- cash flow hedge, which has the objective of covering exposure to variability in future cash flows attributable to particular risks associated with balance sheet captions. This type of hedge is essentially used to stabilise the interest flow on floating rate funding to the extent that the latter finances fixed rate investments. In certain circumstances, similar transactions are carried out with respect to some types of floating rate investments;
- hedges of net investments in foreign currency, which refer to the coverage of the risks of net investments in foreign operations expressed in their original currency.

Only hedging transactions which involve counterparties outside the Bank may qualify for hedge accounting. The choice made by the Group to take advantage of the possibility of continuing to fully apply the IAS 39 rules for hedging relationships means that the equity instruments classified as Financial assets measured at fair value through other comprehensive income (FVOCI) cannot be measured as hedged items for price or exchange rate risk, since these instruments are not recognised through profit or loss, not even if they are sold (except for dividends that are recognised through profit or loss).

*Recognition criteria*

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at fair value. A relationship qualifies as a hedging relationship, and is appropriately reported in the financial statements if, and only if, all of the following conditions are met:

- at the inception of the hedge, the hedging relationship is formally designated and documented, including the company's risk management objectives and strategy in undertaking the hedge. This documentation includes the identification of the hedging instrument, the item or transaction hedged, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness in offsetting the exposures to changes in the fair value of the item hedged or in the cash flows attributable to the risk hedged;
- the hedge is expected to be highly effective;
- the forecast transaction hedged, to hedge the cash flows, is highly probable and has an exposure to changes in cash flows that could have effects on the income statement;
- the effectiveness of the hedge can be reliably measured;
- the hedge is measured on an ongoing basis and is considered highly effective for all the financial years in which it was designated.

*Measurement criteria*

Hedging derivatives are measured at fair value. In particular:

- in the case of fair value hedges, the change in the fair value of the hedged item is offset by the change in fair value of the hedging instrument. Offsetting is recognised via the registration in the income statement of the gains and losses referred to both the hedged item (with regard to the variations produced by the underlying risk factor), and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect. In case of fair value macro hedges, fair value changes related to the hedged risk of assets and liabilities in hedged portfolios are allocated to the balance sheet under caption 60. "Fair value change of financial assets in hedged portfolios" or under caption 50. "Fair value change of financial liabilities in hedged portfolios";
- in the case of cash flow hedges, changes in fair value of the derivative are recorded in equity, for the effective portion of the hedge, and these are registered in the income statement only when, with reference to the hedged item, there is a variation in the flows to be offset or if the hedge is ineffective;
- hedges of net investments in foreign currency are treated in the same way as cash flow hedges.



The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged item or the relating expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is appraised by comparing the aforementioned changes, considering the intent pursued by the entity at the time in which it entered the hedging transaction. A hedge is effective when the variations in fair value (or cash flows) of the hedging financial instrument almost completely neutralise, that is within the 80-125% range, the changes in the fair value of the hedged item, for the type of risk being hedged.

Effectiveness is assessed at every close of annual or interim financial statements using:

- prospective tests, which justify the application of hedge accounting, since these prove the expected effectiveness of the hedge;
- retrospective tests, which demonstrate the effectiveness of the hedge for the reference period, or measure how much the effective results diverge from perfect coverage.

Fair value hedge accounting is discontinued prospectively in the following cases:

1. the hedging instrument expires or is sold, terminated, or exercised;
2. the hedge no longer meets the hedge accounting criteria described above;
3. the entity revokes the designation.

If such assessments do not confirm hedge effectiveness, from that moment hedge accounting is discontinued, the derivative is reclassified in instruments held for trading and the hedged item is measured on the basis of its classification in the balance sheet. If the assets or liabilities hedged are measured at amortised cost, the higher or lower value resulting from the fair value measurement due to the hedge becoming ineffective is recognised through profit or loss, using the effective interest rate method. When a fair value macrohedging relationship is discontinued, the cumulative change in fair value losses carried under caption 60 "Fair value change of financial assets in hedged portfolios" or caption 50. "Fair value change of financial liabilities in hedged portfolios" are transferred to the income statement among interest income or expense over the residual life of the original hedging relationships, without prejudice to verification that the requirements have been met.

An entity must discontinue cash flow hedge accounting prospectively in each of the following circumstances:

- a) the hedging instrument expires or is sold, terminated, or exercised (for this purpose the replacement or exchange of one hedging instrument with another hedging instrument is not a conclusion or termination if that replacement or exchange forms part of an entity's documented hedging strategy). In this case the total profit (or loss) on the hedging instrument continues to be recognised directly in shareholders' equity until the end of the reporting period in which the hedge became effective and it continues to be recognised separately until the forecast transaction, being hedged, occurs;
- b) the hedge no longer meets the criteria for hedge accounting. In this case the total profit or loss on the hedging instrument is recognised directly in shareholders' equity starting from the reporting period in which the hedge became effective and continues to be recognised separately in shareholders' equity until the forecast transaction occurs;
- c) the forecast transaction is no longer expected to occur, in which case any related total profit or loss on the hedging instrument recognised directly in equity starting from the reporting period in which the hedge was effective must be reclassified through profit or loss;
- d) the entity revokes the designation. For hedges of a forecast transaction, total profits or losses on the hedging instrument recognised directly in shareholders' equity starting from the reporting period in which the hedge was effective continue to be recognised separately in shareholders' equity until the forecast transaction occurs or is no longer expected to occur.

## 5. Equity investments

### *Classification criteria*

The caption includes investments in subsidiaries, companies subject to joint control and associates.

Entities are considered subsidiaries where Intesa Sanpaolo is exposed to, or has rights to, variable returns from its involvement with them, and has the ability to affect those returns by exercising its own power over the entities in question.

Entities are considered to be companies subject to joint control (joint ventures), if control is contractually shared by Intesa Sanpaolo with one or more other parties external to the Group, or where the decisions about the relevant activities require the unanimous consent of all the parties sharing control.

Companies are considered subject to significant influence (associates), when Intesa Sanpaolo holds 20% or more of the voting rights (including "potential" voting rights) or if it – with a lower equity stake – has the power of participating in the determination of financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates.

Certain companies in which Intesa Sanpaolo holds a stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the safeguarding of its economic interests.

### *Recognition criteria*

Equity investments are recognised at settlement date. On initial recognition equity investments are recorded at cost.

### *Measurement criteria*

Equity investments are measured at cost, which may be adjusted if impairment losses are deemed to have occurred. If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value.

If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement.

If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.



*Derecognition criteria*

Equity investments are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold, substantially transferring all the risks and rewards connected to the assets.

**6. Property and equipment***Classification criteria*

Property and equipment include land, owner-occupied property, investment property, valuable art assets, technical plants, furniture and fittings and any type of equipment that are expected to be used during more than one period.

Property and equipment held for use in the production or supply of goods and services are classified as "Property and equipment used in operations", in accordance with IAS 16. Real estate owned for investment purposes (to obtain rental income or gains on the capital invested) is classified as "Investment property" based on IAS 40.

This caption also includes property and equipment classified in accordance with IAS 2 - Inventories, which refer both to assets resulting from the enforcement of guarantees or from purchase at auction that the company intends to sell in the near future, without carrying out major renovation work, and which do not meet the requirements for classification in the previous categories.

Lastly, they include the rights of use acquired under a lease and relating to the use of an item of property and equipment (for lessees) and assets leased under an operating lease (for lessors).

*Recognition criteria*

Property and equipment are initially measured at cost which comprises in addition to their purchase price any costs directly attributable to the purchase and required for them to be operational.

Extraordinary maintenance expenses which lead to a rise in future economic benefits are attributed to increase the value of assets, while other ordinary maintenance costs are recorded in the income statement.

*Measurement criteria*

Property and equipment are measured at cost, net of depreciation and impairment losses, except for owner-occupied properties and valuable art assets, which are measured according to the revaluation model.

The investment properties are measured with the fair value method.

For the property and equipment subject to assessment according to the revaluation model:

- if the carrying value of an asset is increased following a revaluation, the increase must be recognised in the Statement of comprehensive income and accumulated in the shareholders' equity under the caption revaluation reserve; conversely, in the case where an impairment loss on the same asset recognised previously in the income statement is recovered, it must be recognised as income;
- if the carrying value of an asset is decreased following the revaluation, the decrease must be recognised in the Statement of comprehensive income to the extent in which there are possible credit balances in the revaluation reserve referring to this asset; otherwise, this reduction is recorded in the income statement.

Property and equipment are systematically depreciated, adopting the straight-line method over their useful life. The depreciable amount is the cost of the goods (or the net value recalculated if the method adopted for the valuation is the one of the value recalculation) net of the residual value at the end of the depreciation period, if significant. Buildings are depreciated for a portion deemed to be suitable to represent their deterioration over time following their use, considering extraordinary maintenance expenses, which are recognised in the carrying value of the assets. In order to determine the useful life of the various types of assets and the corresponding depreciation rates, the Bank's real estate assets have been divided into four clusters: (i) Restricted and unrestricted historical properties, (ii) Entire buildings, (iii) Banking branches and (iv) Other properties.

The following are not depreciated:

- land, irrespective of whether acquired individually or embedded in the value of buildings, since it has an indefinite useful life;
- the valuable art assets, the other historical, artistic and decorative assets, since their useful life cannot be estimated and their value is normally destined to increase over time;
- the investment properties which, as required by IAS 40, must not be amortised, as they are measured at fair value through profit or loss.

If there is some evidence that property and equipment measured at cost may have been impaired, the carrying amount of the asset and its recoverable amount are compared. Any impairment losses are recorded in the income statement.

If the reasons for impairment cease to exist, a value recovery is recorded and may not exceed the value that the asset would have had, net of depreciation, determined in the absence of previous impairment losses.

With regard to the property and equipment recognised in accordance with IAS 2, these are measured at the lesser of cost and net realisable value, without prejudice to the comparison between the asset's carrying amount and its recoverable amount where there is an indication that the asset may have been impaired. Any impairment losses are recorded in the income statement.

### **Property and equipment consisting of the right-of-use of assets subject to leases**

According to IFRS 16, a lease is a contract or part of a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

According to IFRS 16, leases are accounted for on the basis of the right of use model, where, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for its right of use of the underlying asset during the lease term.

When the asset is made available to the lessee for use (initial date), the lessee recognises both the liability and the asset consisting of the right of use.

In particular, the right of use acquired with a lease is measured as the sum of the present value of the future payments over the term of the contract, the lease payments made at or before the commencement date, the lease incentives received, if any, the initial direct costs and any estimated costs of dismantling or restoring the underlying asset.

The financial liability recognised corresponds to the present value of the payments to be made for the lease.

With regard to the discount rate, based on the requirements of IFRS 16, the Group uses the implicit interest rate for each lease contract, when it is available. For leases from the lessee's point of view, in some cases, for example for rental agreements, the implicit interest rate cannot always be readily determined without using estimates and assumptions (the lessee does not have enough information about the unguaranteed residual value of the leased asset). In these cases, the Group has developed a methodology for setting the incremental interest rate as an alternative to the implicit interest rate and has decided to adopt the Funds Transfer Pricing (FTP) method. This is based on an unsecured and amortising rate curve, which envisages lease payments for the lease contract that are typically constant over the lease term, rather than a single payment upon maturity. The FTP method takes into account the creditworthiness of the lessee, the term of the lease, as well as the economic environment in which the transaction takes place and is therefore in line with the requirements of the standard.

The lease term is determined taking into account:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option;
- periods covered by an option to terminate the lease if the lessee is reasonably certain to exercise that option.

During the course of the lease term a lessee shall:

- measure the right-of-use at cost less accumulated depreciation and accumulated impairment losses determined and recognised based on the provisions of IAS 36 "Impairment of assets", adjusted to take account of any remeasurement of the lease liability;
- increase the liability arising from the lease following the accrual of interest expense calculated at the interest rate implicit in the lease or alternatively at the incremental borrowing rate, and decrease it for payments of principal and interest made.

If changes are made to the lease payments, then the lease liability must be remeasured and the impact of the remeasurement of the liability is recognised against the right-of-use asset.

### ***Derecognition criteria***

Property and equipment are derecognised from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

## 7. Intangible assets

### *Classification criteria*

Intangible assets consist of goodwill and other intangible assets governed by IAS 38. They may include the rights of use acquired under a lease and relating to the use of an intangible asset (for lessees) and assets leased under an operating lease (for lessors).

Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. Intangible assets include goodwill, which represents the positive difference between purchase price and fair value of assets and liabilities pertaining to the acquired company.

### *Recognition and measurement criteria*

Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. If this is not the case, the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.

For assets with finite useful life, the cost is amortised on a straight-line basis or in decreasing portions determined on the basis of the economic benefits expected from the asset. Assets with indefinite useful life are not subject to systematic amortisation, but are periodically subjected to impairment testing.

If there is any indication that an asset may have suffered impairment losses, the asset's recoverable amount is estimated. The impairment loss, which is recorded in the income statement, is equal to the difference between the carrying value of the assets and the recoverable amount.

In particular, intangible assets include:

- technology-related intangibles, such as software, which are amortised on the basis of their expected technological obsolescence and over a maximum period of seven years; in particular, the costs incurred internally for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale, iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs only comprise the costs directly attributable to the development process. Capitalised software development costs are amortised systematically over the estimated useful life of the relevant product/service so as to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity from the beginning of production over the product's estimated life;
- customer-related intangibles represented, in business combinations, by asset management relations, non-financial activities related to provision of services and insurance portfolios. Such assets, with a finite life, are originally measured by the discounting, using a rate representing the time value of money and the asset's specific risks, of the income margins on the ongoing relations at the time of the business combination over a period which expresses their residual, contractual or estimated life. For asset management relations and non-financial activities related to provision of services, they are amortised on a straight-line basis over the period of greater significance of the expected economic benefits in case of relations which do not have a predetermined duration and, for relations from insurance contracts, in decreasing portions corresponding to the duration of the contract in case of relations with predetermined expiry (residual lives of the policies);
- marketing-related intangibles represented by the measurement of the brand name which is also recorded at the time of business combinations. This asset is considered as having indefinite life since it is deemed to contribute for an indefinite period of time to the formation of income flows.

Lastly, intangible assets include goodwill.

With respect to business combinations, goodwill may be recorded when the positive difference between the fair value of shareholders' equity acquired and the purchase price of the equity investment is representative of the future income-generation potential of the equity investment.

If this difference is negative (badwill) or if goodwill may not be attributed considering future income-generation potential of the equity investments, the same difference is directly recorded in the income statement.

Once a year (or every time that there is evidence of impairment losses), an impairment test is carried out for goodwill. This requires the identification of the cash-generating unit to which goodwill is allocated. The cash-generating units of the Intesa Sanpaolo Group correspond to the operating divisions presented in segment reporting. The business operations carried out directly by the Parent Company falls under the Cash-generating units corresponding to Banca dei Territori and Corporate and Investment Banking. Therefore, goodwill is allocated to such divisions.

### *Derecognition criteria*

Intangible assets are derecognised from the balance sheet on disposal and if no future economic benefits are expected.

**8. Other assets**

Other assets essentially consist of items awaiting classification and items not attributable to the other balance-sheet captions, including receivables arising from the supply of goods and non-financial services, sundry tax items other than those recognised in their own caption (e.g., connected to withholding agent activities), gold, silver and precious metal, and accrued income other than that capitalised on the related financial assets, including the income resulting from contracts with customers in accordance with IFRS 15, paragraphs 116 and following. As required by paragraphs 91 and following of IFRS 15, the costs incurred for the acquisition and fulfilment of long-term contracts with customers are capitalised and amortised when they are incremental and are expected to be recovered.

**9. Non-current assets held for sale and discontinued operations and related liabilities**

Non-current assets/liabilities for which a disposal process has commenced and for which disposal is deemed to be extremely probable are recorded in assets under Non-current assets held for sale and discontinued operations and in liabilities under Liabilities associated with non-current assets held for sale and discontinued operations. These assets/liabilities are measured at the lower of the carrying amount and fair value less cost to sell, except for some type of assets (e.g., financial assets within the scope of IFRS 9) for which IFRS 5 specifically establishes that the measurement principles of the applicable accounting standard must be used.

Non-current assets held for sale and discontinued operations may include portfolios of assets for which there are no prices in an active market. In such case, where an agreement has been reached with the purchaser, they are measured at fair value by referring to the sale prices resulting from that agreement. Where there is no agreement, they are measured using specific valuation techniques based on the asset and, where necessary, by employing external fairness opinions.

The income and charges (net of tax effect) attributable to non-current assets held for sale and discontinued operations or recorded as such in the year are recognised in the income statement in a separate caption.

**10. Current and deferred tax**

Taxes on income, calculated according to domestic tax regulations, are accounted for as a cost on an accruals basis, in line with the method followed to include, in the financial statements, the costs and income that generated them. Therefore, they represent the balance of current and deferred income taxes for the year. Current tax assets and liabilities include the balances of the Bank due to the relevant Italian and foreign tax authorities relating to direct taxation. More specifically, these captions include the net balance of tax liabilities from previous years and the current year, calculated on the basis of a prudent estimate of the tax charges due for the year, assessed according to the tax regulations currently in force, and the current tax assets represented by advances, by withholding taxes borne or other tax credits. The risk inherent in such proceedings and the risks inherent in proceedings where preliminary disbursements have not been requested are evaluated in applying the principles contained in IAS 37 regarding the best estimate of the economic resources required.

Considering the Group's adoption of the national fiscal consolidation provisions, tax positions which may be referred to the Bank and those originated by other Group companies are managed separately from an administrative standpoint.

Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. To this end, "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years.

Deferred tax liabilities are calculated by applying the tax rates currently in force to taxable temporary differences that are likely to generate a tax burden, and to the deductible temporary differences for which it is likely that there will be future taxable amounts at the time when the related tax deductibility occurs (so-called probability test). Deferred tax assets and liabilities related to the same tax and due in the same period are offset.

If deferred tax assets and liabilities refer to items affecting the Income statement, the balancing entry is represented by taxes on income.

Where deferred tax assets and liabilities relate to transactions that have been recorded in shareholders' equity without affecting earnings (such as adjustments on IAS/IFRS first-time adoption, measurements of financial assets recognised at fair value through other comprehensive income or of cash flow hedge derivative contracts), the balancing entry is made in shareholders' equity, under specific reserves where so provided (e.g. valuation reserves).

No provision is made for reserves subject to latent taxation only in the event of distribution, since the size of the available reserves which have already been taxed leads to the belief that no transactions will be undertaken which may cause taxation of the untaxed reserves.

Deferred tax liabilities referred to companies included in the fiscal consolidation are reported in their financial statements, in application of the accrual basis principle and in consideration of the fact that the effects of fiscal consolidation are limited to the settlement of current tax positions.

## 11. Allowances for risks and charges

### *Allowances for risks and charges for commitments and guarantees given*

This sub-caption of the allowances for risks and charges contains the allowances for credit risk recognised for loan commitments and guarantees given that come under the scope of the IFRS 9 impairment rules. For these cases, in general, the methods described for financial assets measured at amortised cost or at fair value through other comprehensive income are adopted for the assignment to the three credit risk stages and the calculation of the expected credit loss.

This aggregate also includes allowances for risks and charges made to cover other types of commitments and guarantees given that, due to their specific characteristics, do not fall under the scope of impairment pursuant to IFRS 9.

### *Post-employment benefits*

Company post-employment benefits are based on agreements and qualify as defined benefit plans. Liabilities related to such plans and the relative cost of current service are determined on the basis of actuarial assumptions based on the Projected Unit Credit Method. This method sets out that future obligations are forecast using past time-series analyses and the demographic curve and that such future cash flows are discounted based on a market interest rate. The provisions made in each year of service are considered separately and give rise to an additional unit of benefit entitlement for the purposes of the final obligation. The discounting rate is determined on the basis of market returns, surveyed as at the date of measurement, on high-quality corporate bonds, taking account of the residual average life of the liability. The present value of the liability at the reporting date is also adjusted by the fair value of any plan assets.

Actuarial profits and losses (namely the changes in the current value of the obligation resulting from changes in the actuarial assumptions and adjustments based on past experience) are recognised in the statement of comprehensive income.

### *Other allowances*

Other allowances for risks and charges record provisions related to legal obligations or connected to labour relationships or to litigations, also of a fiscal nature, originating from a past event for which a disbursement will probably arise to settle the obligations, provided that the amount of the disbursement may be estimated reliably.

Consequently, a provision is recognised when, and only when:

- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date and takes into account the risks and uncertainties that inevitably surround many events and circumstances. Where time value is significant, provisions are discounted using current market rates. Provisions and increases due to time value are recorded in the income statement.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation or when the obligation is settled, the provision should be reversed.

The caption also includes long-term benefits to employees, whose charges are determined with the same actuarial criteria described for post-employment benefits. Actuarial profits and losses are all immediately recognised in the income statement.

## 12. Financial liabilities measured at amortised cost

### *Classification criteria*

Amounts Due to banks, Due to customers and Securities issued include various forms of funding on the interbank market and with customers, repurchase agreements with commitment to repurchase and funding via certificates of deposit, bonds issued and other funding instruments in circulation, net of any amounts repurchased.

It also includes the payables recorded by the Bank in the capacity of lessee in lease transactions.

### *Recognition criteria*

Initial recognition of these financial liabilities occurs at the date of subscription of the contract, which usually coincides with the time of collection of the sums deposited or the issue of debt securities.

Initial recognition is based on the fair value of the liabilities, normally equal to the amount collected or the issue price, increased by any additional charges/revenues directly attributable to the single funding or issuing transaction. Internal administrative costs are excluded.

Lease payables are recognised at the present value of the future lease payments, discounted using the implicit interest rate of the transaction or, where it cannot be determined, the marginal financing rate.

### *Measurement criteria*

After initial recognition, financial liabilities are measured at amortised cost with the effective interest method. An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount.

Lease payables are remeasured when there is a lease modification (e.g. a change in the contract which is not accounted for/considered as a separate contract); the effect of the remeasurement will be a corresponding adjustment to the right-of-use asset.

#### *Derecognition criteria*

Financial liabilities are derecognised from the balance sheet when they have expired or extinguished. Derecognition also occurs for repurchase of previously-issued bonds. The difference between book value of the liability and amount paid for repurchase is recorded in the income statement.

Placement of own securities, after their repurchase, is considered a new issue with recognition at the new placement price.

### **13. Financial liabilities held for trading**

#### *Recognition criteria*

These financial instruments are recognised at the subscription or issue date at the fair value of the instrument, without taking into account directly attributable transaction costs or revenues.

This liability category includes, in particular, the negative fair value of trading derivatives, as well as embedded derivatives with a negative fair value separated from liabilities measured at amortised cost.

It also includes liabilities determined by short selling generated by trading of securities and certificates forming part of the trading business model.

#### *Measurement criteria*

All financial liabilities held for trading are measured at fair value through profit or loss.

#### *Derecognition criteria*

Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed of with the substantial transfer of all the risks and rewards connected to it.

### **14. Financial liabilities designated at fair value**

#### *Classification criteria*

Financial liabilities designated at fair value are recorded under this caption, on the basis of the fair value option given to companies by IFRS 9 and in compliance with the cases contemplated in the reference regulations.

This category of liabilities includes certificates that form part of the banking book business model.

#### *Recognition criteria*

These liabilities are recorded at fair value as at the date of issue, including the value of any embedded derivatives, net of placement fees paid.

#### *Measurement criteria*

These liabilities are measured at fair value according to the following rules established by IFRS 9:

- changes in fair value attributable to changes in own credit risk must be recognised in the statement of comprehensive income (shareholders' equity);
- the remaining changes in fair value must be recognised in the income statement.

The amounts recognised in the statement of comprehensive income are not subsequently recycled to the income statement. This method of accounting must not be applied when recognition of the effects of own credit risk on shareholders' equity results in or accentuates an accounting mismatch in the income statement. In this case, gains and losses associated with the liability, including those resulting from changes in own credit risk, must be recognised in the income statement.

#### *Derecognition criteria*

The financial liabilities designated at fair value are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed with the substantial transfer of all the risks and rewards connected to it.

### **15. Foreign currency transactions**

#### *Definition*

The foreign currency is a currency that is not the functional currency of the entity, which is in turn the currency of the primary economic environment in which the entity operates.

#### *Initial recognition*

Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying to the foreign currency amount the spot exchange rate at the date of the transaction.



*Subsequent measurement*

At every close of annual or interim financial statements, captions in foreign currency are measured as follows:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction;
- non-monetary items that are measured at fair value in a foreign currency are translated using the closing rates.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised through profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised through profit or loss, any exchange component of that gain or loss is recognised through profit or loss.

**16. Other information***Own shares*

Any own shares held are directly deducted from equity. Similarly, their original cost and the profits or losses deriving from their subsequent sale are recorded in equity.

*Accruals, prepayments and deferrals*

Accruals, prepayments and deferrals for the year that include income and charges for the year, accrued on assets and liabilities, are shown in the financial statements as an increase or decrease of the assets and liabilities to which they are related.

*Leasehold improvements*

The costs sustained for restructuring property belonging to third parties are capitalised in consideration of the fact that for the duration of the rental contract the using company has control of the assets and may receive their future economic benefits. These costs, recorded in Other assets as provided for by the instructions of the Bank of Italy, are amortised over a period which must not exceed the duration of the rental contract.

*Employee termination indemnities*

Employee termination indemnities qualify as a “post-employment benefit” classified as:

- a “defined contribution plan” to the extent of the portions accruing from 1 January 2007 (the date the reform of the supplementary pension schemes came into force pursuant to Legislative Decree 252 of 5 December 2005) when the employee opted for the complementary pension scheme or decided to allocate such portions to the INPS (the Italian Social Security Institute) Treasury fund. Therefore, the amounts, recorded under personnel expenses, are determined on the basis of amounts due without the application of actuarial calculation;
- a “defined benefit plan” to the extent of the portions of employee termination indemnities accrued until 31 December 2006. These amounts are recognised at their actuarial value determined using the “Projected Unit Credit Method”, without applying the pro-rata of the service rendered. Indeed, the current service cost of employee termination indemnities is almost entirely accrued and its revaluation in the years to come is not expected to generate significant benefits for employees.

For the purposes of discounting, the rate used is the market yield of high-quality corporate bonds taking into account the average remaining life of the liability, weighted based on the percentage amount paid and advanced, for each maturity, with respect to the total to be paid and advanced until the expiry of the entire obligation.

The plan's costs are recorded under personnel expenses, while actuarial profits and losses are recognised in the statement of comprehensive income.

*Share-based payments*

Share-based payments are recorded in the income statement, with a corresponding increase in shareholders' equity, on the basis of the fair value of financial instruments attributed at assignment date, dividing the charge over the period set forth by the plan.

In the case of options, the fair value is calculated using a model which considers, in addition to information such as strike price and expiry date of the option, spot price of the shares and their expected volatility, expected dividends and the risk-free interest rate, as well as the specific characteristics of the plan. The pricing model values the option and the probability of realisation of the condition on the basis of which the options have been assigned.

The combination of the two values supplies the fair value of the assigned instrument.

Any decrease in the number of financial instruments granted is accounted for as a cancellation of a portion of such instruments.

*Employee benefits*

Employee benefits are defined as all forms of consideration given by an entity in exchange for service rendered by employees. Employee benefits are divided into:

- short-term benefits (other than termination benefits or equity compensation benefits) that are expected to be paid in full within twelve months after the end of the period in which the employees render the related service and recognised in full through profit or loss when they become due (this category includes, for example, wages, salaries and “extraordinary” benefits);

- post-employment benefits payable after the conclusion of employment that require the entity to provide future benefits to employees. These include employee termination indemnities and pension funds, which are in turn divided into defined contribution plans and defined benefit plans or company pension funds;
- termination benefits, i.e. compensation that the company recognises to the staff members upon termination of the employment agreement, following the company's decision to terminate the employment relationship prior to the normal retirement date;
- long-term benefits, other than those above, that are not expected to be paid in full within twelve months after the end of the period in which the employee rendered their service.

#### *Offsetting of financial instruments*

According to IAS 32, paragraph 42, financial assets and financial liabilities are offset and the net amount presented in the financial statements when an entity:

- has a legal enforceable right of set off which is currently exercisable in all circumstances, both in the ordinary course of business or in the event of default, insolvency or bankruptcy of the parties;
- intends to settle the transactions on a net basis or on a gross settlement basis whose substantive effects are equivalent to a net settlement.

For derivative instruments covered by netting agreements that meet the above requirements, Bank of Italy Circular 262 also requires the offsetting to be performed between trading and hedging derivatives, with the mismatches to be presented on a net basis. The net balance is usually allocated to the trading book rather than to the hedging derivatives, based on the actual amount of the mismatch between trading and hedging derivatives.

In compliance with the requirements of IFRS 7, more detailed information is provided in the tables contained in Part B – Other information of these Notes to the financial statements, which present the following:

- the carrying amounts of assets and liabilities that meet the requirements of IAS 32, paragraph 42, before and after offsetting;
- the exposures subject to master netting agreements that have not been offset but have the potential to be offset following specific circumstances;
- the collateral associated with them.

#### *Tax credits related to the “Cura Italia” and “Rilancio” Law Decrees acquired as a result of transfer by direct beneficiaries or previous purchasers (e.g. ecobonus)*

Law Decrees 18/2020 (“Cura Italia” Decree) and 34/2020 (“Rilancio” Decree) introduced tax incentives related to both investment expenditure (e.g. “ecobonus and sismabonus”) and current expenditure (e.g. rents for non-residential premises). These tax incentives apply to households or businesses, they are linked to a percentage of the expenditure incurred (in some cases up to 110%) and are granted in the form of tax credits or tax deductions (with option for conversion into tax credits). The main features of these tax credits are: i) the possibility of using them for offsetting; ii) their transferability to third-party purchasers; and iii) their non-refundability by the Treasury.

The accounting for tax credits acquired from a third party (transferee of the tax credit) is not covered by a specific international accounting standard. IAS 8 requires, in cases where there is a circumstance not explicitly addressed by an IAS/IFRS accounting standard, that management develop an accounting policy to ensure relevant and reliable disclosure of such transactions.

To this end, the Intesa Sanpaolo Group, in view of the guidance provided by the Authorities<sup>5</sup>, has adopted an accounting policy that refers to the accounting rules established by IFRS 9, applying the provisions that are consistent with the characteristics of the transaction and taking the view that these tax credits are substantially equivalent to a financial asset. The bank purchases the credits according to its tax capacity, for the purpose of holding them and using them for future offsets. As a result these credits come under a hold to collect business model and are recognised at amortised cost, with the remuneration recognised in net interest income during the period of recovery. The measurement of these credits must be carried out considering the cash flows from the estimated future offsets. The accounting framework established by IFRS 9 for calculating expected losses does not apply in this case: the ECL is not calculated on these tax credits, as there is no counterparty credit risk, because the credit is realised through offsetting against payables and not through collection. As specified in the joint document from the Authorities, given that the purchased tax credits do not qualify as tax assets, public subsidies, intangible assets or financial assets under the international accounting standards, the most appropriate classification, for their presentation in the financial statements, is the residual classification under Other Assets in the balance sheet.

#### *TLTRO III*

The TLTRO III (Targeted Longer Term Refinancing Operations) seek to preserve favourable bank lending conditions and support the accommodative monetary policy stance. Some of the parameters established by the ECB on 6 June 2019 were subsequently revised to make improvements, most recently on 10 December 2020, in light of the economic impact of the continuation of the Covid-19 emergency. The amount of funding that each bank can obtain depends on the amount of loans granted to non-financial companies and households at particular reporting dates (eligible loans). The operations have been conducted on a quarterly basis, from September 2019, and each operation has a duration of three years.

The interest rate for each operation is set at a level equal to the average interest rate on the Eurosystem's main refinancing operations (MROs), currently 0%, except for the special interest rate period from 24 June 2020 to 23 June 2022, when a rate of 50 basis points lower will apply. Banks granting net eligible loans above a benchmark net lending can receive an interest rate reduction. Specifically, the favourable rate applied will be equal to the average rate on deposits with the Central Bank (Deposit Facility), currently -0.5%, for the entire duration of the respective operation, except for the special interest rate period where an additional reduction of 50 basis points will be added (but in any event not higher than -1%). The interest is paid in arrears at the maturity date of each TLTRO III transaction or at the time of early repayment.

<sup>5</sup> On 5 January, the Bank of Italy, Consob and IVASS published Document 9 of the Coordination Committee on the application of IAS/IFRS "Accounting treatment of tax credits related to the 'Cura Italia' and 'Rilancio' Law Decrees acquired following transfer by direct beneficiaries or previous purchasers".

Intesa Sanpaolo applies the accounting treatment determined in accordance with IFRS 9 to TLTRO III transactions, treating the refinancing conditions established by the ECB as market rates within the Eurosystem's monetary policy measures.

Under the bank's accounting policy, the special interest rates for the period from 24 June 2020 to 23 June 2022 are recognised in accordance with IFRS 9 as floating rates applicable to the reporting period, because the Governing Council of the ECB may at any time change the interest rate of TLTRO III operations prospectively (as it did in April and December 2020). The interest is therefore recognised periodically based on the interest rate of the instrument for each period (-0.5% until 24 June 2020, -1% until 23 June 2022, and -0.5% thereafter and until maturity, based on current rates) as required by paragraph B5.4.5 of IFRS 9.

A requirement for the recognition of the favourable interest rates – in keeping with the approach already adopted for TLTRO II – is a reliable estimate of the achievement of the benchmark net lending, which the bank performs through forecast reports on the lending performance monitored at set dates, approved by an appropriate level of management.

In the event of changes to the forecasts on the achievement of those targets, the IFRS 9 provisions on the revision of cash flow estimates will apply.

#### *Recognition of revenues and costs*

Revenues are gross flows of economic benefits deriving from the performance of the company's ordinary business and are recognised when control of the goods or services is transferred to the customer, at an amount that represents the amount of consideration that the company considers it is entitled to. In particular, revenues are recognised by applying a model that must meet the following criteria:

- identification of the contract, defined as an agreement in which the parties are committed to perform their respective obligations;
- identification of the individual performance obligations contained in the contract;
- determination of the transaction price, i.e. the expected consideration for the transfer of the goods or services to the customer;
- allocation of the transaction price to each performance obligation, based on the sale prices of the individual obligation;
- recognition of revenues when (or as) the performance obligation is satisfied by transferring a promised good or service to a customer.

The transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services promised. It may include fixed or variable amounts or both. Revenues from variable fees are recognised in the income statement if they can be reliably estimated and only if it is highly likely that all or a significant part of this fee will not need to be reversed from the income statement in future periods. Where there is a high level of uncertainty related to the nature of the consideration, it will be recognised only when this uncertainty is resolved.

Revenues may be recognised:

- at a specific point in time, when the entity satisfies a performance obligation by transferring a promised good or service to the customer, or
- over time, as the entity satisfies a performance obligation by transferring a promised good or service to the customer.

The good is transferred when, or in the period when, the customer acquires control of the good.

In particular:

- interest is recognised on accrual on the basis of the contractual interest rate or the effective interest rate in the case of application of amortised cost. Interest income (or interest expense) includes differentials and positive (or negative) margins accrued up to the reporting date, relating to financial derivatives:
  - a) hedging interest-generating assets and liabilities;
  - b) classified in the balance sheet in the trading book, though related to financial assets and/or liabilities designated at fair value through profit or loss (fair value option) in management terms;
  - c) related in management terms to assets and/or liabilities classified in the trading book and providing for the settlement of differentials or margins with different maturities;
- overdue interest, which may be provided for by the relevant contracts is recorded in the income statement solely at the time of collection;
- dividends are posted in the income statement when their distribution is approved, unless this date is not known or the information is not immediately available, in which case they may be recognised when they are collected;
- commission income from services is recorded, on the basis of the existence of contractual agreements, in the period in which the services have been rendered. Commission income included in the amortised cost for the purposes of determining the effective interest rate is recognised under interest;
- profits and losses from securities trading are recognised in the income statement at the date of sale, on the basis of the difference between the consideration paid or collected and the carrying value of such instruments;
- revenues deriving from the sale of non-financial assets are recorded at the date of sale, or when the performance obligation towards the customer is satisfied.

Costs are recognised in the income statement on an accruals basis. Costs relating to the receipt and performance of contracts with customers are recognised in the income statement in the periods when the related revenues are recognised.

#### *Use of estimates and assumptions in preparing financial reports*

The preparation of financial reports requires the use of estimates and assumptions that may have a significant effect on the amounts stated in the balance sheet and income statement, and on the potential assets and liabilities reported in the financial statements. Estimates are based on available information and subjective evaluations, often founded on past experience, which are used to formulate reasonable assumptions to be made in measuring operating events. Given their nature, the estimates and assumptions used may vary from year to year, and hence it cannot be excluded that current amounts carried in

the financial statements may differ significantly in future financial years as a result of changes in the subjective evaluations made.

If there are greater uncertainties and/or the assets being measured are particularly material, the valuation is supported by specific fairness opinions from external appraisers/experts.

The main cases for which subjective evaluations are required to be made by corporate management include:

- the measurement of impairment losses on loans, investments, and, generally, other financial assets;
- the use of measurement models for determining the fair value of financial instruments not listed on active markets;
- the evaluation of the appropriateness of amounts stated for goodwill and other intangible assets;
- the fair value measurement of real estate and valuable art assets;
- the measurement of personnel funds and allowances for risks and charges;
- the estimates and assumptions on the collectability of deferred tax assets.

For some of the types listed above, the main factors subject to estimates by the Bank and which determine the carrying value of assets and liabilities in the financial statements can be identified. The following are noted, by way of example:

- to determine the fair value of financial instruments not listed on active markets, if the use of parameters that cannot be obtained from the market is necessary, the main estimates regard, on one hand, development of future cash flows (or even income flows, in the case of equities), possibly conditional on future events and, on the other, the level of specific input parameters not listed on active markets;
- the estimates for the assignment of loans and debt securities classified as Financial assets measured at amortised cost and Financial assets measured at fair value through other comprehensive income to the three credit risk stages required by IFRS 9 and to calculate the related expected credit losses involve:
  - o the determination of the parameters for a significant increase in credit risk, essentially based on models for measuring the probability of default (PD) upon origination of the financial assets and at the reporting date;
  - o the inclusion of forward-looking factors, including macroeconomic factors, for the determination of the PD and LGD;
  - o the determination of the likelihood of sale of impaired financial assets, through the realisation of market positions;
- to determine the future cash flow estimates from non-performing loans, a number of items are considered: the expected recovery times, the presumed realisable value of guarantees and the costs to be sustained for the recovery of credit exposure;
- to determine the value in use of intangible assets with an indefinite life (brand name and goodwill) with regard to the Cash-Generating Units (CGU) comprising Intesa Sanpaolo, the future cash flows in the forecasting period of the analysis and the flows used to determine the terminal value, generated by the CGU, are subject to estimate, separately and appropriately discounted. The cost of capital is among the items subject to estimate;
- to determine the value in use of intangible assets with a finite life (asset management and insurance portfolios) with regard to the CGUs comprising Intesa Sanpaolo, the useful life is subject to estimate, on the one hand, as well as the future cash flows arising from the asset, on the other. The cost of capital is subject to estimate in the case of intangible assets with a finite life as well;
- the fair value measurement of real estate and valuable art assets is based on valuations prepared by qualified independent firms. Lease rentals, selling prices, discount rates and capitalisation rates are estimated in order to conduct the appraisals of the properties, while to conduct the appraisals on the valuable art assets, the estimate of the value was gathered from the performance of the exchanges of similar works (in terms of technique, size, subject) by the same author or regional movements and schools that are close with regard to style and technique;
- to measure post-employment benefits, the present value of the obligations is subject to estimate, taking into account the flows, appropriately discounted, arising from past time-series analyses and the demographic curve;
- to measure allowances for risks and charges, the amount of outflows necessary to fulfil the obligations is estimated, where possible, taking into account the effective probability of having to utilise resources;
- to determine the value of deferred tax items, the likelihood of an effective future tax burden is estimated (taxable temporary differences) and the level of reasonable certainty – if it exists – of future taxable amounts at the time when the tax deductibility occurs (deductible temporary differences and tax losses carried forward).

#### *The classification drivers for financial assets*

The classification of the financial assets into the three categories established by the standard depends on two classification drivers: the business model used to manage the financial instruments and the contractual cash flow characteristics of the financial assets (or SPPI Test).

The classification of the financial assets derives from the combined effect of the two drivers mentioned above, as described below:

- Financial assets measured at amortised cost: assets that pass the SPPI test and come under the Hold to Collect (HTC) business model;
- Financial assets measured at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and come under the Hold to Collect and Sell (HTCS) business model;
- Financial assets measured at fair value through profit or loss (FVTPL): this is a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test of the contractual cash flow characteristics (SPPI test not passed).

*SPPI test*

For a financial asset to be classified as at amortised cost or at FVOCI – in addition to the analysis of the business model – the contractual terms of the asset must also provide, on specified dates, for cash flows that are solely payments of principal and interest (SPPI). This analysis must be carried out for loans and debt securities in particular.

The SPPI test must be carried out on each individual financial instrument at the time of recognition in the balance sheet. After initial recognition, and as long as it is recognised in the balance sheet, the asset is no longer subject to new assessment for the purposes of the SPPI test. If a financial instrument is derecognised and a new financial asset is recognised, the SPPI test must be performed on the new asset.

For the application of the SPPI test, IFRS 9 provides the following definitions:

- Principal: this is the fair value of the financial asset at initial recognition. This value may change over the life of the financial instrument, for example as a result of repayments of part of the principal;
- Interest: this is the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks and costs and a profit margin.

In assessing whether the contractual flows of a financial asset can be defined as SPPI, IFRS 9 refers to the general concept of a 'basic lending arrangement', which is independent of the legal form of the asset. When contract terms introduce exposure to risks or volatility in the contractual cash flows that is inconsistent with the definition of a basic lending arrangement, such as exposure to changes in share or commodity prices, the contractual cash flows do not meet the definition of SPPI. The application of the classification driver based on contractual cash flows sometimes requires a subjective judgement and, consequently, the establishment of internal application policies.

In cases of modified time value of money – for example, when the interest rate of the financial asset is recalculated periodically, but the frequency of the recalculation or the frequency of payment of the coupons does not reflect the nature of the interest rate (such as when the interest rate is recalculated monthly on the basis of a one-year rate) or when the interest rate is recalculated regularly on the basis of an average of particular short or medium-to-long term rates – an entity should assess, using both quantitative and qualitative information, whether the contractual cash flows still meet the definition of SPPI (benchmark cash flows test). If the test shows that the (undiscounted) contractual cash flows are "significantly different" from the (also undiscounted) cash flows of a benchmark instrument (i.e. without the modified time value element), the contractual cash flows cannot be considered to meet the definition of SPPI.

The standard requires specific analyses ("look through test") to be performed and these are therefore also conducted on multiple contractually linked instruments (CLIs) that create concentrations of credit risk for debt repayment and on non-recourse assets, for example in cases where the loan can only be enforced on specified assets of the debtor or on the cash flows from specified assets.

The presence of contractual clauses that may change the frequency or amount of the contractual cash flows must also be considered to determine whether those cash flows meet the requirements to be considered as SPPIs (e.g. prepayment options, the possibility of deferring contractually agreed cash flows, embedded derivative instruments, subordinated instruments, etc.).

However, as envisaged by IFRS 9, a contractual cash flow characteristic does not affect the classification of the financial asset if it could have only a de minimis effect on the contractual cash flows of the financial asset (in each year and cumulatively). Similarly, if a cash flow characteristic is not genuine, i.e. if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur, it does not affect the classification of the financial asset.

For operations in debt securities, Intesa Sanpaolo uses the services offered by well-known info-providers for the performance of the SPPI Tests. This choice, on one hand, provides front office staff who deal in securities with an immediate result for the performance of the test, enabling the streamlining of purchasing processes, and, on the other hand, provides access to market approaches shared by numerous operators and audit firms. Only in cases where the securities are not managed by info-providers, the test is carried out manually using a proprietary tool based on an internally developed methodology (decision-making trees).

A proprietary tool based on an internally developed methodology (decision-making trees) has also been developed for carrying out the SPPI test for the lending processes. In particular, given the significant differences in characteristics, the procedure differs between products related to a contractual standard (typically the retail loan portfolio) and tailor-made loans (typically the corporate loan portfolio).

For standard products, the SPPI test is carried out during the structuring of the contractual standard, through the "New Product Coordination" process, and the result of the test is applied to all the individual relationships related to the same catalogue product. For tailor-made products, on the other hand, the SPPI test is carried out for each new credit line/relationship submitted to the decision-making body through the use of the proprietary tool.

The decision-making trees – included in the proprietary tool – have been produced internally (both for debt securities and loans) and capture the possible non-SPPI compliant characteristics. They take account of the instructions provided by IFRS 9, as well as the interpretations of the standard made by the Intesa Sanpaolo Group. The trees are used both for the implementation of the rules of the proprietary tool and for the verification and validation of the methodology adopted by the info-providers.



*Business model*

With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed:

- Hold to Collect (HTC): this is a business model whose objective is achieved by collecting the contractual cash flows of the financial assets included in the portfolios associated to it. The inclusion of the portfolio of financial assets in this business model does not necessarily result in the inability to sell the instruments, but the frequency, value and timing of sales in prior periods, the reasons for the sales, and the expectations about future sales, need to be considered;
- Hold to Collect and Sell (HTCS): this is a mixed business model whose objective is achieved by collecting the contractual cash flows of the financial assets in portfolio and (also) through the sale of the financial assets, which is an integral part of the strategy. Both activities (collection of contractual flows and sale) are indispensable for achieving the business model's objective. Accordingly, sales are more frequent and significant than for an HTC business model and are an integral part of the strategies pursued;
- Other/Trading: this is a residual category that includes both financial assets held for trading and financial assets managed with a business model that does not come under the previous categories (Hold to Collect and Hold to Collect and Sell). In general, this classification applies to a portfolio of financial assets whose management and performance are measured based on fair value.

The business model reflects the way in which financial assets are managed to generate cash flows for the benefit of the entity and is defined by top management with the appropriate involvement of the business structures. It is observed by considering the way in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive from the collection of contractual flows, from the sale of the financial assets, or from both. This assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as 'worst case' or 'stress case' scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario does not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur.

The business model does not depend on management's intentions regarding an individual financial instrument, but refers to the way in which groups of financial assets are managed in order to achieve a specific business objective.

In summary, the business model:

- reflects the way in which financial assets are managed to generate cash flows;
- is defined by top management, with the appropriate involvement of the business structures;
- must be observable by considering the way the financial assets are managed.

In operational terms, the assessment of the business model is carried out in line with the company's organisation, the specialisation of the business functions, the risk cascading model, and the assignment of delegated powers (limits). All relevant factors available at the date of the assessment are used in the assessment of the business model. The above information includes the strategy, the risks and their management, the remuneration policies, the reporting, and the amount of the sales. In the analysis of the business model, the elements investigated must be consistent with each other and, in particular, must be consistent with the strategy pursued. Evidence of activities not in line with the strategy must be analysed and duly justified.

In this regard, and in relation to the business models under which the financial assets are held, a specific set of "Business Model Rules" (approved by the competent levels of governance) has been drafted for the Parent Company and Banking Group Companies. It defines and sets out the components of the business model in relation to the financial assets included in the portfolios managed as part of the operations of Intesa Sanpaolo's business structures. The initial structure of the document was approved by the Board of Directors, with a favourable opinion from the Risks Committee. In further detail, the mapping of the business model adopted by the various structures through which the Bank operates, with regard to both loans and receivables and debt securities, takes account of the structure of the division model and the Corporate Centre; this structure has been identified as the relevant level for formulating and representing the various business models applied by Intesa Sanpaolo's risk-taking centres.

Within the Chief Risk Officer Area, the Financial and Market Risks Head Office Department of the Bank provides high-level supervision of the procedure required for determining the business model within which a given set of assets is held and verifies the need for any updates (to be incorporated, at least annually, in the Business Model Rules document).

*Monitoring of the business model*

The monitoring of the reference business model of the various structures through which Intesa Sanpaolo operates is performed by the Financial and Market Risks Head Office Department, which uses indicators intended to verify the consistency of the declared strategy with that pursued within the business models; these indicators, differentiated for the various business models, have been developed in accordance with IFRS 9 and corporate rules and procedures.

For the Hold to Collect portfolios, Intesa Sanpaolo has set limits for frequent but not significant sales to be considered eligible (individually or in aggregate), or for infrequent sales even if their amount is significant, and the parameters have also been established for identifying sales as being consistent with that business model because they relate to an increase in credit risk or for securities close to maturity.

More specifically, within an HTC business model, sales are allowed:

- in the event of an increase in credit risk, which occurs:
  - o for securities, when there is a downgrade of predetermined notches with respect to the rating upon origination. The approach adopted differentiates the number of notches according to the rating upon origination, in line with the method used to identify significant deterioration, i.e. for the staging assignment;
  - o for loans, if they are sales of non-performing loans or loans classified as stage 2;
- for securities close to maturity (i.e., according to the Group rules, in the 6 months preceding maturity), provided that the amount collected approximates the current value of the remaining contractual flows;



- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, thresholds of frequency and significance have been set:
  - o frequency is defined as the percentage ratio between the number of positions sold over the observation period and the average of the portfolio positions over the observation period;
  - o significance is defined as the percentage ratio between the nominal value of the sales and the average nominal value of the instruments held in the portfolio over the period considered, using a method, solely for the debt securities, that gives a higher weight to the sales of the most recently acquired positions.

In measuring any overrun of the relevance threshold, multipliers are applied to the positions sold, with reference to the positions most recently acquired, to favour compliance with the approach specific to the HTC business model.

With regard to the determination of the "Risks" and the "Reporting" for the HTCS and Trading business models, the provisions of the RAF and Market Risk Charter and of internal policies in the area of market risk controls apply in principle, and measures are concurrently established for monitoring the consistency of the HTCS and Other/Trading business models.

With regard to the HTCS business model, IFRS 9 does not provide for the need for limits on the frequency or the value of the sales. However, Intesa Sanpaolo has established indicators for debt securities only in order to ensure that they are properly assigned to the chosen business model over time. These indicators are:

- The holding period, which measures the time for which a certain instrument has been held in portfolio;
- Turnover rate, which measures the speed with which positions in portfolio turn over during a predefined period of time.

Within the framework of the monitoring of the indicators set out above, limits and early-warning thresholds apply according to the overall strategies pursued by the HTCS portfolio.

Finally, with regard to debt or equity securities held for trading, a measure of the consistency of inclusion in the chosen business model applies, represented by the indicator of "expected average permanence" (so-called Vintage) which measures the observed holding period of all securities in portfolio.

The monitoring measures relating to the various business models are subject to regular reporting through technical committees.

#### *Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.

The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the present value of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability or for a shorter period when certain conditions recur (for example review of market interest rates).

After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of the instrument over its entire expected life via the amortisation process. The determination of amortised cost is different depending on the fact that financial assets/liabilities have fixed or floating rates and – in this last case – if the volatility of the rate is known or not beforehand. For instruments with fixed rate or fixed rate by time bands, future cash flows are quantified on the basis of the known interest rate (sole or floating) over the life of the loan. For financial assets/liabilities with a floating rate, for which the volatility is not known beforehand (for example because it is linked to an index), the determination of cash flows is carried out based on the last rate available. At every revision of the interest rate, the amortisation plan and the effective interest rate for the entire life of the investment, that is, until maturity, are recalculated. Any changes are recorded in the income statement as income or loss.

Measurement at amortised cost is applied for the financial assets measured at amortised cost and for the financial assets measured at fair value through other comprehensive income, as well as the financial liabilities measured at amortised cost.

Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees.

Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the customer. These commissions, which must be directly attributable to the single financial asset or liability, modify the original effective return, thereby the effective interest rate associated to the transaction differs from contractual interest rate. Transaction costs do not include costs/income referred to more than one transaction and the components related to events which may occur during the life of the financial instrument, but which are not certain at the time of the initial agreement, such as for example: commissions for retrocession, for non-use, for advance termination. Furthermore, amortised cost does not include costs which would be sustained independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as commissions for services received following structured finance activities which would in any case have been received independently from the subsequent financing of the transaction (e.g. facility and arrangement fees).

With reference to loans, the following costs are considered directly attributable to the financial instrument: fees paid to distribution networks, fees paid for the origination and/or the participation in syndicated loans and lastly, up-front fees correlated to loans disbursed at rates exceeding market rates. Income considered in the calculation of amortised cost includes: up-front fees correlated to loans disbursed at rates below market rates, income for the participation in syndicated loans and brokerage commissions received.

For debt securities not measured at fair value through profit or loss, the following are considered transaction costs: commissions on contracts with brokers operating on the Italian stock exchange, commissions paid to dealers operating on the Italian and foreign stock and bond markets defined on the basis of the commission tables. Stamp duty is not considered in amortised cost since immaterial.

Regarding securities issued, amortised cost considers placement commissions on bond issues paid to third parties, amounts paid to Exchanges and remuneration paid to Independent auditors for the activities performed for each single issue, while amortised cost does not consider commissions paid to rating agencies, legal and advisory/review expenses for the annual update of prospectuses, the costs for the use of indexes and commissions which originate during the life of the bond issue.

Amortised cost is also applied for the measurement of loss incurred by the financial instruments listed above as well as for the measurement of instruments issued or purchased at a value other than fair value. The latter are measured at fair value, instead of the amount collected or paid, by discounting expected future cash flows at a rate equal to the effective rate of return of similar instruments (in terms of credit rating, contractual expiry, currency, etc.), with the simultaneous recognition in the income statement of a financial charge or income; after initial recognition, these are measured at amortised cost with the registration of higher or lower effective interest with respect to nominal interest. Lastly, structured liabilities that are not measured at fair value through profit or loss, for which the embedded derivative has been separated from the financial instrument, are also measured at amortised cost.

As specified by IFRS 9, in some cases, a financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and in the case of a purchase it is purchased at a deep discount (with respect to the initial disbursement value). If these financial assets, based on the application of the classification drivers (SPPI Test and business model), are classified as assets measured at amortised cost or at fair value through other comprehensive income, they are classed as Purchased or Originated Credit Impaired (POCI) assets and are subject to special treatment for the impairment process. In addition, for the financial assets classed as POCI, the credit-adjusted effective interest rate is calculated, at the initial recognition date, which requires the inclusion of the initial expected credit losses in the cash flow estimates. This credit-adjusted effective interest rate is used for the application of the amortised cost and the consequent calculation of interest.

For non-performing loans arising from business combinations, the difference between the initial recognition amount (the fair value determined in the PPA) of the POCIs and the previous carrying amount in the acquired entity is split into two components: one related to the lower recoverable cash flows estimated in the fair value measurement, which therefore include the expected credit losses over their entire remaining life, and the other related to the discounting of those lower recoverable cash flows. Please note that the reversal of discounting (connected with the estimate of recoverable cash flows attributed to non-performing loans at the moment of the PPA) is recognised, on a pro-rata basis, among interest income so as to supplement the contractual interest rate with the higher return resulting from the lower value attributed to the recoverable cash flows, which, as mentioned above, take into account the expected losses over the entire remaining life of the POCI assets.

The amortised cost measurement criterion is not applied to hedged financial assets/liabilities for which fair value changes related to the risk hedged are recorded through profit or loss. The financial instrument is again measured at amortised cost in the case of hedge termination; from that moment the fair value changes recorded before are amortised, calculating a new effective interest rate which considers the value of the loan adjusted by the fair value of the hedged part, until the natural expiry of the hedge. Furthermore, as already mentioned in the paragraphs relating to financial assets and liabilities measured at amortised cost, measurement at amortised cost is not applied to short-term assets/liabilities for which the time value is deemed to be immaterial and to loans without a definite maturity or revocable loans.

### *Impairment of assets*

#### *Impairment of financial assets*

At each reporting date, pursuant to IFRS 9, financial assets other than those measured at fair value through profit or loss are subject to an assessment aimed at verifying whether there is any evidence that the carrying value of the assets may not be fully recoverable. A similar analysis is also performed for loan commitments and for guarantees given that must be tested for impairment under IFRS 9.

In preparation for the determination of the impairment losses, at each reporting date the financial instruments must be assigned to the following categories (Stage Assignment or Staging):

- Stage 1: comprising financial instruments for which, from their initial recognition up to the reporting date, there is no evidence of a significant increase in credit risk;
- Stage 2: it comprises financial assets that have had a significant increase in credit risk since initial recognition;
- Stage 3: if there is evidence of impairment, these financial assets – in line with any other assets pertaining to the same counterparty – are considered impaired and are therefore included in Stage 3.

The impaired exposures consist of financial assets classified in the categories of bad loans, unlikely-to-pay (UTP) loans and exposures past due by more than ninety days, defined in Bank of Italy Circular 272/2008.

Before illustrating the methods for determining the impairment of performing and non-performing financial assets, it is noted that the treatment described below must be read along with the measures introduced – also as per instructions from regulators - as a result of the COVID-19 pandemic, which are outlined in general in Section 4 of this Part A of the Notes to the Parent Company's financial statements and described in more detail in Part E – Section 1 Credit risk (2.3 Methods for measuring expected losses) of the Group consolidated financial statements.

*Impairment of performing financial assets*

For financial assets for which there is no evidence of impairment (unimpaired financial instruments), it is necessary to check whether there are indicators that the credit risk of the individual transaction has increased significantly since initial recognition. This check, in terms of classification (or, more precisely, staging) and measurement, has the following consequences:

- where these indicators exist, the financial asset is included in stage 2. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of value adjustments equal to the lifetime expected credit losses of the financial instrument. These adjustments are subject to revision at each subsequent reporting date, both to periodically check their consistency with the continuously updated loss estimates and to take account – if the indicators of “significantly increased” credit risk are no longer present – of the change in the forecast period for the calculation of the expected credit loss;
- where these indicators do not exist, the financial asset is included in stage 1. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of the 12-month expected credit losses for the specific financial instrument. These adjustments are subject to revision at each subsequent reporting date both to periodically check their consistency with the continuously updated loss estimates and to take into account – if there are indicators that the credit risk has “significantly increased” – the change in the forecast period for the calculation of the expected loss.

With regard to the measurement of financial assets and, in particular, the identification of the “significant increase” in credit risk (a necessary and sufficient condition for the classification of the asset being measured as stage 2), the following factors constitute the key elements to be taken into account, in accordance with the standard and its operational implementation by the Intesa Sanpaolo Group:

- the variation (beyond set thresholds) of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a “relative” basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. If these circumstances apply, the credit risk of the exposure is considered to have “significantly increased” and the exposure is therefore transferred to stage 2 (when the exposure was previously included in stage 1);
- the presence of forbearance measures, which – again on a presumption basis – result in the classification of the exposures under those whose credit risk has “significantly increased” since initial recognition;
- lastly, for banks belonging to the international scope, some of the indicators from the credit monitoring systems specifically used by each bank are also considered for the purposes of the transfer between “stages” where appropriate. This refers in particular to the watch lists, i.e. the credit monitoring systems that – based on the current credit quality of the borrower – place performing exposures above a certain level of risk within a particular range.

Focusing on the main trigger out of those referred to above (i.e. the change in the lifetime probability of default), the significant increase in credit risk (“SICR”) is determined by comparing the relative change in the lifetime probability of default recorded between the initial recognition date of the relationship and the observation date (Lifetime PD Change) with predetermined significance thresholds. The assignment of a Lifetime PD to the individual relationships is carried out by allocating the ratings for each segment according to the masterscale at both the initial recognition date and the observation date. Ratings are determined based on internal models, where available, or on business models. If there are no ratings, the Benchmark PDs are assigned to the type of counterparty being assessed.

The significant deterioration is therefore based on the increase in the lifetime PD caused by downgrades of the position from its origination to the reporting (observation) date, as well as the change in the forecast of the future macro-economic factors.

The above-mentioned “relative” change in lifetime PD is an indicator of the increase or decrease in credit risk during the reporting period. To establish whether, in accordance with IFRS 9, any increase in credit risk can be considered “significant” (and therefore entail a transition between stages), it is necessary to set specific thresholds. Increases in lifetime PD below these thresholds are not considered significant and, consequently, do not result in the transfer of individual credit lines/tranches of debt securities from stage 1 to stage 2. However, this transfer is required if there are relative increases in PD above these thresholds. The thresholds used have been estimated based on a process of simulations and optimisations of forecast performance, carried out using granular historical portfolio data. Specific thresholds are set for the Corporate, Retail, Large Corporate and Retail SME models and extended to the other models based on methodological affinity. The thresholds differ in terms of residual maturity, annual granularity and rating class.

The determination of the thresholds has been calibrated to find a suitable balance between the performance indicators relating to the ability of the thresholds to:

- detect stage 2 positions before their transition to default;
- identify positions for which a return to stage 1 is due to an actual improvement in credit rating.

Some specific considerations apply for the “staging” of the debt securities. Unlike loans, for this type of exposure, sales and purchases after initial recognition (made using the same ISIN) may form part of the ordinary management of the positions (with the consequent need to identify methods to be adopted for identifying the sales and repayments in order to determine the remaining quantities of the individual transactions that need to be allocated a credit quality/rating upon origination to be compared with that parameter at the reporting date). In this regard, the use of the “first-in-first-out” or “FIFO” method (for the recognition of the recorded ECL in the income statement, in the event of sales or repayments) was considered to help in providing a more transparent management of the portfolio, also for the front office operators, while also enabling the continued updating of the credit rating based on new purchases.

Once the allocation of the exposures to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the specific requirements of IFRS 9.

The following definitions apply for PD, LGD and EAD:

- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year. In models consistent with supervisory provisions, the PD factor is typically quantified through the rating. In Intesa Sanpaolo, the PD values are derived from internal rating models where available, supplemented by external ratings or segment/portfolio average figures;
- LGD (Loss Given Default): percentage loss in the event of default. In the models consistent with supervisory provisions, it is quantified through the historical experience of discounted recoveries on exposures that have become non-performing;
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

As mentioned above, in order to comply with IFRS 9, specific adjustments had to be made to these factors, including in particular:

- adoption of a Point in Time (PIT) PD compared to the Through the Cycle (TTC) PD used for Basel purposes;
- removal of some additional components from the TTC LGD, such as indirect costs (non-recurring costs) and an additional margin of conservatism specifically introduced for the regulatory models, as well as the component linked to the economic downturn;
- the use of PDs and, where necessary, multi-period LGDs, to determine the lifetime expected loss of the financial instrument (stages 2 and 3);
- the use of the effective interest rate of the individual transaction in the discounting of the expected future cash flows, unlike in the regulatory models, where the individual cash flows are discounted using the discounting rates determined in compliance with the prudential regulations.

In relation to the multi-period EAD, in line with IFRS 9 Intesa Sanpaolo refers to the plans at amortised cost for both loans and receivables and debt securities, regardless of the measurement method used (amortised cost or fair value through other comprehensive income). For loan commitments (margins), on the other hand, the EAD is assumed to be equal to the nominal amount weighted according to a specific Credit Conversion Factor (CCF).

The measurement of the financial assets also reflects the best estimate of the effects of current and future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the “risk” of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, Intesa Sanpaolo has decided to adopt the “Most likely scenario+Add-on” approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario (“Most Likely”, in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Bank’s Internal Research Department using forecasting models that are disclosed to the market to determine the consensus. Alternative upside and downside scenarios are determined through stress tests of the input variables of the forecasting models.

In particular, the most likely scenario and alternative scenarios are determined using a set of analytical and stand-alone forecasting instruments that determine the forecast path for several blocks of variables, namely:

- national accounts and inflation of the top 6 Eurozone countries, the United States and Japan;
- official rates (ECB, Fed, BoJ), EUR and USD swap rate curves, and several points of the government curves;
- exchange rates for EUR, USD, JPY and GBP;
- stock market indices (DJ Eurostoxx 50 and S&P 500);
- some specific data for the Italian economy (industrial production, real estate prices, employment, public finance balances).

These forecasts are then processed using the Oxford Economics multi-country structural Global Economic Model, where they replace the forecast paths of the baseline scenario provided by the company with the periodic updating of the database. The model is then solved to derive a consistent global forecasting framework, including variables for which no specific models have been developed, and to obtain a simulation environment that can be used to generate alternative scenarios. This step may require some iterations, particularly if the forecasting framework generated internally is significantly different from the one provided by Oxford Economics. If this is the case, further fine-tuning may be needed for specific secondary variables that the analysts consider to be inconsistent with the forecast scenario or that have an unexplainable quarterly volatility.

The alternative paths are selected using external information. In particular:

- average annual GDP growth rates of several countries: this is the key driver for the simulation and the deviations are determined to replicate the dispersion of the growth estimates published by Consensus Economics in the most recent report available at the date of the simulation, considering the minimum and maximum forecasts (after applying a filter to identify and eliminate possible outliers). If there are outliers, these are discarded and the remaining maximum and minimum values are considered. Since consensus estimates are only available for the first two years of the simulation period, an extrapolation of the deviations identified for the first two years is used for the third year;
- stock market indices (DJ Eurostoxx 50, S&P 500) and US residential real estate prices: the minimum and maximum forecasts of the Thomson Reuters panel are used as a reference;
- Italian residential real estate prices: since no consensus estimates are currently available, the alternative paths are based on the distribution of the historical quarterly changes available from 1980 to the current quarter.

The percentile value identified is used, for the most likely scenario, to determine the variations corresponding to a probability gap, calculated through statistical analysis of the historical distribution of the observations. The two (positive and negative) changes with respect to the most-likely scenario are then used to calculate the level of the individual identified indices, reconstructing the two alternative paths (one positive and one negative) for each of them that represent the input for the determination of the Add-On. The probability gap used is identified based on the variability characteristics of the series, to obtain a significant deviation from the most-likely scenario.



In addition to defining the alternative paths, a map of possible additional factors is maintained, i.e., adverse idiosyncratic events or scenarios (e.g., Brexit, etc.), not explicitly incorporated in the time series used for the construction of the most-likely scenario or in the alternative paths, which can generate further significant effects on expected losses.

The following is assessed for these events/scenarios:

- the possible time frame;
- the degree of inclusion in the most-likely scenario or the alternative paths;
- the potential impact, assessed in qualitative terms.

The map of additional factors also draws on the list of risk factors contained in the forecast reports of the IMF (World Economic Outlook) and the European Commission and may change over time.

Within the assessment of the time frame for the additional factors, note is made if the factor cannot be placed within a specific time period, which makes its incorporation into the most-likely scenario or alternative paths unfeasible.

The assessments made take account of the fact that the consensus estimates may include forecasts that already incorporate the total or partial realisation of one or more risk factors in their estimates, which means that the alternative paths may already incorporate these additional factors to some extent.

Where there is considerable uncertainty in the national and international macroeconomic forecasts, as well as significant deviations in terms of best-case forecasts with respect to the TTC scenario, prudential factors may be introduced in relation to the deviations in the minimum and maximum values of the variables based on the above-mentioned consensus or historical figures.

The above macroeconomic scenarios (most likely and alternative scenarios) are used in internal models to determine the point-in-time (PIT) parameters.

Specifically, the time series of default rates acquired from the Bank of Italy are differentiated over the main economic macro-sectors (e.g. consumer households, family businesses, construction) and, for each of these, specific satellite models establish the relationships with the macroeconomic variables in order to obtain the forecast default rates. In turn, these impact the TTC transition matrices between rating classes and thus provide the PIT transition matrices for each scenario (most likely and alternative scenarios). These give rise to the lifetime conditional PD.

In particular, the TTC matrices are calculated using internal default rates for the Corporate, Retail SME and Retail segments, whereas the Bank of Italy system rates are used for the Low Default segments, because the internal time series data for those segments is less extensive. The forward-looking point-in-time matrices, on the other hand, are calculated using the system default rates for all the segments.

A similar process is used to determine the PIT LGD grids.

Taking account of the repayment plans of the individual loans, their conditional PD and LGD, residual maturity and staging, the impairment of performing financial assets is determined.

#### *Impairment of non-performing financial assets*

Non-performing loans are represented by bad loans, unlikely to pay and past due positions by more than 90 days.

Non-performing loans classified as bad loans are subject to the following measurement methods:

- analytical-statistical measurement, which is used for exposures of less than 2 million euro and is based on the use of specific LGD grids, plus an Add-On to take account of information linked to the evolution of the current conditions related to management variables highly correlated with the loss performance and forward-looking information relating to the impact of expected future macroeconomic scenarios (as described in the previous paragraphs);
- analytical-specific measurement, which is used for customers with exposures exceeding 2 million euro and is based on the impairment percentages allocated by the manager, following specific analysis and measurements, also based on the evolution of the current conditions, plus an Add-On to take account of forward-looking information, and in particular information relating to the impact of future macroeconomic scenarios (except for bad loans backed by mortgage collateral or relating to property leases for which the impact of future scenarios is included through the method used to determine the haircuts to the value of the properties pledged as collateral).

The measurement of unlikely-to-pay loans (UTPs) is also performed based on different approaches:

- analytical-statistical measurement, for exposures of less than 2 million euro, based on the use of specific LGD grids, plus an Add-On to take account of the already mentioned information linked to the current conditions and the impacts of future macroeconomic scenarios, as well as continuation in the risk status, in order to penalise positions with greater vintage or which have no movements and/or recoveries for a particular period of time;
- analytical-specific measurement, for on-balance sheet exposures of more than 2 million euro, based on the impairment percentages allocated by the manager, following specific analyses and assessments also based on the evolution of the current conditions, plus an Add-On to take account, also in this case, of the impacts of future macroeconomic scenarios and of continuation in the risk status.

Regardless of the division of these exposures between those subject to analytical-statistical measurement and those subject to analytical-specific measurement (as identified above), the add-ons envisaged include the sales scenarios for the disposable non-performing loans if the business plan and the NPL reduction plan envisage sales and those sales have not yet been carried out. The valuation of the disposable non-performing loans therefore considers the possibility of also realising these loans through their sale.

Non-performing loans classified in the past-due loans category, on the other hand, are subject to analytical measurement based on statistics, regardless of the amount of the exposure. However, also in this case, the adjustment determined based on the LGD statistical grids is supplemented to take account of the Add-On attributable to the effect of the evolution of the current conditions and the future macroeconomic scenarios.

Credit exposures must continue to be carried as non-performing for at least three months after they cease to meet the requirements for being classified as such (the “probation period”). Until the conditions are met for reclassification out of the non-performing category, such exposures are retained in their respective risk classes and measured according to an analytical-statistical or an analytical-specific approach taking account of their lower risk level.

A brief description is provided below of the methods used for the analytical-specific and analytical-statistical measurement:

- the analytical-specific measurement of bad loans and unlikely-to-pay loans above 2 million euro is a measurement performed by the managers of the individual positions based on a qualitative and quantitative analysis of the borrower's financial position, the riskiness of the credit relationship, the targets and strategies for reduction of the non-performing loans set out in the “NPL Plan”, and any mitigating factors (collateral), taking into account the financial impact of the estimated recovery time.

For bad loans in particular, a series of elements are relevant, which differ according to the characteristics of the positions, and must be thoroughly and prudently assessed, including the following, listed merely as examples:

- o nature of the credit, whether preferential or unsecured;
- o net asset value of the borrowers/third party collateral providers;
- o complexity of existing or potential litigation and/or the underlying legal issues;
- o exposure of the borrowers to the banking system and other creditors;
- o last available financial statements;
- o legal status of the borrowers and any pending insolvency and/or individual proceedings.

In order to determine the estimated realisable value of loans secured by real estate, and to take into account both the time series of recoveries and the forward-looking information in accordance with IFRS 9, an approach is applied focused on the valuation of real estate based on the expected average auction price and the related reduction in the observed price, with the calculation of average haircuts that differ according to the type of real estate collateral (residential, commercial, industrial and land). Accordingly, to avoid duplications, a macroeconomic Add-On is not used in the analytical-specific measurement for bad mortgage loans, because the forward-looking component is already taken into account through the haircut.

For real-estate bad loans arising from lease contracts, in view of the particular nature of the product (lack of auctions), the haircut is estimated as the depreciation of the asset with respect to the appraised value observed at the time of classification as non-performing and the actual price of sale.

In addition, for unlikely-to-pay loans, the measurement is based on a qualitative and quantitative analysis of the borrower's financial position and on precise assessment of the risk situation.

The calculation of the impairment loss involves the valuation of the future cash flows that the borrower is considered to be able to generate and that will also be used to service the financial debt. This estimate must be made based on two alternative approaches:

- o the going concern approach: the operating cash flows of the borrower (or the beneficial owner) continue to be generated and are used to repay the financial debts contracted. The going concern assumption does not rule out the realisation of collateral, but only to the extent that this can take place without affecting the borrower's ability to generate future cash flows. The going concern approach is also used in cases where the recoverability of the exposure is based on the possible sale of assets by the borrower or on extraordinary transactions. Similarly to the case of bad loans, haircuts are also used in measuring real-estate collateral for unlikely-to-pay positions. For going-concern positions, these haircuts are determined on the basis of the haircuts applied in the liquidation process (gone-concern bad loan or UTP position), while applying a calibration factor equal to the probability of migration of the UTP positions to the bad loan category;
  - o the gone concern approach: applicable in cases when it is believed that the borrower's cash flows will cease. This is a scenario that can apply to positions that are expected to be classified as bad loans. In this context, assuming that shareholders' interventions and/or extraordinary operations to restructure debt in turnaround situations are not reasonably feasible, recovery of the credit is essentially based on the value of the collateral that secures the Bank's credit claim, net of the application of a haircut (determined as for bad loans) and, alternatively, on the realisable value of the assets, taking into account the liabilities and possible pre-emptive claims;
- the analytical-statistical measurement, performed for bad loans and unlikely-to-pay loans of less than 2 million euro and for past-due loans has specific features according to the type of exposure involved.

With regard to bad loans, the analytical-statistical measurement is based on the Bad Loan LGD grids, where the LGD Defaulted Asset model is mainly characterised by the differentiation of the loss rates that, in addition to the regulatory segment, is based on the continuation in the risk status (“vintage”) and the possible activation of legal recovery proceedings. The grids are also differentiated for the other significant analysis axes used in the model estimation (e.g. product type, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are mainly broken down by regulatory segment and by additional significant analysis axes used in the modelling (e.g. recovery procedures, exposure band, product type).

For unlikely-to-pay loans, the measurement is performed using statistical LGD grids estimated specifically for positions classified as unlikely-to-pay loans, in line with the estimated LGD grids for bad loans. The estimation model for the LGD grid for unlikely-to-pay loans is similar to the one described above for bad loans and calculates the expected loss rate of the relationship being valued according to its characteristics. The LGD for unlikely-to-pay loans is obtained by recalibrating the bad loan LGD using the Danger Rate module. The Danger Rate is a multiplying correction factor, used to recalibrate the bad loan LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events and their evolution.

In addition, for the two subclasses of the “Unlikely-to-Pay Loans” risk status (“Non-Forborne Unlikely-to-Pay Loans” and “Forborne Unlikely-to-Pay Loans”), differentiated grids are estimated to take into account the characteristics of the



Forborne loans, which, in addition to having lower average loss levels due to the effect of the Forbearance Measures, are also affected by the regulatory constraints that prevent their return to performing loan status before 12 months from the date of the renegotiation.

For past-due loans, the methods used to determine the grids are the same as those described for the unlikely-to-pay loans (Framework Danger Rate). In this case, the vintage factor is captured by the introduction of a differentiation based on the duration of the past-due period (Past Due at 90 days/180 days) which produces a significant variation in the loss rates of the grids, which are also differentiated according to regulatory segment and additional analysis axes (e.g. product type, type of guarantee, geographical area, exposure band, etc.) common to the other non-performing loan categories.

Also in the LGD estimation models used in the analytical-statistical measurement of non-performing exposures, several additional components specifically included for regulatory models were removed, similar to that illustrated for performing exposures.

With regard to the inclusion of current and forward looking information, it should be noted that, also in relation to non-performing exposures, in addition to a component linked to management variables applied by the manager for the analytical-specific measurements and based on a specific Add-On for analytical-statistical measurements, a component linked to the most-likely and downside scenarios expected over the period of the next three years has been considered, according to the criteria already described.

In fact, as required by IFRS 9, the effects of the forward-looking scenario on LGD estimates must also be considered using the above-mentioned component. As already stated, the forward-looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most-likely scenario. It is based on the methodological framework that is used for performing loans, but ignores the upside scenario from a prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

Also in terms of future scenarios, with regard to the unlikely to pay category, which includes positions that are still performing but show signs of difficulty, both for positions with analytical-specific measurement and those with analytical-statistical measurement, when there are no effective forbearance measures, an additional component shall be applied (in addition to the aforementioned add on from the macroeconomic scenario) to reduce the recoverable amount of the positions based on their vintage in the risk status and the absence of movements and/or recoveries in a specific period of time.

With regard to the alternative recovery scenarios, the Intesa Sanpaolo Group, in relation to the objectives of reducing the stock of outstanding non-performing loans, included in its business plans, and the commitments made to the Supervisory Authorities, with specific regard to the NPL Strategy, considers the sale of particular portfolios as the strategy that, in certain conditions, can maximise the cash flow recovery, also considering the recovery times.

In particular, in its "NPL Guidance" published in March 2017, the ECB requested banks with non-performing loans above the average of European banks to establish a strategy aimed at achieving a progressive reduction in those loans. In 2017, Intesa Sanpaolo submitted a plan to the ECB for the reduction of its non-performing loans, mainly focused on recovery through internal management.

Towards the end of 2017 – following the regulatory developments, with the publication, in October, of the draft Addendum to the NPL Guidance aimed at establishing minimum levels of prudential provisioning for non-performing loans, and the guidance provided by the Supervisory Authority to banks with above-average levels of non-performing exposures on the need to more effectively implement the process of reducing non-performing loans – Intesa Sanpaolo, in its 2018-2021 Business Plan, approved by the Board of Directors, identified significant de-risking as one of its key priorities, also by selling a portfolio of bad loans.

Consequently, the "ordinary" scenario, which assumes a recovery strategy based on the collection of credit, typically through legal actions, mandates to credit recovery companies and the realisation of mortgage collateral, has also been accompanied by the scenario of the sale of the loan as a strategy.

In compliance with the "NPL Guidance" the business strategies regarding NPL reduction are illustrated in the "NPL plan", a document approved by the Board of Directors to be sent to the Supervisory Authority and updated annually.

Where said document identifies disposal objectives and strategies and, as a result, a portfolio of non-performing loans that may be disposed of, until the disposal objectives are reached, the loans and receivables included in that portfolio shall be measured taking account of both the amount recoverable through operating activities and market valuations (based on external appraisals) and/or sales prices, if already defined.

Where the "NPL plan" specifically identifies the positions to be sold, those positions shall be measured exclusively taking account of the market values established by external experts, based on a specific fairness opinion or, if already defined through a binding agreement with the buyer, the sales price.

Where the "NPL plan" identifies a larger loan portfolio that may be sold represented by loans that are disposable (thus, for example, positions that are not involved in disputes, are not securitised or are not a portion of syndicated loans), in relation to the sales objectives, the book value of said portfolio is determined by weighting the amount recoverable through operating activities with the amount recoverable through sale.

In particular, the recoverable amount of disposable non-performing loans is quantified as the average between (i) the value in the event of sale (fair value) and (ii) the collection amount, weighted on the basis of the percentage of the loans eligible for sale that the Group expects to sell and the percentage that management expects to keep in the portfolio. The "collection amount" was determined according to the ordinary methods adopted by Intesa Sanpaolo for the impairment of non-performing loans, i.e. based on the individual measurement of the exposures exceeding a defined threshold and based on an analytical-statistical measurement for the others. The analytical-statistical measurement of the "below-threshold" exposures involves

grouping them into similar clusters of credit risk. As explained above, the measurement of the value in the event of sale is carried out by an external expert.

As already mentioned, the purchased or originated credit-impaired (POCI) financial assets have specific features in terms of impairment. As a result, value adjustments equal to the lifetime ECL must be recognised on these instruments from their initial recognition date and for their entire lifetime. At each subsequent reporting date, the amount of the lifetime ECL must therefore be adjusted, with the recognition through profit or loss of the amount of any change in lifetime expected credit losses as a gain or an impairment loss. In view of the above, POCI financial assets are initially recognised in stage 3, subject to the possibility of being subsequently transferred to the performing loans stage, even if an expected loss equal to the lifetime ECL will continue to be recognised.

Lastly, with regard to non-performing loans, it is highlighted that Intesa Sanpaolo uses the – full or partial – write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:

- a) uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
- b) disposal of the loan;
- c) waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
- d) no waiver of the credit claim. With regard to the full or partial write-offs without waiver of the credit claim, in order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value.
- e) Therefore, on a periodic basis, the Group identifies the bad loan portfolios to be subject to total or partial write-offs with the following macro-characteristics:
  - percentage cover of 100% and a vintage (understood as the period of time in “bad loan” status) of >1 year;
  - percentage cover of >95% and a vintage (understood as the period of time in “bad loan” status) of >5 years or >8 years, respectively, for non-mortgage and mortgage loans.

Portfolios to be written off can also be identified that have similar characteristics that are different from those indicated above, but that relate to exposures that have a marginal possibility of recovering the amount of the provision, where the minimum amount of the provision (calculated taking into account the accumulated write-offs on the position, according to the same rule established at prudential level by the calendar provisioning framework) is at least equal to the amount needed to bring the value of the exposures up to their fair value estimated based on the prices recorded in the latest sales of bad loans made by the Group.

#### *Impairment of equity investments*

At each balance sheet date the equity investments are subjected to an impairment test to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.

The process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative and quantitative indicators.

Qualitative indicators include:

- the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market;
- the announcement/initiation of insolvency proceedings or restructuring plans;
- the downgrading by more than two rating classes;
- failure to discharge payment obligations for debt securities issued fully and in a timely manner;
- use of industrial policy tools aimed at responding to a serious crisis or allowing companies to face restructuring/reorganisation processes.

Quantitative indicators include:

- a reduction in fair value of over 30% below the carrying value or for a period of over 24 months;
- a market capitalisation lower than the company's net book value, in the case of securities listed on active markets, a carrying value of the investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill, or distribution by the investee of a dividend that is higher than its total income.

The presence of impairment indicators results in the recognition of a write-down to the extent that the recoverable amount is lower than the recognition value.

The recoverable amount consists of the higher of the fair value net of sales costs and the value in use.

For an illustration of the valuation techniques used to determine fair value, see Section A.4 – Information on fair value.

Value in use is the present value of expected future cash flows from the asset; it reflects estimated expected future cash flows from the asset, the estimate of possible changes in the amount and/or timing of cash flows, time value of money, the price able to repay the risk of the asset and other factors, which may affect the appreciation by market participants of expected future cash flows from the asset.

Value in use is determined by discounting future cash flows.

For controlling investments in subsidiaries, the single equity investments are not individually significant for the purposes of the impairment test in the Parent Company's financial statements, instead they are included in the impairment test of the Cash-Generating Units (CGU) conducted at consolidated level. The CGUs identified are represented in some cases (Banca dei Territori and IMI Corporate & Investment Banking) by operations conducted directly by the Parent Company and some subsidiaries, in other cases (International Subsidiary Banks) by combinations of subsidiaries, and in other cases (Private

Banking and Asset Management) they correspond to the associated legal entity. When an equity investment does not produce cash flows that are largely independent of the cash flows from other assets the impairment tests are conducted at CGU level, rather than at the individual investment level. Consequently, when the assets attributable to a subsidiary are included in a CGU that is broader than the equity investment itself, as described in more detail in the following chapter, the impairment test can only be conducted at this level and not at the level of individual subsidiary for which the accurate estimation of a value in use is not possible.

#### *Impairment of non-financial assets*

Property, equipment and intangible assets with definite useful life are subject to impairment testing if there is the indication that the book value of the asset may no longer be recovered. The recoverable amount is determined with reference to the fair value of the property and equipment or intangible assets less costs to sell or the value in use, if determinable and if it is higher than fair value.

For property and equipment other than real estate and valuable art assets and intangible assets (other than those recognised following business combinations) it is assumed that the carrying amount normally corresponds to the value in use, since it is determined by a depreciation or amortisation process estimated on the basis of the effective contribution of the asset to the production process and since the determination of fair value is extremely subjective. The two values diverge and lead to impairment in case of damages, exit from the production process or other similar non-recurring circumstances.

As clarified in the discussion of "Property and equipment and intangible assets", Intesa Sanpaolo measures owner-occupied properties and valuable art assets according to the revaluation model; in this case, any impairment loss on a revalued asset must be treated as a decrease in the revaluation up to the relevant amount, after which any difference is taken to the income statement.

As described in Part A.4 Information on fair value - Fair value of real estate and valuable art assets, for owner-occupied properties each year a scenario analysis is conducted on trends in the real-estate market to assess whether there are any significant deviations in the value of the assets. If significant changes are identified (+ or - 10%), an updated appraisal is prepared to adjust the fair value of the asset to the valuations of the real estate market. If there are no significant differences, the value is redetermined through a new expert appraisal every two years for "trophy assets" (i.e. particularly prestigious properties used by management functions located in the main cities where the Bank is based or properties of particular historical and artistic interest because they are listed by the Ministry for Cultural Heritage and Activities) and every three years for other owner-occupied properties.

For the valuable art assets, the revaluation is carried out by means of a new expert appraisal every three years. However, a scenario analysis is carried out annually to identify any appreciable changes in value in order to bring forward the valuation. If the annual monitoring identifies a possible positive or negative value deviation of more than 15% for individual works of artists in the Bank's collections and comparable on the basis of objective criteria (size, technique, period of production, etc.), new appraisals are commissioned.

Intangible assets recognised following a business combination and in application of IFRS 3 are subjected to an impairment test at each reporting date to assess whether there is objective evidence that the asset may have been impaired.

Intangible assets with a finite life, represented by the value of the asset management portfolio and the value of the insurance portfolio, in the presence of impairment indicators are subjected to a new valuation process to assess the recoverability of the book values. The recoverable amount is determined on the basis of the value in use, namely the present value estimated using a rate representing the time value of money and the asset's specific risks, of the income margins generated by the existing relations as at the valuation date over a period which expresses their expected residual life.

Intangible assets with an indefinite life, represented by the valuation of the brand name and goodwill, do not have independent cash flows and therefore annually undergo an assessment of the adequacy of the value recorded under the assets with reference to the Cash-Generating Unit (CGU) to which the values are attributed at the time of the business combinations. As CGU identification requires an analysis of the management characteristics and reporting methods used by management, and as the logic for strategic decision-making by management of the Parent Company is that of the Group as a whole and not only that of the Parent Company as an individual entity, the CGUs are identified in the consolidated financial statements.

The CGUs identified are represented in some cases (Banca dei Territori and IMI Corporate & Investment Banking) by operations conducted directly by the Parent Company and some subsidiaries, in other cases (International Subsidiary Banks) by combinations of subsidiaries, and in other cases (Private Banking and Asset Management) they correspond to the associated legal entity. As stated, as these are the same CGUs identified at consolidated level, the assessment of the retention of goodwill and other assets with an indefinite life recorded in the Intesa Sanpaolo Group's financial statements is also valid with reference to the values recorded in the Parent Company's financial statements. Therefore, the assessment conducted at consolidated level with reference to the individual CGUs is used, after comparing the book value of the assets in the Parent Company's financial statements, without conducting, if the result is positive, a new test in the Parent Company's financial statements.

If, at consolidated financial statement level, an impairment loss needs to be recognised for a particular CGU, this write-down must be assigned to the assets that make up the CGU starting with goodwill. If the need to record an adjustment relates to a CGU that does not coincide with the associated legal entity, the write-down is assigned to the banking subsidiaries, after the elimination of the goodwill pertaining to the CGU recorded in the Parent Company's financial statements under a specific caption, on the basis of the respective fair values.

For a description of the criteria for the determination of the recoverable amount of the CGUs see the contents of Part A - Accounting policies, of the consolidated financial statements.

#### *Business combinations*

Business combinations are governed by IFRS 3.

The transfer of control over a company (or over a group of assets managed together as a single business) is considered a business combination.

To this end, control is deemed to have transferred when the investor is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns by exercising its power over the investee.

IFRS 3 requires that an acquirer be identified in any business combination. The acquirer is identified as the combining entity that obtains control of the other combining entities or businesses. If a controlling entity cannot be identified, following the definition of control described above, as for example in the case of exchange of equity investments, the identification of the acquirer must occur considering other factors such as: the entity which has a significantly higher fair value, the entity which pays a cash consideration, the entity which issues new shares.

The acquisition, and therefore the initial consolidation of the acquired entity, must be recognised in the books on the date in which the acquirer effectively obtains control over the acquired company or businesses. When the combination occurs via an exchange of voting ordinary equity instruments, the date of the exchange usually coincides with the date of the acquisition. However, it is always necessary to verify that there are no agreements which may lead to transfer of control prior to the date of the exchange.

The consideration transferred as part of a business combination is equal to the sum of the fair value, at the exchange date, of the transferred assets, the liabilities incurred or assumed and the equity instruments issued by the acquirer in return for control.

In transactions which entail cash consideration (or when payment occurs via cash-equivalent financial instruments), the purchase price is the agreed consideration. When settlement does not occur in the short-term, the fair value of any deferred component is calculated by discounting the amounts payable to their present value; when payment occurs via an instrument other than cash, therefore via the issue of financial instruments, the price is equal to the fair value of such instruments net of the costs directly attributable to their issue. For the determination of fair value of financial instruments, see Section A.4 – Information on fair value and note that, in the case of shares quoted on active markets, fair value is represented by Stock Exchange price at acquisition date or, should that not be available, the last price available.

Purchase price at acquisition date includes any adjustments to the cost contingent on future events, if provided for by the combination agreement and only if the adjustment is probable, can be measured reliably and realised within the twelve months subsequent to the date of acquisition of control. Instead, any restoration related to any loss in the value of the assets used as consideration is not included in purchase price since it is already considered either in the fair value of equity instruments or as a reduction in the premium or an increase in the discount on the initial issue of debt instruments.

Acquisition costs refer to the charges incurred by the acquirer to carry out the business combination, including, for example, professional fees paid to independent auditors, experts, legal advisors, costs for legal opinions and audit of accounts, preparation of information documents required by the law, as well as advisory fees sustained to identify potential acquisition targets if the contract provides for the payment of success fees as well as debt securities' or equities' registration and issue costs.

Acquisition costs must be recognised as charges when incurred and when the related services are provided, except for the costs relating to the issue of debt securities or equities which must be recognised in accordance with IAS 32.

Business combinations must be accounted for using the "acquisition method" whereby identifiable assets acquired (including any intangible assets which had not been previously recognised by the acquired company) or liabilities assumed (including contingent liabilities) are recognised at their fair value at acquisition date.

Moreover, as specifically required by IFRS 3, for each business combination, any minority interest in the acquired company can be recognised at fair value (therefore increasing the consideration transferred) or in proportion to the minority investment in the net identifiable assets of the acquired companies.

If control is achieved in stages, the acquirer recalculates its previous interest in the acquired company at the acquisition date fair value. Any difference with respect to the previous carrying value is taken to income statement.

Excess between the consideration transferred (being the fair value of transferred assets, liabilities incurred and equity instruments issued by the acquirer), increased, where present, by minority interests (determined as above) as well as the fair value of the stakes already held by the acquirer, and the fair value of acquired assets and liabilities should be recognised as goodwill. Conversely, such difference is taken to the income statement when the latter exceed the sum of the consideration, minority interests and the fair value of the stakes already held.

The accounting for business combination can be determined provisionally by the end of the year in which the combination is realised and must be completed within twelve months of the acquisition date.

The following are outside the scope of business combinations: transactions aimed at acquiring control over one or more entities which are not part of the company's business or transactions conducted for organisational purposes, therefore between two or more companies or businesses which are already part of the Intesa Sanpaolo Group, and which do not entail changes in control, independently of the extent of minority interests in each of the combining entities before and after the transactions (business combinations involving entities under common control). These transactions are considered immaterial. Therefore, since there are no specific provisions in IAS/IFRS and in compliance with IAS 8 which requires – in the absence of a specific Standard – that the reporting entity must use its judgement in applying an accounting policy that results in information that is relevant, reliable, prudent and that reflects the economic substance of the transaction, these are accounted for safeguarding the continuing values of the acquiree in the financial statements of the acquirer.

Mergers are examples of combinations between companies and represent the most complete business combinations, since they imply the legal and economic unification of the merged entities.

Mergers which entail the establishment of a new legal entity and mergers by incorporation (which entail that an entity is absorbed by another existing entity) are treated according to the criteria illustrated above, that is:

- if the transaction leads to the transfer of control of a company, it is accounted for as a business combination as provided for by IFRS 3;
- if the transaction does not lead to the transfer of control, it is accounted for by privileging the continuity of the values of the merged company.

### **A.3 – INFORMATION ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS**

Following the adoption of IFRS 9, the Intesa Sanpaolo Group did not make changes to its business model for managing its financial assets and, therefore, no transfers occurred between portfolios of financial assets.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. Such changes are expected to be extremely rare and must be decided by the management following significant external or internal changes that can be demonstrated to external parties.

#### *A.3.1 Reclassified financial assets: change in business model, book value and interest income*

No disclosure is required since there are no reclassified financial assets recognised under balance sheet assets.

#### *A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income*

No disclosure is required since no transfers were carried out between portfolios of financial assets in 2020.

#### *A.3.3 Reclassified financial assets: change in business model and effective interest rate*

No disclosure is required since there are no reclassified financial assets recognised under balance sheet assets.



## A.4 – INFORMATION ON FAIR VALUE

### FAIR VALUE, INDEPENDENT PRICE VERIFICATION AND PRUDENT VALUE OF FINANCIAL INSTRUMENTS

The framework of financial measurement at fair value is based on three pillars: fair value measurement according to the IFRS, independent price verification (IPV) and prudent value measurement. The latter are established by the CRR - Capital Requirement Regulation. The paragraphs below describe the methods the Bank applied to implement and use those elements.

#### General fair value principles

The Bank governs and defines the fair value measurement of financial instruments through the Group Guidelines for Valuation of Financial Instruments at Fair Value, drawn up by the Financial and Market Risks Head Office Department.

The “Guidelines for Valuation of Financial Instruments at Fair Value”, once a favourable opinion has been given by the Group Financial Risk Committee, are reviewed, revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The “Rules for Valuation of Financial Instruments at Fair Value” are reviewed and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

The “Rules for the Measurement of Unlisted Equity Investments”, drawn up by the Group M&A and Equity Investments Head Office Department, govern the fair value measurement of unlisted equities and financial instruments with unlisted equities as their underlying.

IFRS 13, which harmonises the measurement rules and the related disclosure, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single bank. Underlying the definition of fair value is the assumption that the Bank is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.

The bank measures the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible. Measurement at fair value presumes that the asset is sold or the liability transferred:

- a. in the principal active market for the asset or liability;
- b. in the absence of a major market, in the most advantageous active market for the asset or liability.

The bank is not required to conduct an exhaustive study of all possible markets to identify the major market or, in the absence of the major market, the most advantageous market, but must take into account all the reasonably available information. If there is no evidence to the contrary, the market that the entity normally operates in to sell the asset or transfer the liability is assumed to be the major market or the most advantageous market, if there is no major market. The Bank considers the principal market of a financial asset or liability to be the market in which the Bank generally operates.

In accordance with IFRS 13, the Bank considers an active market to be a market where transactions in an asset or liability occur with sufficient frequency and volume to provide useful information for determining price on an ongoing basis. More specifically, a financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In specific cases, governed by the Guidelines and Rules for Valuation of Financial Instruments at Fair Value, and despite being quoted on regulated markets, relevant research is carried out to verify the significance of the official market values. In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, widening or increase of the bid-ask spread, reduction or total lack of market for new issuances, limited publicly-available information), analyses of the transactions or of the quoted prices must be carried out. A reduction in the volume or the level of activity alone may not indicate that the price of a transaction or the quoted price does not represent fair value or that the transaction in that market is not ordinary. If an entity determines that a transaction price or quoted price does not represent fair value (e.g., non-ordinary transactions) an adjustment to the transaction prices or listed prices is required if the entity uses those prices as the basis for fair value measurement and that adjustment may be significant with respect to the fair value as a whole.



### General independent price verification principles

The Bank governs and defines the independent price verification process through the Group Guidelines and Rules on Independent Price Verification, documents that are coordinated by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries of the Banking Group.

The "Guidelines on Independent Price Verification", once a favourable opinion has been given by the Group Financial Risk Committee, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The level I and II "Rules on Independent Price Verification" are revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

According to the provisions of Regulation (EU) 575/2013 (Capital Requirement Regulation – CRR), Article 4, par. 1.70 and Article 105, par. 8, the Bank governs the Independent Price Verification (IPV) process, which consists of the regular verification of the accuracy and independence of market prices or the data input in pricing models, carried out by an organisational unit independent from the business functions, at a frequency commensurate with the trading carried out and the nature of the market.

The Bank has set up an IPV process with 3 levels of control in line with the provisions of Bank of Italy Circular 285/2013 (Supervisory regulations for banks), incorporated into the Integrated Internal Control System, which requires the risk management processes to be incorporated in the processes and methods for valuing the company activities, also for accounting purposes.

Within the IPV, the level I, II and III control functions have the following main responsibilities:

- the level I control function participates in the definition of the related methodological framework and carries out the level I implementations and controls, reporting the results to the business function and the level II control functions;
- the level II control function defines the methodological and control framework, ensures alignment with current regulations and consistency between the IPV controls, accounting valuations and additional valuation adjustments (AVA) (carried out, respectively, on the basis of the Guidelines and Rules for Valuation of Financial Instruments at Fair Value and the Guidelines and Rules for Prudent Valuation of Financial Instruments at Fair Value) and supervises the level I controls and performs the level II controls;
- the level III control function carries out internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and the IT system at Bank level, at scheduled deadlines in relation to the nature and intensity of the risks.

The level I and II IPV controls are qualitative and quantitative controls and are distinguished according to the type of instruments subject to control. They are applied consistently to both the input data underlying the valuations and the valuations themselves, and ensure consistency between the management valuations and the accounting valuations carried out in the various systems. They are characterised by completeness and suitability of application, absence of overlaps, sequentiality and complementarity in execution. The IPV control instruments use, as far as possible, specific applications or IT procedures, which enable extensive data analysis on a daily basis. In particular:

- the level I controls are aimed at ensuring the validation of the market data entered into the systems and are based on an in-depth analysis of the data obtained from external providers. If the level I controls detect that certain thresholds have been exceeded for the data contained in the systems, or the data is not considered correct by the level I control functions, a comparison process (challenge) is activated with the involvement of the business function and the level II control functions, in line with the degree of complexity of the report.
- Level II controls are characterized by sequentiality and complementarity in execution with the level I controls and are designed to ensure alignment between management and accounting valuations, based on an in-depth analysis of consensus or counterparty data and, where these are not available, through the application of pricing models associated with the respective instruments.

The results of the IPV process are analysed, assessed and coordinated by the Financial Measurements Working Group, a technical body set up specifically for this purpose, with the aim of facilitating integration and comparison between the business functions and the control functions.

### The fair value of financial instruments

The presence of quoted prices in an active market represents the best evidence of fair value and these prices are therefore the quoted prices to be used on a priority basis for the measurement of financial assets and liabilities. If there is no active market, the fair value is determined using valuation techniques aimed, ultimately, at establishing the price the product would have had, at the measurement date, in an arm's length exchange motivated by normal business considerations.

The choice of the above measurement methods is not optional, because they must be applied in hierarchical order: the availability of a price stated in an active market prevents the use of one of the other measurement approaches.

### Inputs of the valuation techniques

The inputs are defined as the assumptions that market operators would have used to determine the price of the asset or the liability, including assumptions regarding risk, such as, for example, the risk relating to a particular valuation technique used to measure fair value or the risk relating to the inputs of the valuation technique. The inputs may be observable or unobservable. Observable inputs are those produced using market data, such as publicly available information on operations or actual events, which reflect the assumptions that market operators would use in determining the price of the asset or the liability. Unobservable inputs are those for which no market information is available and that are produced using the best available information regarding the assumptions that market operators would use to determine the price of the asset or the liability.

### Fair value hierarchy

IFRS 13 establishes a fair value hierarchy in which inputs to fair value measurement techniques are divided into three levels. That hierarchy assigns top priority to (unadjusted) quoted prices on active markets for identical assets or liabilities (level 1 data) and the lowest priority to unobservable inputs (level 3 data). In particular:

- Fair value level 1 applies when an instrument is measured directly on the basis of (unadjusted) quoted prices on active markets for identical assets or liabilities to which the entity has access on the measurement date.
- Fair value level 2 applies when a price has not been found on an active market and the instrument is measured according to valuation techniques, on the basis of observable market parameters, or of the use of parameters that are not observable but are supported and confirmed by market evidence, such as prices, spreads or other inputs.
- Fair value level 3 applies when fair value is measured using various inputs, not all of which are directly drawn from observable market parameters, and which thus entail estimates and assumptions by the valuator.

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the valuation techniques rather than the valuation techniques themselves.

The attachment "Fair Value Hierarchy Rules" to the "Rules for Valuation of Financial Instruments at Fair Value" defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.

For level 1 financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the end of the reference period.

For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.

The following are considered as level 1 financial instruments: contributed bonds (i.e. bonds for which the Composite Bloomberg Bond Trader is available from the Information Provider Bloomberg, or, alternatively, a price on the EuroMTS circuit, or at least three prices available from the Information Provider Bloomberg), contributed equities (i.e., quoted on the official market of reference), contributed UCITS funds (covered by EU directives), spot exchange rates, derivatives for which prices are available on an active market (for example, exchange traded futures and options) and hedge funds whose Net Asset Value (NAV) is available, according to the frequency established in the subscription contract, and in which assets classified as level 1 predominate among the assets invested in by the fund, as a percentage of the NAV, provided the level 3 instruments do not exceed a set threshold.

Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Guidelines and Rules for Valuation of Financial Instruments at Fair Value are not considered level 1 instruments.

When no listing on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.

In the case of instruments classified as level 2, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretionary parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final measurement.

The following are measured using level 2 input models:

- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- loans whose fair value is determined through the use of an appropriate credit spread which is estimated starting from market data of financial instruments with similar characteristics;
- derivatives (including securitised derivatives) measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- structured credit products (ABSs, HY CLOs, CDOs, etc.) for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters that can be gathered from the market;
- non-contributed equity instruments measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, or using the "relative" valuation models based on multipliers;
- hedge funds in which Level 2 assets predominate, as a percentage of the NAV, provided the Level 3 instruments do not exceed a set threshold.

In case of instruments classified as level 3, the calculation of the fair value is based on valuation models which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator. In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:

- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured using this method:

- some transactions in derivatives, bonds, or complex structured credit instruments measured using level 3 inputs;
- hedge funds in which the level 3 assets are above a set limit;
- private equity funds, private debt funds, real estate funds and closed-end funds resulting from sales of non-performing loans valued at NAV, with possible discounts;
- shareholdings and other equities measured using models based on discounted cash flows or using equity methods;

- loans whose fair value is determined through the use of a credit spread that does not meet the criteria to be considered level 2;
- loans with underlying equity risk, whose fair value is calculated based on the discounting of expected contractual flows.

The transfer of fair value levels of financial assets and financial liabilities measured at fair value on a recurring basis occurs, as established by IFRS 13, as follows: the transfer between levels 2 and 3 occurs upon a change in the observability or significance of an input to the measurements; and the transfer between levels 1 and 2 or 3 occurs upon a change in the availability of prices in an active market.

For OTC derivatives, the initial choice of the level of fair value hierarchy depends on the degree of observability and significance of the parameters used to determine the risk-free component. The calculation of the counterparty/issuer default risk component may result in a transfer to level 3 when the current exposure is positive for the bank and the counterparty is in non-performing loan status, or when the determination of default risk requires unobservable inputs and the bilateral credit value adjustment (bCVA) component is significant when compared to the overall fair value of the netting set, or when the counterparty's sensitivity to downgrading is significant when compared to the overall fair value of the netting set.

For non-contributed equity instruments, the change of the level occurs:

- when inputs observable on the market (e.g., prices defined based on comparable transactions on the same instrument between independent and informed counterparties) have become available during the period. In this case, Intesa Sanpaolo reclassifies from level 3 to level 2;
- when the directly or indirectly observable elements used as the basis for the valuation cease to exist, or when they are no longer up to date (e.g., comparable transactions that are no longer recent or multiples that are no longer applicable). In this case, Intesa Sanpaolo uses valuation techniques that use unobservable inputs.

### Valuation of financial instruments

The valuation of financial instruments entails the following phases:

- identification of the sources for valuation: for each asset class, the Guidelines and Rules for Valuation of Financial Instruments at Fair Value establish the processes that are necessary to identify market parameters and the manner according to which such data must be extracted and used;
- validation and processing of input data for periodic valuation: this stage consists of the accurate verification, at each accounting measurement date, of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means;
- certification of the measurement methods: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the measurement models used and at determining any adjustments necessary for measurement;
- monitoring and revision of the measurement methods: the monitoring consists of the ongoing checking of the adherence to the market of the valuation model and enables the timely discovery of any gaps, in order to initiate the necessary checks and measures.

### Identification, certification and processing of the input data for the measurements

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of measurement techniques, highlight the need to establish univocal principles in the determination of market parameters. To this end, the Guidelines and Rules for Valuation of Financial Instruments at Fair Value establish the processes needed to identify the market parameters, the contribution sources considered appropriate and how the data must be received (cut-offs) and used for the measurement of financial instruments held for any purpose in the proprietary portfolios of the Parent Company and its subsidiaries. The same sources are used in measurements carried out for third parties under Service Level Agreements, entered into in advance. The adequacy of the input data for the measurements is guaranteed by the respect of reference requirements, which are based on comparability, availability and transparency of the data, or the possibility of extracting the figure from one or more info providing systems, measuring the contribution bid-ask, and lastly, for OTC products, verifying the comparability of the contribution sources.

The use of all market parameters in Intesa Sanpaolo is subordinated to their certification by the Financial and Market Risks Head Office Department, in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

### Certification of measurement methods

The measurement methods used by the Intesa Sanpaolo Group are certified by the Financial and Market Risks Head Office Department, with the involvement of all relevant structures. The purpose of the certification is to verify the consistency of the methods with current market practice, to highlight any problems or limitations, and to determine any fair value adjustments, in accordance with the applicable regulations. The certification process considers all aspects of the measurement method (basic assumptions, mathematical derivation, any approximations, numerical algorithms used, inputs and outputs) but also all contextual elements that are relevant to the management, including the characteristics of the associated products (payoffs, early termination clauses, etc.), any ancillary agreements (e.g. netting or collateral agreements), the market where the products are traded, and how they are used by end users (e.g. precision vs. performance, calculation of risk measures, etc.). These aspects are subject to qualitative and quantitative analysis and are duly reported in the internal documentation.

The possibility of independent validation issued by high standing financial service companies is also envisaged in highly-complex cases and/or in presence of market turbulence (market dislocation).

At the end of the certification process, the measurement method is recorded in the Rules for Valuation of Financial Instruments at Fair Value.

**Monitoring and review of measurement methods**

As required by the applicable regulations, the measurement methods used are subject to ongoing monitoring of their performance with respect to the evolution of financial instruments, markets and methodological innovations developed by the scientific community, in order to ensure their continuous alignment to the market, promptly highlight any inadequacies and initiate the necessary checks and actions. The Rules for Valuation of Financial Instruments at Fair Value detail all elements considered for the periodic monitoring and revision of the measurement methods. The functions involved in the monitoring process are the same as those involved in the process of certification of the measurement methods mentioned above and in the IPV process governed by the Guidelines and Rules on Independent Price Verification.

**Valuation risk: fair value adjustments**

The Bank defines valuation risk as the risk of losses arising from the valuation uncertainty for the fair value exit price of financial instruments, due to any limitations of the measurement techniques used or particular market conditions.

The main measure of the valuation risk associated with a financial instrument are the fair value adjustments, which are designed to take into account the valuation uncertainty or the difficulty in the disposal of specific financial positions, and may relate to a single financial instrument or to the net position for a particular risk factor. The adjustments may be calculated as add-ons to the valuation or included directly in the valuation. They are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in measurement methods chosen and their implementation.

In particular, the Bank envisages fair value adjustments for the following categories of valuation uncertainty.

- Uncertainty of input data: any valuation uncertainty related to the input data for the valuation (whether mid, bid or ask) is measured with respect to temporary or structural conditions on the markets or in relation to the size of the values held (in the case of concentration), and where necessary a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Illiquidity of the underlying positions or risk factors: similarly to the case above, the market bid-ask spread is measured and, where necessary, a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Model risk: this is based on the identification and use of variants of the same model or alternative models, with which to carry out comparison analyses aimed at quantifying the variability of the valuations (in particular any directionality of the price when the model changes) and the behaviour of the model in various market scenarios (stress tests). The quantification of the fair value adjustment is based, where possible, on easily comprehensible and measurable financial variables (e.g. vega, delta, correlation shift).
- Counterparty and funding risk: counterparty and funding risks, collectively referred to as XVA, include Bilateral Credit Value Adjustment (bCVA) and Funding Value Adjustment (FVA). The bCVA takes account of the counterparty risk premium associated with the possibility that the counterparties may not honour their mutual commitments (for example in the event of bankruptcy). This component derives, in turn, from two components: the Credit Value Adjustment (CVA, negative) and the Debt Value Adjustment (DVA, positive), which consider, respectively, the scenarios where the Counterparty goes bankrupt before the Bank (and the Bank has a positive exposure towards the Counterparty), and vice versa the scenarios where the Bank goes bankrupt before the Counterparty (and the Bank has a negative exposure towards the Counterparty). The Funding Value Adjustment (FVA, negative), on the other hand, takes into consideration the funding risk premium, connected to the costs of funding the cash flows (coupons, dividends, collateral, etc.) generated by the Bank's overall OTC derivatives portfolio. The calculation of the XVAs depends on the overall exposure between the two counterparties, calculated using techniques for simulating the underlying risk factors of the transactions considered, taking into account any counterparty risk mitigation arrangements (in particular netting and collateralisation agreements), as well as any contractual clauses. The calculation of the XVAs also depends on the Loss Given Defaults (LGDs) based on the estimated value of the expected recovery in the event of counterparty default, and the probability of counterparty default (PD). LGDs and PDs are obtained from credit default swap market quotes or are based on internal estimates by sector/rating used for credit risk. In addition, the FVA calculation is based on a funding curve representative of the best market counterparties that the Bank could renegotiate transactions with, in accordance with the most IFRS 13 advantageous market principle, as there is currently no real main market for these transactions.

The management process for fair value adjustments is formalised in the Guidelines and Rules for Valuation of Financial Instruments at Fair Value and the Rules for the valuation of unlisted equity investments with appropriate calculation methodologies on the basis of the different configurations of the points set out above, and is carried out in the most objective, consistent and systematic manner possible by the Financial and Market Risks Head Office Department. The introduction and release of the fair value adjustments depends on the factors described above. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided by the mitigation or elimination of said risks.

For new products, the decision to apply the adjustments is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.

The application of the adjustments is subject to an authorisation procedure that, above a certain warning threshold defined for specific cases, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.



#### A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products, hedge funds, and loans), on the valuation models used.

##### I. Valuation of non-contributed debt securities

The fair value of non-contributed bonds is measured using the income approach, i.e. by calculating the present value of expected future cash flows using an appropriate risk premium represented by the credit spread, identified on the basis of contributed and liquid financial instruments with similar characteristics. The sources used for this measurement are the following:

- contributed and liquid debt securities of the same issuer;
- credit default swaps on the same reference entity;
- contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

In any case, the different seniority of the security to be priced is considered with regard to the issuer's debt structure.

In the case of Italian public issuers, a rating/maturity matrix is defined on the basis of the spread levels on government issues, to which the spreads among the various rating/maturity classes with respect to public issues (regions, provinces, municipalities, government entities) are applied.

When applying the spread for the pricing of the non-contributed instrument, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.

Also, for bonds that are not quoted on active markets, an extra spread, estimated based on the bid/ask spread recorded on the market, is added to the "fair" credit spread component, to take account of the higher premium demanded by the market compared to similar contributed securities.

Finally, if the instrument includes an optional component, a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and any illiquidity of the underlying assets. This component is calculated based on the type of option, using the corresponding valuation models for derivatives mentioned below.

Similarly, Intesa Sanpaolo's credit spread for the Bank's financial liabilities designated at fair value is determined and measured based on the bonds issued by the Parent Company, with regular, periodic coupons, maturity beyond one year and quoted on an active market in compliance with IAS/IFRS. The implicit credit rating is determined on the basis of market prices and subsequently adjusted through interpolation models which generate credit spread curves by type of coupon, maturity and subordination level.

Similarly, the issued certificates are measured at fair value by breaking them down into the following two components: an issued bond, measured as described above, and an option component, measured using the corresponding derivative pricing models described below.

##### II. Valuation of loans

Loans are measured at fair value through contributions from info providers when available or by calculating the present value of expected future cash flows using an appropriate credit spread, identified starting from the following sources:

- contributed loans on the market;
- sector/rating-specific loan market curves;
- contributed securities of the same issuer;
- credit default swaps on the same reference entity.

In any case, the different seniority of the instrument to be priced is considered with regard to the issuer's debt structure.

When applying the spread for the pricing of the loan, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.

Moreover, where, in determining the credit spread of the loans, reference is made to the curves created through bonds, a Bond – Loan basis must be applied, to capture the different structure of the market, if any, and the different type of loan.

In order to consider the premium required by the market for illiquid and/or structured instruments, several adjustments are applied to the credit spread.

Loans with an underlying unlisted equity risk (which include financial instruments that, pursuant to IAS 32, cannot be classed as equity, e.g. loans convertible into shares) are usually measured by discounting the cash flows provided for by the contract. Since these are debt securities, the cash flows are normally discounted using a rate consisting of the sum of: a risk free rate, a spread deriving from the CDS or measured on listed securities or similar disbursements, and any additional risk premium.

In the case of non-performing loans, the fair value is determined based on the recoverable amount of the position. This estimate is made taking into account the contractual elements that characterise the loan and may involve, for example, the valuation of the cash flows from the sale of the real estate pledged as collateral or the valuation of any capital instruments that may be acquired following the introduction of an equity conversion clause for the position.

##### III. Valuation of OTC derivatives

Derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are measured through specific measurement methods and input parameters (such as, for example, interest rate, foreign exchange and volatility curves) observed on the market and subject to the certification monitoring illustrated above.

The fair value of an OTC derivative is calculated considering the risk premium related to the various underlying risk factors. Specifically, there are two relevant cases, according to whether or not the instrument is subject to collateralisation agreements (CSAs) aimed at mitigating the counterparty and funding risk.

- a. For CSA transactions with characteristics that reduce counterparty and funding risk to a negligible level, the fair value is calculated according to the non-arbitrage principle, by including the market risk premium related to the

risk factors underlying the contract (e.g. interest rates, volatility, etc.), and, in the most significant cases, using the rate of remuneration for the collateral as the discount rate for the future cash flows.

- b. For transactions without CSAs, or with CSAs with characteristics that do not reduce the counterparty and funding risk to a negligible level (e.g., One Way CSAs, or with non-negligible limits or minimum transfer amounts), the fair value of the instrument may be stated, under appropriate circumstances, as the sum of the reference (or base) value, equal to the price of the corresponding collateralised instrument, and several additional valuation components related to the counterparty and funding risk premium, referred to jointly as XVA (see "Measurement risk: fair value adjustments").

In view of the number and complexity of the OTC derivatives, a systematic reference framework has been developed which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used for their measurement.

The table below illustrates the main methods used to measure OTC derivatives based on the category of underlying asset.

Underlying class	Valuation models	Market data and input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, Hull-White, Bivariate log-normal, Rendistato, Hagan exact formula for CMS	Interest rate curves (deposits, FRA, Futures, OIS, swap, basis swap, CMS, Rendistato basket), cap/floor/swaption option volatility, correlation between interest rates
Foreign exchange rate	Net present Value FX, Garman-Kohlhagen, Lognormal with Uncertain Volatility (LMUV), Stochastic Local Volatility (SLV), Local Volatility (LV)	Interest rate curves, spot and forward FX curves, FX volatility, "quanto" volatility and correlations
Equity	Accrual, Net present Value Equity, Generalised Black-Scholes, Heston, Local Volatility, Jump Diffusion	Interest rate curves, underlying asset spot rate, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Inflation	Inflation NPV, Inflation SABR, Inflation Jarrow-Yildirim	Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between inflation rates
Commodity	Net present Value Commodity, Generalised Black-Scholes, Independent Forward, Local Volatility, 2-Factors Jump Diffusion	Interest rate curves, spot rate, forwards and futures of underlying assets, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Loans	Net present Value, CDS Option (or log-normal model), Contingent CDS	Probability of default, Recovery rate, credit index volatility.

As envisaged by IFRS 13, in determining fair value, the Bank also takes into account the effect of non-performance risk. This risk includes changes in the counterparty credit rating and changes in the issuer's own credit risk.

#### IV. Valuation model for structured credit products

With regard to asset-backed securities (ABSs), if significant prices are not available, valuation techniques are used that take into account parameters that can be gathered from an active market (level 2 inputs) or, where parameters cannot be observed, estimated parameters (level 3 inputs, where significant).

In this case, the cash flows are obtained from infoproviders or specialised platforms; the spreads are gathered from prices available on the market/market info provider, further strengthened by a qualitative analysis relative to the performance of the underlying assets presumed from periodic investor reports and aimed at highlighting structural aspects that are not (or not fully) encompassed by the analyses described above, relating to the actual future ability to pay the expected cash flows and analyses of relative value with respect to other similar structures.

In the case of securitised high-yield loans to European corporate borrowers (CLO HY loans), valuation techniques call for calculation of the net present value of the expected cash flows, determined through specialised platforms, discounted using market spreads. When modelling expected future flows, account is taken of all contractual aspects of the HY CLO loans that may influence the waterfall, i.e. the distribution of cash flows from the collateral on the notes.

After this valuation, credit analyses on underlying assets are fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the HY CLO and to the collateral present. This is to identify any present or future weaknesses which emerge from the characteristics of the underlying assets, which could have been missed by rating agencies and as such not fully considered in the valuations described in the previous point.



#### V. Valuation of non-contributed equities

Level 2 equities include:

- equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions;
- equities measured using relative methods, based on multipliers: implied multiples in transactions in comparable listed or unlisted companies, within a time frame deemed sufficiently short with respect to the time of measurement and under constant market conditions (M&A multiples) or implicit multiples in the stock market prices of a sample of comparable companies (stock market multiples).

Level 3 equities for which the “relative” models described above are not applicable in significant terms, and, therefore, “absolute” valuation models are used, include:

- equities for which analytical models based on flows are used, which determine the value through estimates of the cash or income flows that the company is expected to generate over time, discounted using an appropriate rate based on the level of risk of the instrument;
- equities measured based on asset criteria such as NAV or Adjusted Net Asset Value (ANAV), which estimates the fair value of the various components of the assets of the investee.

Any values deemed representative of the fair value of the equity instrument deriving from contractual clauses (for example, options) are classified in level 2 or 3 of the fair value hierarchy, according to the observability of the inputs used in the valuation. Specifically, if the negotiation of the clause resulted in strike prices or pre-defined algorithms and multiples, the instrument is classified in level 2.

The cost criterion as estimate of fair value is used to a lesser extent, where none of the previous methods are applicable due to lack of sufficient information, and in the cases where there is a wide range of possible fair value measurements and it is not possible to identify the most appropriate value among these.

This case also includes Equity Instruments which, in accordance with IAS 32, have the characteristics to be considered as equities.

#### VI. The valuation of hedge funds

The determination of the fair value of a hedge fund is the result of an analytical process that involves two distinct approaches applied respectively to investments in funds made through the direct purchase of units and to funds managed through a Managed Account Platform (MAP), which ensures daily transparency of the instruments underlying the funds.

For the funds not managed via a MAP, the fair value corresponds to the Net Asset Value (NAV) provided by the fund administrator, to which an adjustment can be applied, deriving from a measurement process aimed at capturing the main risk factors that the management of the funds is subject to, which consist of the following two types:

- counterparty (broker) risk, i.e. the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custodian activities, subject to the risk of default;
- illiquidity risk, i.e. the risk that the assets of the fund are illiquid due to the limited prices available or due to a lack of information on the assessment policies used by the fund.

These risks are assessed on the basis of the information contained in the documentation received periodically from the fund managers or administrators.

For the funds managed via a MAP, the Fair Value corresponds to the NAV provided by the fund administrator. For this type of fund, no adjustment is applied because it is considered that the infrastructure that guarantees the daily transparency enables sufficient control and monitoring of the underlying instruments to mitigate counterparty and illiquidity risk.

For both types of investment, the fair value hierarchy level is assigned based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

#### VII. The valuation of private debt funds

For Private Debt AIFs funds (Alternative Investment Funds), the investment authorisation process involves an initial due diligence to verify the consistency between each fund's asset valuation policy and the Guidelines and Rules for Valuation of Financial Instruments at Fair Value. The fund is subsequently valued at NAV.

#### VIII. Valuation of closed-end private equity funds, real estate funds and closed-end funds resulting from sales of non-performing loans

Closed-end private equity funds are usually valued using the latest Net Asset Value approved by the asset management company (published half yearly or quarterly), adjusted solely to take into account events that have not yet occurred at the reference date of the NAV, such as:

- a material transaction on a portfolio company;
- the bankruptcy or liquidation of a portfolio company;
- the alignment of any listed assets to current prices;
- call ups and distributions by the fund.

Closed-end real estate funds are valued using the last available Net Asset Value, adjusted for any subsequent call ups or distributions and, where considered necessary, applying a discount calculated using an internal model. Specifically, this model enables the calculation of a discount on the Net Asset Value based on five different variables: (i) the size of the asset management company that manages the fund; (ii) the number of subscribers; (iii) the fund's historical return; (iv) the fund's return for the period; and (v) the level of debt. These variables are calibrated differently based on the business model and the fund's resulting risk profile, distinguishing between core, value added and opportunistic funds.

For closed-end funds resulting from sales of non-performing loans, the NAV is only considered to be the fair value after having been specifically checked by analysing the methods and parameters adopted by the asset management company to assess its adequacy with respect to the provisions of IFRS 13. If this analysis cannot be performed, an independent fair value measurement is carried out on the assets underlying the fund (the look through approach), based on information about the expected recovery prospects for the loans and using a discount rate that considers the market parameters and the expected return for a potential third party investor.

In the absence of the information needed to perform the measurements referred to above, the fair value of the fund is calculated by making adjustments to the NAV by applying discount parameters determined based on stock market multiples and transaction multiples for funds that are considered comparable to the fund being measured in terms of structure, size, type and investment strategy.

#### Valuation of financial assets and liabilities not measured at fair value on a recurring basis

Finally, for asset and liability financial instruments measured at amortised cost, whose fair value is determined solely for the purposes of disclosure in the notes to the financial statements, the following is noted:

- the fair value of the bonds is calculated using the methods described above;
- the fair value measurement of the other medium- and long-term asset and liability financial instruments is performed by discounting future cash flows using the discount rate adjustment approach, which requires credit risk factors to be taken into account in the discount rate for future cash flows;
- for short-term assets and liabilities, the book value is assumed to be a reasonable approximation of fair value.

For more information see paragraph A.4.5.4.

As required by IFRS 13, the table below highlights, for financial assets and liabilities measured at level 3 fair value, quantitative information on the significant, unobservable inputs used in the fair value measurement.

Financial assets/ liabilities	Valuation technique	Main non-observable input	Minimum value of range of changes	Maximum value of range of changes	Unit	(thousands of euro)	
						Favourable changes in FV	Unfavourable changes in FV
Securities and Loans	Discounting Cash Flows	Credit Spread	-7	4	%	5,394	-2,913
Structured securities and loans	JD model	JD parameters	6	-7	%	32	-272
Structured securities and loans	Two-factor model	Correlation	-23	14	%	466	-225
ABSs	Discounting Cash Flows	Credit Spread	-5	5	%	6,363	-5,917
ABSs	Discounting Cash Flows	Recovery rate	-25	10	%	-5,360	2,144
CLOs Cash	Discounting Cash Flows	Credit Spread	-7	9	%	2,602	-3,316
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Loss Given Default Rate (LGD)	0	100	%	2,791	-4,374
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Probability of default (PD) based on counterparty's internal rating	CCC	BBB	Internal rating	96	-87
OTC Derivatives - Equity basket option	Black - Scholes model	Equity basket correlation	76.77	93.64	%	29	-25
OTC Derivatives - Equity Option	Black - Scholes model	Historical volatility	8.15	82.83	%	5,276	-3,094
OTC Derivatives - Equity Option	Marshall Olkin Model	Historical correlation	-4.23	73.37	%	413	-271
OTC Derivatives - Spread option on swap rates	Bivariate log-normal model	Correlation between swap rates	-78.80	69.38	%	276	-390

#### A.4.2 Valuation processes and sensitivity

For a description of the valuation processes used by the Group for instruments measured at level 3 in a recurring and non-recurring manner, see paragraphs A.4.1 and A.4.5 respectively.

For financial assets and liabilities measured at level 3, for which their sensitivity analysis can be performed, in view of the measurement model used, the table below (as required by IFRS 13) details the effects of a change in one or more non-observable parameters used in the valuation techniques adopted to determine the fair value.

Financial assets/liabilities	Non-observable parameters	Sensitivity (thousands of euro)	Change in non-observable parameter
FVTPL and FVTOCI securities and loans	Credit spread	-249	1 bp
FVTPL and FVTOCI securities and loans	JD parameters	-73	1%
FVTPL and FVTOCI securities and loans	Correlation	-34	1%
FVTPL and FVTOCI securities	Recovery rate	-214	-1%

#### A.4.3. Fair value hierarchy (transfers between the different levels)

A description of the policy for determining when transfers occur between the different levels of fair value hierarchy (see IFRS 13, par. 95) is provided above (see "Fair value hierarchy").

#### A.4.4. Other information

In calculating the bCVA, the Bank considers the net positions in derivatives of each counterparty (see paragraph A.4.1 above for further details on the measurement of derivatives). For other cases, the Bank does not make use of the option provided in paragraph 48 of IFRS 13, which permits an entity "to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions".

#### General prudent value principles

The framework of financial measurements is completed with the prudent valuation of financial instruments measured at fair value, which involves the calculation of additional valuation adjustments for prudential purposes, without impacts on the fair value calculated for accounting purposes in accordance with the IFRS.

The Bank governs and defines the prudent value measurement of financial instruments through the Group Guidelines and Rules for Prudent Valuation of Financial Instruments at Fair Value, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all the consolidated subsidiaries of the Banking Group.

The "Guidelines on Prudent Valuation of Financial Instruments", once a favourable opinion has been given by the Group Financial Risk Committee, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The "Rules for Prudent Valuation of Financial Instruments" are revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

In accordance with the provisions of Regulation (EU) 575/2013 (Capital Requirement Regulation – CRR), prudent valuation entails the calculation of specific additional valuation adjustments (AVAs) for the financial instruments measured at fair value, aimed at capturing different sources of valuation uncertainty and ensuring the achievement of a suitable level of certainty in the measurement of the positions. The total value of the AVAs is deducted from the Common Equity Tier 1 capital, without impacts on accounting fair values.

The Bank, in line with criteria indicated in Delegated Regulation (EU) 2016/101, is subject to the application of the core approach for the determination of AVAs both at individual and at consolidated level for all the positions measured at fair value. In particular the following AVAs are considered:

- Market price uncertainty: this reflects the uncertainty of the market prices, calculated at valuation exposure level.
- Close-out costs: it reflects the uncertainty of the exit price calculated at valuation exposure level.
- Model risks: it considers the valuation model risk which arises due to the potential existence of a range of different models or model calibrations, which are used by market participants, and the lack of a firm exit price for the specific product being valued.
- Unearned credit spreads: it reflects the valuation uncertainty in the adjustment necessary according to the applicable accounting framework to include the current value of expected losses due to counterparty default on derivative positions.
- Investment and funding costs: it represents the valuation uncertainty in the funding costs used when assessing the exit price according to the applicable accounting framework.
- Concentrated positions: it reflects the uncertainty relating to the exit price of the positions defined as concentrated.
- Future administrative costs: it considers administrative costs and future hedging costs over the expected life of the valuation exposures for which a direct exit price is not applied for the close-out costs AVAs for concentrated positions.
- Early termination: it considers the potential losses arising from non-contractual early terminations of customer trades.
- Operational risks: it considers the potential losses which may be incurred consequently to the operational risks connected to the valuation processes.

The prudent value corresponds to the exit price from the position with a level of certainty equal to 90%. Where possible, this value is determined on the basis of a distribution of exit prices observed on the market. In all the other cases, an expert-based approach is used, referring to the qualitative and quantitative information available.

The AVA value associated to the single position and to the single source of uncertainty in valuation thus corresponds to the difference between the prudent value and the fair value. The total AVA is obtained by aggregating the single AVAs, taking into account the corresponding weighting ratios.

The “Rules for Prudent Valuation of Financial Instruments” outline, for each AVA, the definition and interpretation, the scope of application, the input data and the detailed calculation method for each class of financial instrument.

From 30 June 2020 to 31 December 2020, the Bank has applied an AVAs aggregation factor of 66% as established by Commission Delegated Regulation (EU) 866/2020, published in the Official Journal on 25 June 2020, in order to better manage the extreme volatility of market prices and the systemic shock connected to the COVID-19 pandemic.

## FAIR VALUE OF REAL ESTATE AND VALUABLE ART ASSETS

### Fair value of real estate assets

As extensively illustrated in the first part regarding the accounting policies, the Group has adopted the revaluation model as the basis of measurement for the owner-occupied properties accounted for according to IAS 16 and fair value for the investment properties accounted for according to IAS 40.

#### *Measurement of real estate assets*

The revaluation model applied to owner-occupied properties envisages that property and equipment, whose fair value can be reliably determined, is recorded at a revalued amount, equal to its fair value at the date of the revaluation, net of depreciation and any accumulated impairment losses.

For the properties held for investment, the Intesa Sanpaolo Group has chosen the fair value method, according to which, after initial recognition, all investment properties are measured at fair value.

#### *Valuation approach*

IFRS 13 defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.

The valuation approach has been defined on the basis of the business relevance and plan for the use of the properties, which consists of three main groups:

- “trophy assets”, i.e. particularly prestigious properties used by management functions located in the main cities where the Bank is based or properties of particular historical and artistic interest because they are listed by the Ministry for Cultural Heritage and Activities;
- “owner-occupied properties”;
- “investment properties”.

The properties are valued individually asset-by-asset without considering any discount, or premium, that may be agreed during commercial negotiations if all or part of the portfolio is sold in bulk or in lots.

The Intesa Sanpaolo Group has chosen to assign the valuation activity to professionally qualified external companies with an international structure, able to provide property valuations based on the RICS Valuation standards<sup>6</sup> which guarantee:

- determination of the value consistent with the fair value configuration indicated in the IAS/IFRS;
- compliance with the professional, ethical and independence requirements for experts, in line with the provisions of international and European standards.

To determine the value of the assets, the following valuation methods are used based on the characteristics of the asset and the conditions of the market of reference; the valuer determines the most suitable method for each individual property.

- The Discounted Cash Flow Method: the discounted cash flow method is based on the discounting (for a variable period based on the rental/occupational situation of the property and its subsequent optimisation) of the future net proceeds from the rental or sale of the property. At the end of this period, the value of the property is assumed to be the sale price obtained by capitalising the income of the last year at a market rate for investments similar to the object of the estimate or through a split sale. This method is used for the valuation of all the owner-occupied properties or real estate leased to third parties, located in Italy.
- Comparative or Market Method: the comparative or market method is based on the comparison between the assets examined and similar assets recently sold/purchased or offered on the same market or in competitive environments. This criterion is based on a comparison with properties that have recently been sold or offered on the open market and, if possible, have the same characteristics. In the absence of observations directly related to the property examined, cases are used that are as similar as possible to the property examined, making the necessary adjustments. This method, which also represents the basis for other valuation methods, can be adopted in particular for non-owner-occupied assets and/or, in any case, for unrestricted and available assets in Italy and abroad.
- Direct capitalisation income approach: the income approach is based on the current value of the potential market income of a property, obtained by capitalising the income at a market rate. This approach is applied mainly to owner-occupied properties abroad, where a prolonged stay within the building is envisaged.
- Investment Value (Worth): the Investment Value (Worth) is defined by the IVS as “the value of an asset to a particular owner or prospective owner for individual investment or operational objectives”. This definition is consistent with the provisions of the latest edition of the “RICS Valuation - Global Standards 2017” of the Royal Institution of Chartered Surveyors of the United Kingdom, where the Investment Value is defined as “the value of an asset to the owner or a prospective owner for individual investment or operational objectives”.

The Investment Value is applicable to properties built by the entity or properties with a strong business relevance subject to significant investments for technological, construction and functional adaptation.

<sup>6</sup> Standards set out in the Royal Institution of Chartered Surveyors of the United Kingdom document “RICS Valuation – Global Standard 2017” (also known as the “Red Book”).

The Investment Value of these properties is determined on the basis of a 12+6 year plan for business use without break options, whose annual rent is determined by applying an appropriate gross rate of return to the amount of direct and indirect costs capitalised by the Owner, including the costs of purchasing the land.

#### *Frequency of valuation*

Revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

The frequency of revaluations depends upon the changes in fair values of the property and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

Specifically, based on the market trends, different valuation frequencies have been identified that, according to the characteristics of the assets and their location, are considered capable of capturing the significant changes in the value of the assets.

The following distinction is made for owner-occupied properties:

- for trophy assets, the revaluation is carried out by verifying the value through a scenario analysis (market trend analysis) every year and with a new appraisal every two years;
- for the other owner-occupied properties, the revaluation is carried out through scenario analysis (market trend analysis) every year and through a new appraisal every three years.

If the scenario analysis identifies significant changes (+/- 10%), specific and updated appraisals must be carried out to adjust the fair value of the asset to the valuations of the real estate market.

For investment properties, the value is determined on the basis of new appraisals each year.

In accordance with the rules on valuation frequencies, at the end of 2020, following the completion of the first three-year fair value measurement cycle, the appraisals were updated for all the owner-occupied properties other than trophy assets.

A total of 1,926 appraisals were carried out, of which 869 were full/on site appraisals based on a physical inspection of the property by the appraiser for the most significant property units and 1,057 desktop appraisals based on a valuation carried out without a physical inspection for the other property units.

#### *Scenario analysis*

As part of the annual update of the fair value of the owner-occupied properties, in the years when a revaluation of the property is not envisaged, a scenario analysis (market trend analysis) is carried out using the best information sources available for the various countries in which the properties are located, in order to identify deviations, using databases, in the market values between the analysis period and the previous period.

In particular, for real estate located in Italy, the changes are defined using at least 3 different sources. The main source is that provided by the Italian Revenue Agency, based on the specific OMI (Real Estate Market Monitor) zones. The second publication source is Nomisma for which, for the related zoning, the same queries are conducted as those for the OMI (main database). Lastly, the third source is based on the analyses of the changes during the year of reference in terms of the offers present on the real estate market.

Accordingly, the experts identify the annual deviations in rents and/or prices by related asset class for each property.

Real estate located abroad is grouped, for each country, into different clusters based on location and asset class. Specific market analyses are conducted based on local and national knowledge of the particular target real estate market.

The market study also takes account of the following macroeconomic drivers:

- analysis of economic data (unemployment rate, GDP per capita, inflation and consumer price index); these macroeconomic factors constitute the first economic analysis, supporting the real estate market forecasts;
- movement in average yield;
- movement in market rents;
- range of movement in unit values.

The above-mentioned market survey, together with a qualitative weighting of the macroeconomic key drivers is used to determine a range of percentage deviation from the last assessment carried out, which is compared with the target threshold set, identifying a synthetic percentage factor for each individual property, included in a single worksheet.

This activity is carried out close to the end of the year in order to produce a range of deviations that can be included within a threshold and to enable the timely planning, on the basis of those thresholds, of the updating of the specific appraisals for the properties whose deviation exceeds the threshold.

The permitted variation threshold is +/-10%

If the deviations identified exceed this threshold, a new valuation will be carried out before the end of the year.

The properties classified as trophy assets in the real estate portfolio, as required by the rules on valuation frequencies (in this case every 2 years), were subject to full valuation at the end of 2019 and, therefore, were subject to scenario analysis for the current financial year. The results of these valuations did not identify any properties that had variations above the limit set.

#### *Sensitivity of valuations*

Just as for financial instruments, level 3 non-financial assets and liabilities measured at fair value for which, due to the valuation model used to determine the fair value, execution is possible, and whose results are significant, are subject to sensitivity analysis. The analysis essentially concerned the properties of the Parent Company Intesa Sanpaolo and the UBI Group, which represent the Core perimeter of the Group's real estate assets.

It is noted that the sensitivity analysis was conducted by identifying the most important variables in the valuation model used as at 31 December 2020 to value the various classes of real estate, represented by the discounted cash flow method. In particular, reference was made to market rents for owner-occupied properties, and to the exit value for investment properties. For the variables identified above, a change equal to +5%/-5% was assumed, in relation to which an average deviation of the fair value of real estate of slightly more than 6% was recorded in both hypothetical scenarios.



### Fair value of valuable art assets

The bank's valuable art assets are also valued using the revaluation model, which envisages that property and equipment, whose fair value can be reliably determined, is recorded at a revalued amount, equal to its fair value at the date of the revaluation.

Works of art included in the asset class "valuable art assets" are works of particular importance, recognised for their historic and artistic value by experts and in line with the ministerial guidelines, and particularly those set out in Ministerial Decree 537 of 6 December 2017 on the exportation of works of art, such as: the state of preservation, the historical importance of the artist, the importance of the work in terms of art criticism/history, illustrious origin, certain quality and attribution and the declaration of interest by the Italian government.

#### Valuation approach

The valuation is carried out by determining the value through external appraisals, entrusted to qualified independent experts. These values are obtained from online databases such as Artnet and Artprice, which list over 100 million works of art and monitor the results of leading Italian and international auction houses. These are objective parameters that are compared with the market as a whole, in an analysis that also involves monitoring galleries and art fairs.

In particular, the factors considered for the fair value measurement include objective factors relating to the historical-critical-artistic value of the author, state of preservation, execution technique, size and quality of the artwork, importance of the artwork in the production by the artist, publication of the artwork in specialist catalogues, period of execution of the artwork, international exposure of the artworks by the artist, distinguished provenance, certainty of attribution, guarantee of authenticity of an artwork, as well as other factors (which may change over time, depending on the evolution and tastes of the market), such as the reputation of the museum hosting the artwork by the artist, the prestige of fairs/exhibitions/galleries/auction houses that handle the artwork, the reputation of its critics and collectors, and the quality of the communications concerning the artist's work.

Once these factors have been identified, the fair value is determined comparing them firstly with artworks similar to those examined (in terms of period of production/year, technique, size, type of subject and state of preservation), by the same artist and from the same period, if available (this is more feasible for modern and contemporary works) and, secondly, with works by artists or schools and areas that are close in style, philosophy and importance in the same historical period. Where several similar artworks are available, average values are used to take account of price volatility.

In addition to considering the trends in auction trading, starting from the most recent trading and also including unsold items in the analysis (which are a possible indicator of the loss of market value for the artwork/artist), the valuation also considers the current market interest in an artwork or an artist, measured by the number and quality of temporary exhibitions held in internationally important museum spaces and accompanied by specific publications.

The valuations also take into account any declarations of historical-artistic interest formally expressed by the Italian Ministry of Cultural Heritage and Activities (commonly referred to as "notifications"), which tie part of the artworks in the collection to Italy's heritage and restrict their circulation to the country's territory, reducing the price obtainable on the international market.

The pricing is also influenced by the importance of the buyers/sellers (e.g. prices paid by famous collectors or known investors may be more significant).

The valuation approach is based on the monitoring of the objective market values of the artworks included in the category examined, which follows three methodological approaches:

- prudent basis, analysing the average values of a variety of different information sources, based on robust, updated and statistically representative databases: in a market of "unique" artworks, often without transactions for decades, this approach ensures the periodic identification of any outlier values and avoids following speculative trends;
- comparison, monitoring the transactions that have taken place at a global level in a variety of distribution channels, in order to avoid considering only certain forms of transaction and the related financial values: in a global market with global demand, this approach enables verification of the presence of any geographical arbitrage or specific appreciation/depreciation phenomena with potential impacts;
- recurrence, since it updates and monitors price trends over the shortest period of time that the specific features of the market allow, i.e. the half year: in a market in which there are no public trades monitored daily, the shortness of the measurement period ensures maximum attention and timeliness of any changes.

This approach is applied to all the "valuable art assets".

#### Frequency of valuation

For valuable art assets, the revaluation is carried out by means of an expert appraisal every three years. However, a scenario analysis is carried out annually to identify any appreciable changes in value in order to bring forward the valuation.

In accordance with the rules on valuation frequencies, at the end of 2020, following the completion of the first three-year fair value measurement cycle, the appraisals were updated for all of Intesa Sanpaolo valuable art assets.

#### Scenario analysis

In order to identify and determine the changes in the market of the artworks being valued, market trends are monitored to detect signs of significant change that require appraisals to be made in advance with respect to the frequency established.

This monitoring is carried out on a two-fold basis:

- I/- Monitoring of the market prices of the top artworks in terms of value held in ISP's collections, which represent 75% of the total value of the artworks included in the "valuable art assets" class, by verifying both the results of the main international auctions (which are based on a calendar of precise seasonal deadlines) and the reports of the two main world databases (Artprice and Artnet), whose analytics provide useful tools for monitoring prices;
- II/- Monitoring the performance of the art market in general, to identify trends and changes with respect to ISP's "valuable art assets", verifying both the results of the main international auctions (which are based on a calendar of precise seasonal deadlines), and the reports of the two main world databases (Artprice and Artnet); since the works of many artists in the ISP's collection very rarely go up for auction due to the limited number of items left in the market, it is important to monitor the trend of similar artists or works; accordingly, the monitoring is not just limited to



the works held and their artists, but also extends to the authors and artworks related to the same area, to take into account trend data.

If the annual monitoring identifies a potential, positive or negative, value deviation of more than 15% for individual artworks/collections of artists in the ISP collections and comparable on the basis of objective criteria (such as period of production/year, size, technique, period of production, etc.), the appraisals are commissioned according to the usual internal procedures in order to align the carrying amount.

## Quantitative information

### A.4.5. Fair value hierarchy

#### A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: fair value by level

Assets / liabilities at fair value	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
(millions of euro)						
1. Financial assets measured at fair value through profit or loss	19,876	34,462	2,735	3,730	16,881	2,362
a) Financial assets held for trading	19,749	33,674	315	3,715	16,001	156
of which: Equities	652	-	-	-	-	-
of which: quotas of UCI	26	-	31	18	-	24
b) Financial assets designated at fair value	-	1	-	-	195	-
c) Other financial assets mandatorily measured at fair value	127	787	2,420	15	685	2,206
of which: Equities	-	83	191	-	92	139
of which: quotas of UCI	127	227	1,416	15	-	959
2. Financial assets measured at fair value through other comprehensive income	37,290	3,417	281	29,971	3,034	272
of which: Equities	1,460	1,634	237	522	2,000	269
3. Hedging derivatives	1	999	15	-	2,817	13
4. Property and equipment	-	-	4,875	-	-	4,963
5. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>57,167</b>	<b>38,878</b>	<b>7,906</b>	<b>33,701</b>	<b>22,732</b>	<b>7,610</b>
1. Financial liabilities held for trading	15,383	45,324	123	433	15,942	71
2. Financial liabilities designated at fair value	-	2,810	-	-	1,914	-
3. Hedging derivatives	1	5,383	3	-	7,319	4
<b>Total</b>	<b>15,384</b>	<b>53,517</b>	<b>126</b>	<b>433</b>	<b>25,175</b>	<b>75</b>

During 2020, pursuant to IFRS13, par. 93(c), transfers were carried out from level 1 to level 2 of assets for 67 million euro and of liabilities for 3,122 million euro, in addition to transfers from level 2 to level 1 of assets for 122 million euro. In particular, the following is noted:

- from level 1 to level 2:
  - o "Financial assets held for trading" under debt securities of 35 million euro;
  - o "Financial assets measured at fair value through other comprehensive income" under debt securities of 32 million euro;
  - o "Financial liabilities held for trading" under certificates with characteristics similar to derivative instruments referring to the incorporation of Banca IMI, of 3,122 million euro;
- from level 2 to level 1:
  - o "Financial assets held for trading" under debt securities of 97 million euro;
  - o "Financial assets measured at fair value through other comprehensive income" under debt securities of 25 million euro.

The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the financial instruments and by the materiality of the unobservable inputs.

The transition from level 1 to level 2 is a consequence of the disappearance of an active market, assessed by analysing the reliability and the reciprocal consistency of the available prices according to the provisions of the Group's Fair Value Policy. Conversely, financial instruments for which a mark-to-model measurement is performed using inputs that can be observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

As at 31 December 2020, the impact of non-performance risk (Credit Value Adjustment and Debt Value Adjustment) in the determination of the fair value of derivative contracts amounted to a reduction of 246 million euro in positive fair value and an increase of 154 million euro in negative fair value.

The impact of the Funding Value Adjustment in reducing the fair value amounted to 173 million euro, equal to the cost of funding the cash flows generated by the Bank's overall portfolio of OTC derivatives.

Determining the quantity of those adjustments is irrespective of the effects of the correlated operational hedging strategies, where present.

The aggregate of "Financial assets mandatorily measured at fair value" includes level 3 quotas of UCI of 308 million euro in interests held by the Bank in the Atlante Fund and in the Italian Recovery Fund (formerly Atlante Fund II), as alternative investment funds to support Italian banks in their recapitalisation transactions and in the management of the bad loans in the sector.

The aggregate of "Property and equipment" of 4,875 million euro relates to the criterion of revaluation of owner-occupied properties and valuable art assets and the fair value measurement of investment property.

#### A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets measured at fair value through profit or loss				Financial assets designated at fair value through other comprehensive income	Hedging derivatives	(millions of euro)	
	TOTAL	of which: a) Financial assets held for trading	of which: b) Financial assets designated at fair value	of which: c) Other financial assets mandatorily designated at fair value			Property and equipment	Intangible assets
<b>1. Initial amount</b>	<b>2,362</b>	<b>156</b>	-	<b>2,206</b>	<b>272</b>	<b>13</b>	<b>4,963</b>	-
<b>2. Increases</b>	<b>1,402</b>	<b>307</b>	-	<b>1,095</b>	<b>85</b>	<b>2</b>	<b>202</b>	-
2.1 Purchases	248	53	-	195	27	-	10	-
2.2 Gains recognised in:	110	16	-	94	2	2	122	-
2.2.1 Income statement	110	16	-	94	-	2	5	-
- of which capital gains	80	6	-	74	-	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	2	-	117	-
2.3 Transfers from other levels	129	39	-	90	18	-	-	-
2.4 Other increases	915	199	-	716	38	-	70	-
<b>3. Decreases</b>	<b>-1,029</b>	<b>-148</b>	-	<b>-881</b>	<b>-76</b>	-	<b>-290</b>	-
3.1 Sales	-193	-69	-	-124	-	-	-6	-
3.2 Reimbursements	-390	-	-	-390	-37	-	-	-
3.3 Losses recognized in:	-284	-53	-	-231	-5	-	-145	-
3.3.1 Income statement	-284	-53	-	-231	-4	-	-38	-
- of which capital losses	-231	-6	-	-225	-	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	-1	-	-107	-
3.4 Transfers to other levels	-53	-24	-	-29	-15	-	-	-
3.5 Other decreases	-109	-2	-	-107	-19	-	-139	-
<b>4. Final amount</b>	<b>2,735</b>	<b>315</b>	-	<b>2,420</b>	<b>281</b>	<b>15</b>	<b>4,875</b>	-

The captions of transfers between levels of "Financial assets measured at fair value through profit or loss" refer to transfers from level 3 for a total of 53 million euro and to level 3 for a total of 129 million euro.

The former are transfers of "Financial assets held for trading" from level 3 to level 2 involving debt securities for 11 million euro and financial derivatives for 13 million euro, in addition to transfers of "Financial assets mandatorily measured at fair value" from level 3 to level 2 involving quotas of UCI for 22 million euro and loans for 7 million euro.

The latter are transfers of "Financial assets mandatorily measured at fair value" from level 2 to level 3 involving loans for 73 million euro and equity instruments for 17 million euro, in addition to transfer of "Financial assets held for trading" from level 2 to level 3 involving debt securities for 15 million euro, loans for 7 million euro and financial derivatives for 5 million euro, and transfers from level 1 to level 3 involving quotas of UCI for 12 million euro.

The transfers of the quotas of UCI from level 1 to level 3 were undertaken due to the loss of level 1 assets not exceeding 30% in the mix of investments by the funds financial instruments, in terms of percentage of NAV;

The transfers between levels of debt securities occurred in the first case due to the use in fair value measurement as at 31 December 2020 of parameters that can be observed on the market, and in the second case due to the lack of observability on the market of the reference parameters, in compliance with the guidelines described in paragraph A.4.3 – Fair value hierarchy.

For derivative contracts, the transfers between levels are due to the changes in counterparty risk, considering that derivatives with non-performing counterparties are classified in level 3 of the fair value hierarchy, whereas for transfers of loans, the classification is based on whether unobservable market parameters are used in fair value measurement.

The transfer of equity instruments from level 2 to level 3 of “Financial assets mandatorily measured at fair value” is attributable to the discontinuity in the valuation method used to determine the fair value of several investments.

For “Financial assets measured at fair value through other comprehensive income”, we note transfers from level 3 to level 2 of equities held for 10 million euro and of debt securities for 5 million euro due to the use of parameters observable on the market in fair value measurement and transfers from level 2 to level 3 of loans for 18 million euro.

Transfers between fair value levels were carried out in accordance with the guidelines described in paragraph A.4.3 - Fair value hierarchy.

The caption “Reimbursements” of “Financial assets mandatorily measured at fair value” is attributable to the discharge of the subordinated loan of the subsidiary Private Equity International (PEI) for 390 million euro, regarding PEI Redeemable Shares that cannot be classified as “instruments representing equity” in view of their mandatory redeemability and, therefore, are classified under loans mandatorily measured at fair value. The liquidation was finalised in 2020, partly through their conversion into ordinary shares of PEI and partly through their redemption.

During the year, the value of owner-occupied properties was updated (with the only exception of properties that are trophy assets, whose value was updated in the previous year) and valuable works of art, both valued according to the revaluation model, as well as investment property, which was measured at fair value. That adjustment resulted in the recognition of gains and losses, both through profit and loss and equity, posted under sub-captions 2.2 and 3.3, respectively. The “Other decreases” mainly include the amortisation.

#### A.4.5.3 Annual changes in financial liabilities measured at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
(millions of euro)			
<b>1. Initial amount</b>	<b>71</b>	<b>-</b>	<b>4</b>
<b>2. Increases</b>	<b>91</b>	<b>-</b>	<b>-</b>
2.1 Issues	-	-	-
2.2 Losses recognised in:	5	-	-
2.2.1 Income statement	5	-	-
- of which capital losses	-	-	-
2.2.2 Shareholders' equity	X	-	-
2.3 Transfers from other levels	57	-	-
2.4 Other increases	29	-	-
<b>3. Decreases</b>	<b>-39</b>	<b>-</b>	<b>-1</b>
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-34	-	-1
3.3.1 Income statement	-34	-	-1
- of which capital gains	-	-	-
3.3.2 Shareholders' equity	X	-	-
3.4 Transfers to other levels	-5	-	-
3.5 Other decreases	-	-	-
<b>4. Final amount</b>	<b>123</b>	<b>-</b>	<b>3</b>

The “Final amount” of Level 3 “Financial liabilities held for trading” refer to derivative contracts with a negative fair value for 69 million euro and to certificates with characteristics similar to derivative instruments mainly for market risk for 54 million euro.

Transfers from level 3 totalling 5 million euro refer to derivative contracts, while those to level 3 for a total of 57 million euro refer to certificates with characteristics similar to derivative instruments, mainly for market risk.

*A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level*

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	(millions of euro)							
	Book value	31.12.2020			31.12.2019			
		Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	470,245	23,458	346,439	111,809	439,933	739	342,015	106,057
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and discontinued operations	1,798	-	904	913	469	-	58	411
<b>Total</b>	<b>472,043</b>	<b>23,458</b>	<b>347,343</b>	<b>112,722</b>	<b>440,402</b>	<b>739</b>	<b>342,073</b>	<b>106,468</b>
1. Financial liabilities measured at amortised cost	491,393	38,256	420,415	35,035	476,325	40,918	369,133	68,320
2. Liabilities associated with non-current assets	2,594	-	1,264	1,302	41	-	-	41
<b>Total</b>	<b>493,987</b>	<b>38,256</b>	<b>421,679</b>	<b>36,337</b>	<b>476,366</b>	<b>40,918</b>	<b>369,133</b>	<b>68,361</b>

*Financial assets and liabilities*

For financial assets and liabilities not measured at fair value (loans and loans represented by securities, amounts due to customers and securities issued), the Bank measures fair value by calculating the present value of future cash flows at a rate that incorporates the estimate of the main risks and uncertainties associated with the financial instrument to be measured (discount rate adjustment approach).

In particular, the interest rate used to discount the future cash flows is determined by taking into account the following risk factors:

- interest rate risk, which represents the rate offered by the market for each unit of capital provided to risk-free counterparties;
- credit risk, which is the premium for having provided capital to counterparties with insolvency risk;
- the cost of liquidity connected to credit.

For fixed-rate instruments, the cash flows are those envisaged by the contracts. For floating-rate instruments, the future cash flows are determined based on forward rates, implicit in the zero-coupon interest rate curves observed at the various fixing dates and differentiated by indexation type.

The value of the risk premium (credit spread) is determined per individual position, through acquisition of the risk class (LGD) and rating (PD). These amounts, together with the average residual financial life, constitute the guideline for acquisition of the credit spread. The spread curve is determined based on the same rules for securities issued by Intesa Sanpaolo as well.

The following assumptions were used in determining the fair values indicated in table A.4.5.4:

- for loans represented by securities, the same rules envisaged for the fair value measurement of other categories of securities are used;
- for securities issued, the rules used are the same as those applied to securities under assets;
- the book value is calculated as the reasonable approximation of fair value for:
  - demand financial items (assets and liabilities) or financial items with an original maturity equal to or shorter than 12 months and residual maturity equal to or shorter than 12 months: in the table, the column corresponding to level 2 of the fair value hierarchy presents the short-term financial items and cash collateral for financial operations, while the column corresponding to level 3 of the fair value hierarchy presents demand loans;
  - non-performing assets which in the table are included in the column corresponding to level 3 of the fair value hierarchy.

## A.5 – INFORMATION ON “DAY ONE PROFIT/LOSS”

Under IFRS 9, financial instruments shall be initially recognised at fair value. The fair value of a financial instrument at initial recognition is normally the "transaction price", i.e. the fair value of the consideration given or received in relation to, respectively, financial assets and liabilities.

The fact that, upon initial recognition, the fair value of a financial instrument coincides with the transaction price is usually intuitively verifiable in the case of transactions falling under level 1 of the fair value hierarchy.

Also in the case of level 2, which is based on quotes that can be derived indirectly from the market (Comparable Approach), the fair value and the price often coincide upon initial recognition. Any differences between the price and the fair value are usually allocated to the so-called commercial margins, which are taken to the income statement when the financial instrument is initially measured.

Conversely, with respect to level 3 instruments, which have more discretion in fair value measurement, no definite reference benchmark is available to compare the transaction price with.

For the same reason, the calculation of any commercial margin to be taken to the income statement is also difficult. In this event, the instrument is always initially recognised at the transaction cost. Subsequent measurement shall not include the difference between cost and fair value identified upon initial recognition (also defined as Day-One-Profit - DOP).

This difference shall be recognised in the income statement only when it arises from changes to the factors over which market participants base their valuations when fixing prices (including the time effect). Where the instrument has a definite maturity and no model is available to monitor the changes to the factors over which prices are based, the DOP can be recognised in the income statement systematically over the life of such instrument.

When a level 3 instrument is reclassified to level 2, the residual deferred Day-One-Profits are recognised in the income statement. Similarly, in the event of "on the book" transactions falling under the Bank's activities, the Day-One-Profits earned on level 3 transactions (including in the above "on the book" management) are taken to the income statement when the Bank carries out transactions which substantially eliminate the risks of the level 3 instrument which generated the DOP.

The following table shows the changes in the DOP amount deferred in the balance sheet.

(millions of euro)

<b>1. Initial amount</b>	<b>1</b>
<b>2. Increases</b>	-
2.1 New transactions	-
<b>3. Decreases</b>	-
3.1 Releases to the income statement	-
<b>4. Final amount</b>	<b>1</b>

Finally, in the context of the transaction that involved the transfer to Nexi of the acquiring business line, on 30 June 2020 Intesa Sanpaolo purchased 9.9% of Nexi SpA from Mercury UK HoldCo Limited, the company's main shareholder, for a pre-determined price of 10.5 euro per share, corresponding to a cash outlay of 653 million euro; since the Nexi SpA shares are listed on Borsa Italiana, and thus have a fair value level of 1, the difference of 315 million euro between the amount paid and the corresponding value on the basis of market capitalisation at the effective date of the purchase was accounted for as profit in the income statement.

# Part B – Information on the Parent Company’s balance sheet

## ASSETS

### SECTION 1 - CASH AND CASH EQUIVALENTS - CAPTION 10

#### 1.1 Cash and cash equivalents: breakdown

Captions	(millions of euro)	
	31.12.2020	31.12.2019
a) Cash	2,545	2,918
b) On demand deposits with Central Banks	2,857	3,095
<b>Total</b>	<b>5,402</b>	<b>6,013</b>

### SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 20

#### 2.1 Financial assets held for trading: breakdown

Captions	(millions of euro)					
	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>A. Cash assets</b>						
1. Debt securities	19,022	1,666	176	3,697	373	2
1.1 Structured securities	1,289	46	3	-	-	-
1.2 Other debt securities	17,733	1,620	173	3,697	373	2
2. Equities	652	-	-	-	-	-
3. Quotas of UCI	26	-	31	18	-	24
4. Loans	-	15	7	-	8	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	15	7	-	8	-
<b>Total (A)</b>	<b>19,700</b>	<b>1,681</b>	<b>214</b>	<b>3,715</b>	<b>381</b>	<b>26</b>
<b>B. Derivatives</b>						
1. Financial derivatives	49	30,350	101	-	15,217	130
1.1 trading	49	30,350	101	-	15,217	130
1.2 fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	1,643	-	-	403	-
2.1 trading	-	1,643	-	-	403	-
2.2 fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
<b>Total (B)</b>	<b>49</b>	<b>31,993</b>	<b>101</b>	<b>-</b>	<b>15,620</b>	<b>130</b>
<b>Total (A+B)</b>	<b>19,749</b>	<b>33,674</b>	<b>315</b>	<b>3,715</b>	<b>16,001</b>	<b>156</b>



Debt securities connected with securitisations amounted to 889 million euro, of which 485 million euro relating to senior notes, 396 million euro relating to mezzanine notes and 8 million euro relating to junior notes, mainly represented by Other debt securities.

Structured securities as at 31 December 2020, referring to the merged company Banca IMI and, thus, not present in the previous year, included 1,170 million euro in equity-linked instruments, 18 million euro in perpetual issues, 111 million euro in blended-rate structures (fixed, index-linked and convertible structures) and 39 million euro in securities with complex interest rate options (specifically, reverse floaters, step-up and step-down rates).

The amounts of Derivatives as at 31 December 2020 include the results of the offsetting of gross positive and negative balances pursuant to IAS 32, paragraph 42, for the operations deriving from the merged company Banca IMI, which are not represented in Part E of these Notes to the Parent Company's financial statements.

In particular, the gross positive fair value of the derivative contracts implemented with the legal clearing agent LCH Ltd for 52,208 million euro - of which 50,891 million euro refers to transactions on own behalf and 1,317 million euro to transactions originated by customers and Group companies - meets the requirements set out for offsetting and was subject to offsetting, with recognition of the net fair value under Liabilities in hedging derivatives and Financial liabilities held for trading, respectively. The total positive fair value of Derivatives gross of on-balance sheet offsetting would amount to 84,351 million euro.

## 2.2 Financial assets held for trading: borrower/issuer breakdown

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>A. Cash Assets</b>		
<b>1. Debt securities</b>	<b>20,864</b>	<b>4,072</b>
a) Central Banks	25	9
b) Public administration	17,610	2,334
c) Banks	1,302	1,194
d) Other financial companies	1,597	418
<i>of which: insurance companies</i>	474	-
e) Non financial companies	330	117
<b>2. Equities</b>	<b>652</b>	<b>-</b>
a) Banks	82	-
b) Other financial companies	31	-
<i>of which: insurance companies</i>	11	-
c) Non financial companies	539	-
d) Other issuers	-	-
<b>3. Quotas of UCI</b>	<b>57</b>	<b>42</b>
<b>4. Loans</b>	<b>22</b>	<b>8</b>
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	1	-
<i>of which: insurance companies</i>	-	-
e) Non financial companies	21	8
f) Households	-	-
<b>Total A</b>	<b>21,595</b>	<b>4,122</b>
<b>B. Derivatives</b>		
a) Central counterparties	1,857	-
b) Other	30,286	15,750
<b>Total B</b>	<b>32,143</b>	<b>15,750</b>
<b>TOTAL (A+B)</b>	<b>53,738</b>	<b>19,872</b>

Quotas of UCI held at the end of the year include hedge funds for 39 million euro, quotas of SICAVs for 12 million euro and investments in real estate funds for 6 million euro.

**2.3 Financial assets designated at fair value: breakdown**

Captions	(millions of euro)					
	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Debt securities</b>	-	1	-	-	195	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	1	-	-	195	-
<b>2. Loans</b>	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	-
2.2 Others	-	-	-	-	-	-
<b>Total</b>	-	1	-	-	195	-

The Bank has included in this category debt securities linked to financial instruments measured at fair value through profit and loss, such as financial derivatives. On the basis of the debt securities, no hedges were arranged through credit derivatives or similar instruments to mitigate the relevant credit risk.

The fair value change attributable to the measurement of credit risk of financial assets designated at fair value was insignificant, both during the year and in cumulative terms.

**2.4 Financial assets designated at fair value: borrower/issuer breakdown**

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Debt securities</b>	<b>1</b>	<b>195</b>
a) Central Banks	-	-
b) Public administration	1	1
c) Banks	-	194
d) Other financial companies	-	-
<i>of which: insurance companies</i>	-	-
e) Non financial companies	-	-
<b>2. Loans</b>	-	-
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
<i>of which: insurance companies</i>	-	-
e) Non financial companies	-	-
f) Households	-	-
<b>Total</b>	<b>1</b>	<b>195</b>

**2.5 Other financial assets mandatorily measured at fair value: breakdown**

Captions	(millions of euro)					
	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Debt securities</b>	-	241	275	-	288	411
1.1 Structured securities	-	-	5	-	-	6
1.2 Other debt securities	-	241	270	-	288	405
<b>2. Equities</b>	-	83	191	-	92	139
<b>3. Quotas of UCI</b>	127	227	1,416	15	-	959
<b>4. Loans</b>	-	236	538	-	305	697
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	236	538	-	305	697
<b>Total</b>	<b>127</b>	<b>787</b>	<b>2,420</b>	<b>15</b>	<b>685</b>	<b>2,206</b>

Debt securities include the securities connected with securitisation transactions for a total amount of 478 million euro, of which 60 million euro is senior, 232 million euro is mezzanine and 186 million euro is junior.

The change in the sub-caption 4.2 “Loans - Other” compared to the previous year mainly refers to the discharge of the subordinated loan of the subsidiary Private Equity International (PEI), which represented the PEI Redeemable shares that were not posted as “equity instruments” but as a subordinated financial liability, given the provision of mandatory redemption 15 years from the issue date. Following the changes to the articles of association regarding the capital of PEI, the discharge of that loan was finalised during the year, partly through conversion into ordinary shares of PEI and partly through redemption.

## 2.6 Other financial assets mandatorily measured at fair value: borrower/issuer breakdown

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Equities</b>	<b>274</b>	<b>231</b>
<i>of which: banks</i>	-	-
<i>of which: other financial companies</i>	3	3
<i>of which: non financial companies</i>	271	228
<b>2. Debt securities</b>	<b>516</b>	<b>699</b>
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	516	677
<i>of which: insurance companies</i>	1	54
e) Non financial companies	-	22
<b>3. Quotas of UCI</b>	<b>1,770</b>	<b>974</b>
<b>4. Loans</b>	<b>774</b>	<b>1,002</b>
a) Central Banks	-	-
b) Public administration	6	-
c) Banks	9	7
d) Other financial companies	115	432
<i>of which: insurance companies</i>	10	25
e) Non financial companies	639	558
f) Households	5	5
<b>Total</b>	<b>3,334</b>	<b>2,906</b>

Caption 3. “Quotas of UCI” refers to private equity and venture capital funds for 473 million euro, real estate funds for 333 million euro, private debt funds for 212 million euro, hedge funds for 277 million euro, infrastructure funds for 152 million euro and other equity funds for 15 million euro. The caption also includes 308 million euro in interests held by the bank in the Atlante Fund and in the Italian Recovery Fund (formerly Atlante Fund II), as alternative investment funds to support Italian banks in their recapitalisation transactions and in the management of the bad loans in the sector.

Caption 4. “Loans” includes credit exposures classified among financial assets mandatorily measured at fair value as they failed the test on the contractual characteristics of cash flows (SPPI Test) required by IFRS 9.

### SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - CAPTION 30

#### 3.1 Financial assets measured at fair value through other comprehensive income: breakdown

Captions	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Debt securities</b>	<b>35,830</b>	<b>1,529</b>	<b>25</b>	<b>29,449</b>	<b>795</b>	<b>3</b>
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	35,830	1,529	25	29,449	795	3
<b>2. Equities</b>	<b>1,460</b>	<b>1,634</b>	<b>237</b>	<b>522</b>	<b>2,000</b>	<b>269</b>
<b>3. Loans</b>	<b>-</b>	<b>254</b>	<b>19</b>	<b>-</b>	<b>239</b>	<b>-</b>
<b>Total</b>	<b>37,290</b>	<b>3,417</b>	<b>281</b>	<b>29,971</b>	<b>3,034</b>	<b>272</b>

Loans, as illustrated in Part A – Accounting policies, refer to portions of syndicated loans underwritten and destined to be subsequently sold.

Debt securities include the securities connected with securitisations for a total amount of 1,116 million euro, of which 1,060 million euro is senior and 56 million euro is mezzanine.

Financial assets measured at fair value through other comprehensive income (caption “2. Equities – Level 2) include the stakes in the capital of the Bank of Italy. For the related valuation, as in the previous years, the direct transaction method was used, considering the purchases and sales made starting from 2015 and continuing in subsequent years, including 2020. Considering that all the main transactions were finalised at nominal value, the use of this approach confirms the recognition value of the stakes held in the financial statements of the Bank. To support valuation according to the direct transaction method, a valuation was also carried out using the DDM (Discounted Dividend Model) method, based on discounting future dividends deriving from the investment. The application of the DDM returned a value of the stake in the Bank of Italy substantially in line with the value posted in the Financial Statements of Intesa Sanpaolo as at 31 December 2020. Following the approach taken in the previous years, the use of direct transaction prices as the reference for determining fair value for the 2020 financial statements also resulted in the confirmation of level 2 in the fair value hierarchy.

Caption “2. Equities” includes instruments represented by investments in BDC – Business Development Companies for 37 million euro. These are listed equity instruments for which, due to the presumable time horizon of the investment, the Bank has exercised the option to recognise changes in fair value through other comprehensive income.

The book value of equity instruments deriving from the recovery of impaired financial assets amounted to 70 million euro.

**3.2 Financial assets measured at fair value through other comprehensive income: borrower/issuer breakdown**

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Debt securities</b>	<b>37,384</b>	<b>30,247</b>
a) Central Banks	-	-
b) Public administration	30,478	27,421
c) Banks	3,549	2,176
d) Other financial companies	2,184	467
<i>of which: insurance companies</i>	-	-
e) Non financial companies	1,173	183
<b>2. Equities</b>	<b>3,331</b>	<b>2,791</b>
a) Banks	1,791	2,169
b) Other issuers:	1,540	622
- other financial companies	1,149	186
<i>of which: insurance companies</i>	3	3
- non financial companies	380	436
- other	11	-
<b>3. Loans</b>	<b>273</b>	<b>239</b>
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	26	-
<i>of which: insurance companies</i>	-	-
e) Non financial companies	247	239
f) Household	-	-
<b>Total</b>	<b>40,988</b>	<b>33,277</b>

**3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total adjustments**

	(millions of euro)							
	Gross amount				Total adjustments			Total partial write-offs
	Stage 1	<i>of which: Instruments with low credit risk</i>	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	36,553	975	853	35	-11	-12	-34	-
Loans	219	-	57	4	-2	-1	-4	-
<b>Total 31.12.2020</b>	<b>36,772</b>	<b>975</b>	<b>910</b>	<b>39</b>	<b>-13</b>	<b>-13</b>	<b>-38</b>	-
<b>Total 31.12.2019</b>	<b>28,829</b>	<b>5,404</b>	<b>1,672</b>	<b>36</b>	<b>-9</b>	<b>-7</b>	<b>-35</b>	-
<i>of which: purchased or originated credit-impaired financial assets</i>	X	X	-	-	X	-	-	-

For the approach used to represent the gross value and the total adjustments to impaired financial assets, see the illustration provided in Part A – Accounting policies.

**3.3a Loans measured at fair value through other comprehensive income subject to Covid-19 support measures: gross amount and total adjustments**

As at 31 December 2020 this case was not present.

## SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTISED COST – CAPTION 40

## 4.1 Financial assets measured at amortised cost: breakdown of amounts due from banks

(millions of euro)

Items	31.12.2020						31.12.2019					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	First and second stage	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
<b>A. Due from Central Banks</b>	<b>52,591</b>	-	-	-	<b>52,591</b>	-	<b>10,456</b>	-	-	-	<b>10,456</b>	-
1. Time deposits	29	-	-	X	X	X	85	-	-	X	X	X
2. Compulsory reserve	52,554	-	-	X	X	X	10,370	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	8	-	-	X	X	X	1	-	-	X	X	X
<b>B. Due from banks</b>	<b>37,961</b>	<b>64</b>	-	<b>1,159</b>	<b>29,638</b>	<b>7,296</b>	<b>111,917</b>	<b>82</b>	-	<b>138</b>	<b>92,446</b>	<b>19,631</b>
1. Loans	36,540	64	-	-	29,373	7,296	111,492	82	-	-	92,168	19,631
1.1 Current accounts and on demand deposits	13,660	-	-	X	X	X	8,785	-	-	X	X	X
1.2. Time deposits	5,516	-	-	X	X	X	68,053	-	-	X	X	X
1.3 Other loans:	17,364	64	-	X	X	X	34,654	82	-	X	X	X
- Reverse repurchase agreements	8,690	-	-	X	X	X	23,523	-	-	X	X	X
- Finance leases	5	-	-	X	X	X	5	-	-	X	X	X
- Other	8,669	64	-	X	X	X	11,126	82	-	X	X	X
2. Debt securities	1,421	-	-	1,159	265	-	425	-	-	138	278	-
2.1 Structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other	1,421	-	-	1,159	265	-	425	-	-	138	278	-
<b>Total</b>	<b>90,552</b>	<b>64</b>	-	<b>1,159</b>	<b>82,229</b>	<b>7,296</b>	<b>122,373</b>	<b>82</b>	-	<b>138</b>	<b>102,902</b>	<b>19,631</b>

The sub-caption "Other loans" includes operating loans, i.e. loans for operations connected to the provision of activities and financial services, with no credit facilities, for an amount of 65 million euro (43 million euro as at 31 December 2019). Insignificant recoveries were recorded on those exposures classified as Stage 1.

## 4.2 Financial assets measured at amortised cost: breakdown of loans to customers

(millions of euro)

Transaction type/Amount	31.12.2020						31.12.2019					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Level 1	Level 2	Level 3
<b>1. Loans</b>	<b>332,161</b>	<b>9,551</b>	<b>246</b>	-	<b>254,545</b>	<b>98,898</b>	<b>288,318</b>	<b>12,836</b>	<b>312</b>	-	<b>227,534</b>	<b>83,486</b>
1.1. Current accounts	8,037	1,033	4	X	X	X	11,287	1,682	1	X	X	X
1.2. Reverse repurchase agreements	16,546	-	-	X	X	X	15,294	-	-	X	X	X
1.3. Mortgages	196,156	5,583	225	X	X	X	162,724	7,429	309	X	X	X
1.4. Credit card loans, personal loans and transfer of one fifth of salaries	12,451	211	-	X	X	X	13,785	399	-	X	X	X
1.5. Finance leases	9,040	1,217	-	X	X	X	9,575	1,459	-	X	X	X
1.6. Factoring	9,078	55	-	X	X	X	9,933	51	-	X	X	X
1.7. Other loans	80,853	1,452	17	X	X	X	65,720	1,816	2	X	X	X
<b>2. Debt securities</b>	<b>37,886</b>	<b>31</b>	-	<b>22,299</b>	<b>9,665</b>	<b>5,615</b>	<b>16,283</b>	<b>41</b>	-	<b>601</b>	<b>11,579</b>	<b>2,940</b>
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	37,886	31	-	22,299	9,665	5,615	16,283	41	-	601	11,579	2,940
<b>Total</b>	<b>370,047</b>	<b>9,582</b>	<b>246</b>	<b>22,299</b>	<b>264,210</b>	<b>104,513</b>	<b>304,601</b>	<b>12,877</b>	<b>312</b>	<b>601</b>	<b>239,113</b>	<b>86,426</b>

Loans to customers include loans disbursed on public funds under administration for which the Bank holds the risk in the amount of 67 million euro.

Debt securities include the securities connected with securitisations for a total amount of 3,573 million euro, of which 3,561 million euro is senior and 12 million euro is mezzanine. The senior notes included 1,008 million euro relating to the vehicle YODA SPV S.r.l., to which a portfolio of loans classified as bad loans was sold pursuant to Law 130/99 and



1,173 million euro relating to the vehicle Kerma SPV S.r.l., to which a portfolio of loans classified as unlikely to pay (UTP) was sold pursuant to Law 130/99 under the partnership with Prelios entered into during 2019.

They also include debt securities of 4,083 million euro, connected with the securitisation of the vehicle Romulus Funding Corporation, included in the Group's scope of consolidation.

During the year, as part of business combinations under common control, non-performing loans of 254 million euro were acquired.

The sub-caption "Other loans" includes operating loans, i.e. loans for operations connected to the provision of activities and financial services, with no credit facilities, for an amount of 490 million euro (576 million euro as at 31 December 2019). Insignificant value adjustments (0.5 million euro) were recorded on those exposures classified as Stage 1.

#### 4.3 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

(millions of euro)

Items	31.12.2020			31.12.2019		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit- impaired assets	Stage 1 and 2	Stage 3	of which: purchased or originated credit- impaired assets
<b>1. Debt securities</b>	<b>37,886</b>	<b>31</b>	-	<b>16,283</b>	<b>41</b>	-
a) Public administration	24,122	17	-	5,546	27	-
b) Other financial companies	11,007	-	-	9,727	-	-
<i>of which: insurance companies</i>	-	-	-	-	-	-
c) Non financial companies	2,757	14	-	1,010	14	-
<b>2. Loans:</b>	<b>332,161</b>	<b>9,551</b>	<b>246</b>	<b>288,318</b>	<b>12,836</b>	<b>312</b>
a) Public administration	13,594	178	-	13,044	237	-
b) Other financial companies	45,664	290	3	34,534	272	5
<i>of which: insurance companies</i>	497	-	-	958	-	-
c) Non financial companies	156,451	6,596	131	127,019	9,270	169
d) Households	116,452	2,487	112	113,721	3,057	138
<b>TOTAL</b>	<b>370,047</b>	<b>9,582</b>	<b>246</b>	<b>304,601</b>	<b>12,877</b>	<b>312</b>

#### 4.4 Financial assets measured at amortised cost: gross amount and total adjustments

(millions of euro)

	Stage 1	Gross amount			Total adjustments			Total partial write-offs
		of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	33,634	4,225	5,752	88	-27	-52	-57	-
Loans	369,780	12,921	53,439	18,637	-481	-1,446	-9,022	6,390
<b>Total 31.12.2020</b>	<b>403,414</b>	<b>17,146</b>	<b>59,191</b>	<b>18,725</b>	<b>-508</b>	<b>-1,498</b>	<b>-9,079</b>	<b>6,390</b>
<b>Total 31.12.2019</b>	<b>388,760</b>	<b>109,978</b>	<b>39,500</b>	<b>27,934</b>	<b>-446</b>	<b>-840</b>	<b>-14,975</b>	<b>7,742</b>
<i>of which: purchased or originated credit-impaired financial assets</i>	X	X	16	403	X	-	-173	109

For the approach used to represent the gross value and the total adjustments to impaired financial assets, see the illustration provided in Part A – Accounting policies.

**4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross amount and total adjustments**

(millions of euro)

	Gross value				Writedown		
	Stage 1	of which: low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1. EBA-compliant moratoria loans	14,603	8	10,054	286	-41	-366	-61
2. Other loans with COVID-19-related forbearance measures	-	-	31	16	-	-1	-2
3. Newly originated loans	26,758	8	1,683	25	-32	-12	-4
<b>Total</b>	<b>41,361</b>	<b>16</b>	<b>11,768</b>	<b>327</b>	<b>-73</b>	<b>-379</b>	<b>-67</b>

The row “Loans subject to forbearance measures compliant with GL” shows the information relating to financial assets subject to moratoria that fall within the scope of application of the “Guidelines on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis”, published by the EBA (EBA/GL/2020/02), as amended.

**SECTION 5 - HEDGING DERIVATIVES – CAPTION 50**

Concerning the objectives and the strategies underlying hedging transactions see the information provided in Part E – Information on risks and relative hedging policies, Section 2 – Market risks.

**5.1 Hedging derivatives: breakdown by type of hedge and level**

(millions of euro)

	Fair value 31.12.2020			Notional amount 31.12.2020	Fair value 31.12.2019			Notional amount 31.12.2019
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>A. Financial derivatives</b>								
1. Fair Value	1	999	15	78,074	-	2,817	13	61,296
2. Cash flows	-	-	-	5,400	-	-	-	100
3. Foreign investments	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1</b>	<b>999</b>	<b>15</b>	<b>83,474</b>	<b>-</b>	<b>2,817</b>	<b>13</b>	<b>61,396</b>

The amounts of hedging derivatives as at 31 December 2020 include the results of the offsetting of gross positive and negative balances pursuant to IAS 32, paragraph 42, for the operations deriving from the merged company Banca IMI, which are not represented in Part E of these Notes to the Parent Company’s financial statements.

In particular, as the gross positive fair value of Hedging derivatives implemented on own behalf with the legal clearing agent LCH Ltd for 2,437 million euro meets the requirements set out for offsetting, it was subject to offsetting, with recognition of the net fair value under liabilities in hedging derivatives

The total positive fair value of hedging derivatives gross of on-balance sheet offsetting would amount to 3,452 million euro (of which 3,427 million euro hedging fair value and 25 million euro hedging cash flows).

## 5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions / Type of hedge	Fair Value							(millions of euro)		
	Specific				Generic			Cash-flow hedges	Foreign investm	
	debt securities and interest rates	equities and stock indices	foreign exchange rates and gold	credit risk	commodities	other	Specific	Generic		
1. Financial assets measured at fair value through other comprehensive income	2	-	53	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	9	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
<b>Total assets</b>	<b>11</b>	<b>-</b>	<b>53</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
1. Financial liabilities	632	X	234	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	85	X	-	X
<b>Total liabilities</b>	<b>632</b>	<b>-</b>	<b>234</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85</b>	<b>-</b>	<b>-</b>	<b>-</b>
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

The table indicates positive fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.

Considering the values gross of netting in the financial statements, these mainly refer to micro fair value hedges of liabilities issued, as well as macro fair value hedges of demand positions under liabilities (core deposits).

## SECTION 6 – FAIR VALUE CHANGE OF FINANCIAL ASSETS IN HEDGED PORTFOLIOS – CAPTION 60

## 6.1 Fair value change of hedged assets: breakdown by hedged portfolios

Fair value change of hedged assets / Amount	31.12.2020	31.12.2019
	(millions of euro)	
<b>1. Positive fair value change</b>	<b>2,333</b>	<b>1,526</b>
1.1 of specific portfolios:	2,333	1,526
a) financial assets measured at amortised cost	2,333	1,526
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	-	-
<b>2. Negative fair value change</b>	<b>-</b>	<b>-</b>
2.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
<b>Total</b>	<b>2,333</b>	<b>1,526</b>

The balance of the changes in value of assets subject to macrohedging against interest rate risk is recorded in this caption. For the application the Bank took advantage of the option envisaged by IFRS 9 to continue to apply the provisions permitted by the IAS 39 carve out.

The annual change in the positive adjustment of financial assets measured at amortised cost was due to the reduction in the benchmark rates used to determine the fair value of the assets hedged for interest rate risk.

**SECTION 7 – EQUITY INVESTMENTS – CAPTION 70****7.1 Equity investments: information on equity interests**

Companies	Registered office	Place of business	% held	% votes available (a)
<b>A. WHOLLY-OWNED SUBSIDIARIES</b>				
1 BANCA 5 S.P.A.	Milano	Milano	100.00	
2 BANCA COMMERCIALA EXIMBANK S.A.	Chisinau	Chisinau	100.00	
3 BANK OF ALEXANDRIA	Il Cairo	Il Cairo	80.00	
4 BANKA INTESA SANPAOLO D.D. (b)	Koper	Koper	48.13	
5 CIB BANK LTD	Budapest	Budapest	100.00	
6 CONSORZIO STUDI E RICERCHE FISCALI GRUPPO INTESA SANPAOLO	Roma	Roma	80.00	
7 EURIZON CAPITAL SGR S.P.A.	Milano	Milano	100.00	
8 EXETRA S.P.A. (c)	Milano	Milano	85.00	
9 FIDEURAM - INTESA SANPAOLO PRIVATE BANKING S.P.A.	Torino	Roma	100.00	
10 FIDEURAM VITA S.P.A.	Roma	Roma	80.01	
11 IMI INVESTMENTS S.A.	Luxembourg	Luxembourg	100.00	
12 IMMIT - IMMOBILI ITALIANI S.R.L.	Torino	Torino	100.00	
13 IN.FRA - INVESTIRE NELLE INFRASTRUTTURE S.R.L.	Milano	Milano	100.00	
14 INTESA SANPAOLO (QINGDAO) SERVICE COMPANY LIMITED	Qingdao	Qingdao	100.00	
15 INTESA SANPAOLO AGENTS4YOU S.P.A.	Torino	Torino	100.00	
16 INTESA SANPAOLO BANK ALBANIA SH.A.	Tirana	Tirana	100.00	
17 INTESA SANPAOLO BANK IRELAND PLC	Dublin	Dublin	100.00	
18 INTESA SANPAOLO BRASIL S.A. - BANCO MULTIPLO	San Paolo	San Paolo	99.90	
19 INTESA SANPAOLO CASA S.P.A.	Milano	Milano	100.00	
20 INTESA SANPAOLO EXPO INSTITUTIONAL CONTACT S.R.L.	Milano	Milano	100.00	
21 INTESA SANPAOLO FORMAZIONE SOCIETA' PER AZIONI	Milano	Milano	100.00	
22 INTESA SANPAOLO FORVALUE S.P.A.	Torino	Milano	100.00	
23 INTESA SANPAOLO FUNDING LLC	Wilmington Delaware	New York	100.00	
24 INTESA SANPAOLO HIGHLINE S.R.L.	Torino	Torino	100.00	
25 INTESA SANPAOLO HOLDING INTERNATIONAL S.A.	Luxembourg	Luxembourg	100.00	
26 INTESA SANPAOLO INNOVATION CENTER S.P.A.	Torino	Torino	99.99	
27 INTESA SANPAOLO PROVIS S.P.A.	Milano	Milano	100.00	
28 INTESA SANPAOLO RE.O.CO. S.P.A.	Milano	Milano	100.00	
29 INTESA SANPAOLO ROMANIA S.A. COMMERCIAL BANK	Bucarest	Bucarest	99.73	
30 INTESA SANPAOLO SERVICOS E EMPRENDIMENTOS LTDA EM LIQUIDACAO	Sao Paulo	Sao Paulo	100.00	
31 INTESA SANPAOLO SMART CARE S.R.L.	Torino	Torino	51.01	
32 INTESA SANPAOLO VITA S.P.A.	Torino	Milano	99.99	
33 ISP CB IPOTECARIO S.R.L.	Milano	Milano	60.00	
34 ISP CB PUBBLICO S.R.L.	Milano	Milano	60.00	
35 ISP OBG S.R.L.	Milano	Milano	60.00	
36 JOINT STOCK COMPANY BANCA INTESA (d)	Moscow	Moscow	46.98	
37 OOO INTESA REALTY RUSSIA	Moscow	Moscow	100.00	
38 PRAVEX BANK JOINT-STOCK COMPANY	Kiev	Kiev	100.00	
39 PRIVATE EQUITY INTERNATIONAL S.A. (e)	Luxembourg	Luxembourg	94.39	100.00
40 QINGDAO YICAI FUND DISTRIBUTION CO. LTD.	Qingdao	Qingdao	100.00	
41 RISANAMENTO S.P.A. (d) (f)	Milano	Milano	48.88	
42 SOCIETA' BENEFIT CIMAROSA 1 S.P.A.	Milano	Milano	100.00	
43 SRM STUDI E RICERCHE PER IL MEZZOGIORNO	Napoli	Napoli	60.00	25.00
44 UNIONE DI BANCHE ITALIANE S.P.A. (g)	Bergamo	Bergamo	100.00	
<b>B. COMPANIES SUBJECT TO JOINT CONTROL</b>				
1 AUGUSTO S.R.L.	Milano	Milano	5.00	
2 COLOMBO S.R.L.	Milano	Milano	5.00	
3 DIOCLEZIANO S.R.L.	Milano	Milano	5.00	
4 IMMOBILIARE NOVOLI S.P.A.	Firenze	Firenze	50.00	

Companies	Registered office	Place of business	% held	% votes available (a)	
<b>C. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE</b>					
1	ADRIANO LEASE SEC S.R.L. (h)	Conegliano	Conegliano	5.00	
2	APULIA FINANCE N. 4 S.R.L. (h)	Conegliano	Conegliano	10.00	
3	AUTOSTRADA PEDEMONTANA LOMBARDA S.P.A.	Assago	Assago	17.37	
4	BACK2BONIS	Milano	Milano	17.01	
5	BACKTOWORK24 S.R.L. (i)	Milano	Milano	16.70	51.00
6	BANCOMAT S.P.A.	Roma	Roma	24.20	
7	BERICA ABS 3 S.R.L. (h)	Vicenza	Vicenza	5.00	
8	BRERA SEC S.R.L. (h)	Conegliano	Conegliano	5.00	
9	CAMFIN S.P.A. (j)	Milano	Milano	6.85	10.70
10	CASSA DI RISPARMIO DI FERMO S.P.A.	Fermo	Fermo	33.33	
11	CLARA SEC. S.R.L. (h)	Conegliano	Conegliano	5.00	
12	CLARIS FINANCE 2005 S.R.L. (h) (k)	Roma	Roma	5.00	100.00
13	COMPAGNIA AEREA ITALIANA S.P.A.	Roma	Fiumicino	27.49	
14	EQUITER S.P.A.	Torino	Torino	32.88	
15	EUROMILANO S.P.A.	Milano	Milano	43.43	
16	EUSEBI HOLDINGS B.V.	Amsterdam	Amsterdam	47.00	
17	EXPERIENTIA GLOBAL S.A.	Lausanne	Basel	20.00	
18	FI.NAV. COMPARTO A - CREDITI	Roma	Roma	43.50	
19	FOCUS INVESTMENTS S.P.A.	Milano	Milano	8.33	25.00
20	FONDO DI RIGENERAZIONE URBANA SICILIA S.R.L. (l)	Palermo	Torino	100.00	
21	FONDO PER LA RICERCA E L'INNOVAZIONE S.R.L. RIF (l)	Torino	Torino	100.00	
22	FONDO SARDEGNA ENERGIA S.R.L. (l)	Cagliari	Cagliari	100.00	
23	FOODQUOTE S.R.L.	Foggia	Foggia	34.04	
24	GIADA SEC. S.R.L. (h)	Conegliano	Conegliano	5.00	
25	INDACO VENTURE PARTNERS SGR S.P.A.	Milano	Milano	24.50	
26	INTRUM ITALY S.P.A.	Milano	Milano	49.00	
27	ISM INVESTIMENTI S.P.A.	Mantova	Mantova	27.36	
28	MARKETWALL S.R.L.	Milano	Milano	33.00	
29	NETWORK IMPRESA S.P.A. IN CONCORDATO PREVENTIVO	Limena	Limena	28.95	
30	OVAL MONEY LTD	London	London	24.73	
31	PIETRA S.R.L.	Milano	Milano	22.22	
32	RAINBOW	Verona	Verona	43.20	
33	RCN FINANZIARIA S.P.A.	Mantova	Mantova	23.96	
34	RSCT FUND - COMPARTO CREDITI	Milano	Milano	71.97	
35	SICILY INVESTMENTS S.A.R.L.	Luxembourg	Luxembourg	25.20	
36	TRINACRIA CAPITAL S.A.R.L.	Luxembourg	Luxembourg	25.20	
37	CONSORZIO BANCARIO SIR S.P.A. - IN LIQUIDAZIONE	Roma	Roma	38.49	
38	EUROPROGETTI & FINANZA S.R.L. - IN LIQUIDAZIONE	Roma	Roma	15.97	
39	INIZIATIVE IMMOBILIARI INDUSTRIALI S.P.A. - IN LIQUIDAZIONE	Arqua' Polesine	Arqua' Polesine	20.00	
40	LEONARDO TECHNOLOGY S.R.L. - IN LIQUIDAZIONE	Milano	Milano	26.60	
41	SVILUPPO INDUSTRIALE S.P.A. - IN LIQUIDAZIONE	Pistoia	Pistoia	28.27	

(a) Where different from the % interest held, the actual availability of the votes in the Ordinary Shareholders' Meeting is indicated, distinguishing between the effective and potential voting rights, where applicable.

(b) Minority shareholders are subject to a legal commitment to purchase the remaining 0.7% of share capital.

(c) In the event that the investee company is placed in liquidation, the minority shareholder shall have the option to sell, and Intesa Sanpaolo will be required to purchase, the entire minority equity interest.

(d) Company included among significant equity investments as, in total, the Group holds a controlling share, or when the other requirements set forth by IFRS 10 occur.

(e) On 23 December 2016, the subsidiary Private Equity International S.A. issued a new category of class C shares, equal to 5.6% of the company's capital. These shares do not carry the right to vote in the shareholders' meeting and their return is dependent on the financial performance of certain investments held by Private Equity International S.A.

(f) Company not subject to the management and coordination activities pursuant to art. 2497 and following of the Italian Civil Code.

(g) The percentage is calculated without taking into account the treasury shares held by UBI Banca, which will be cancelled when the company is merged into the Parent Company Intesa Sanpaolo.

(h) These are vehicles used for securitisation transactions within the Group.

(i) At any time between the date of subscription of the Second Capital Increase (24/11/2020) and the deadline of the 42nd month from that date, Intesa Sanpaolo has the right to increase its holding, in one or more tranches, in the company's share capital, obtaining a maximum overall equity interest of 51%. At present, the conditions pursuant to IFRS 10 for classification of the interest among Subsidiaries do not apply.

(j) The difference in value between the actual holding and the number of votes in the shareholders' meeting is due to the presence of different classes of shares (A and B). Only class A shares (also held by Intesa Sanpaolo) give the right to vote in the shareholders' meeting.

(k) Intesa Sanpaolo has the right to purchase 95% of the capital within 6 months from the termination of the securitisation. At the moment, the conditions pursuant to IFRS 10 for classification of the interest among Subsidiaries do not apply.

(l) Jessica Funds: the economic effects of the investments in equity and loans underlying the fund's operations will be borne in full by the EIB.

The illustration of the criteria and the methods for the definition of the scope of consolidation and the reasons which determine that a company is subject to joint control or significant influence is contained in Part A – Accounting policies, to which reference should be made.

The fair value as at 31 December 2019 of the only listed equity investment, Risanamento S.p.A, amounted to 47 million euro.

## 7.2 Individually material equity investments: book value, fair value and dividends received

For the information relating to this paragraph, not required by the instructions provided by the Bank of Italy concerning the financial statements, reference should be made to the relevant section of the Notes to the consolidated financial statements.

## 7.3 Individually material equity investments: financial information

For the information relating to this paragraph, not required by the instructions provided by the Bank of Italy concerning the financial statements, reference should be made to the relevant section of the Notes to the consolidated financial statements.

## 7.4 Individually immaterial equity investments: financial information

For the information relating to this paragraph, not required by the instructions provided by the Bank of Italy concerning the financial statements, reference should be made to the relevant section of the Notes to the consolidated financial statements.

## 7.5 Equity investments: annual changes

	(millions of euro)	
	31.12.2020	31.12.2019
<b>A. Initial amount</b>	<b>24,411</b>	<b>26,258</b>
<b>B. Increases</b>	<b>5,171</b>	<b>3,953</b>
B.1 purchases	4,648	953
<i>of which business combinations</i>	80	344
B.2 write-backs	-	18
B.3 revaluations	-	-
B.4 other changes	523	2,982
<b>C. Decreases</b>	<b>-4,914</b>	<b>-5,800</b>
C.1 sales	-4,642	-5,715
<i>of which business combinations</i>	-4,337	-5,714
C.2 impairment losses	-232	-79
C.3 write-downs	-	-
C.4 other changes	-40	-6
<b>D. Final amount</b>	<b>24,668</b>	<b>24,411</b>
<b>E. Total revaluations</b>	<b>-</b>	<b>251</b>
<b>F. Total impairment losses</b>	<b>-7,815</b>	<b>-8,091</b>

Sub-caption B.1 “Purchases” primarily relates to the following transactions:

- acquisition of the entire investment in Unione di Banche Italiane S.p.A. through Public Purchase and Exchange Offer promoted by the Bank for a total of 4,143 million euro, also taking account of the related accessory charges. The acquisition cost is equal to the sum of the fair value of the shares issued by the Bank as part of the capital increase reserved for the Offer – equal to the reference price of the Intesa Sanpaolo S.p.A. stock on 4 August 2020, the last price available before the Offer took effect – and the consideration in cash offered to shareholders of UBI, for a total of 4,143 million euro including ancillary costs incurred to purchase the equity investment;
- acquisition of an investment in the RSCT Fund – Loans Segment for 259 million euro, finalised through the contribution of certain assets (loans and securities) tied to non-performing exposures, in exchange for units of the fund;
- acquisition of an investment in the closed-end securities fund Back2Bonis for 71 million euro, finalised through the contribution of a portfolio of non-performing loans, in exchange for units of the fund;
- increase in the investment held in FI.NAV. Comparto A - Crediti for 69 million euro, following the contribution of an additional amount of non-performing loans in exchange for units of the fund;
- subscription of a share capital increase of Intesa Sanpaolo Provis S.p.A. for 40 million euro;
- acquisition, as part of the merger of Banca IMI S.p.A., of 100% of IMI Investments S.A. for 23 million euro;
- establishment of Intesa Sanpaolo (Qingdao) Service Company Limited for 7 million euro, 100%-owned by the Bank.



Sub-caption B.4 “Other changes” essentially refers to:

- the conversion of preference shares redeemable in Category B ordinary shares of Intesa Sanpaolo Private Equity International S.A. for 290 million euro. Those preference shares were categorised as a subordinated loan classified under “Financial assets measured at fair value through profit and loss”;
- the capitalisation of Intesa Sanpaolo Provis S.p.A. for 115 million euro;
- profits on disposal of Autostrade Lombarde for 72 million euro;

Sub-caption C.1 “Sales” essentially includes:

- the merger of Banca IMI S.p.A. for IMI 4,337 million euro. That value includes Additional Tier 1 equity instruments that were issued by Banca IMI S.p.A. for 1,600 million euro and fully subscribed by the Parent Company, classified under “Equity investments”, which were subject to netting at the time of merger;
- the sale of Autostrade Lombarde S.p.A. for 236 million euro;
- the sale of AM Investco Italy S.p.A. for 59 million euro, following the exercise of the put option held by the Bank.

Sub-caption C.2. “Impairment losses” refers to the impairment losses on the equity investments in Intesa Sanpaolo Provis S.p.A. for 149 million euro, Pravex Bank Joint Stock Company for 13 million euro, Risanamento S.p.A. for 10 million euro, FI.NAV Comparto A Crediti for 3 million euro, Rainbow for 3 million euro, Intesa Sanpaolo RE.O.CO. S.p.A. for 3 million euro and other minority equity investments for 6 million euro. The sub-caption also includes impairment of 45 million euro relating to AM Investco Italy S.p.A., sold in the last quarter of the year, an adjustment that was offset by the positive fair value of the put option held by the Bank, which was exercised to finalise the sale of the entire interest.

#### **7.6 Commitments referred to investments in companies subject to joint control**

For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

#### **7.7 Commitments referred to investments in companies subject to significant influence**

For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

#### **7.8 Significant restrictions**

For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

#### **7.9 Other information**

For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

### **Impairment tests of equity investments**

As required under IAS/IFRS, equity investments are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of the assets is not fully recoverable.

With reference to investments in associates and companies subject to joint control, the process of detection of any impairment involves verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative indicators, such as the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start-up of insolvency proceedings or restructuring plans, and the downgrading by more than two classes of the rating; quantitative indicators, represented by a reduction in fair value of over 30% below the carrying value or for a period of over 24 months, by market capitalisation lower than the company’s net book value, in the case of securities listed on active markets or by a carrying value of the investment in the Parent Company’s financial statements higher than the carrying value in the consolidated financial statements of the investee’s net assets and goodwill or by distribution by the latter of a dividend that is higher than its total income. If impairment indicators are detected, the recoverable amount, represented by the higher of the fair value less costs to sell and the value in use, is calculated and if it proves lower than the carrying value, impairment is recognised.

In particular, where impairment indicators were recorded with respect to investments in associates or companies subject to joint control, analyses were carried out based on market methodologies (direct or comparable transactions and market multiples) or alternatively “fundamental” analyses based on an estimate of the expected discounted cash flows or, finally, on alternative methods. The results of these assessments led to the need to recognise impairment losses, mainly referring to the investments in the Rainbow Fund (3 million euro) and the FI.NAV. Fund (3 million euro).

Individual investments in subsidiaries, while material as individual assets from an accounting standpoint, do not present independent cash flow generation and governance capacity, given the organisational model, which calls for CGUs larger than the individual legal entities. Accordingly, investments in subsidiaries are not individually material for the purposes of conducting impairment tests in the financial statements of the Parent Company, but rather are aggregated (along with the operating activities conducted directly by the Parent Company) into CGUs consistent with those identified at the level of the consolidated financial statements. This approach is tied to the organisational model applied by the Group. According to that model, individual investments belonging to a given CGU are not capable of generating cash flows independently from the other investments. Therefore, their recoverable amounts cannot be calculated individually, as required by IAS 36.

In view of the consistency that must be preserved between the impairment tests conducted in the consolidated financial statements and the Parent Company's financial statements, in addition to the homogeneity of the composition of CGUs, the correlation between the items tested in the two sets of financial statements must be carefully considered: the goodwill attributed to the various CGUs in the consolidated financial statements and the Parent Company's financial statements partly reflects the goodwill associated solely with the Parent Company and partly the carrying amounts of investments in subsidiaries. The goodwill associated with the latter is implicit in the carrying amounts of the equity investments in the financial statements of the Parent Company and emerges in the consolidated financial statements following the consolidation process on the basis of the values determined during the purchase process pursuant to IFRS 3.

If a need to recognise an impairment loss on goodwill attributable to a given CGU is identified at the level of the consolidated financial statements, in the Parent Company's financial statements that impairment loss is attributed to the assets pertaining to the same CGU not subject to testing individually, namely goodwill, the brand name and investments in subsidiaries. As described in Part B – Information on the consolidated balance sheet - Assets, impairment tests on Cash Generating Units led to the need to recognise in the consolidated financial statements impairment of the goodwill allocated to the Banca dei Territori CGU. At the Parent Company's financial statements level, that goodwill is not attributed to any controlling interest, but is directly allocated to the Parent Company. As a result, an impairment loss was recognised on the equivalent goodwill at the Parent Company's financial statements level, allocated to the Banca dei Territori CGU, without impact on the book values of controlling interests.

Companies that did not present goodwill values in the consolidated financial statements but that closed 2020 with a loss were treated differently. For such companies, it was prudentially verified that the latter result was due to contingent or structural factors; from this analysis the need emerged to make some adjustments, aligning the carrying amount of the investment to the proportional share of equity of the subsidiaries. The impairment refers to the equity investments held in Intesa Sanpaolo Provis S.p.A. for 149 million euro), Pravex Bank Joint Stock Company for 13 million euro, Risanamento S.p.A. for 10 million euro and Intesa Sanpaolo Re.O.Co for 3 million euro.

## SECTION 8 – PROPERTY AND EQUIPMENT – CAPTION 80

	(millions of euro)	
Assets/Amounts	31.12.2020	31.12.2019
1. Property and equipment used in operations measured at cost	1,610	1,646
<i>Of which – Property and equipment used in operations – Rights of use acquired under leases</i>	<i>1,023</i>	<i>1,058</i>
2. Investment property measured at cost	-	-
3. Property and equipment used in operations, revalued	4,652	4,753
<i>Of which – Property and equipment used in operations, revalued – Rights of use acquired under leases</i>	<i>-</i>	<i>-</i>
4. Investment property measured at fair value	223	210
<i>Of which – Investment property – Rights of use acquired under leases</i>	<i>2</i>	<i>-</i>
5. Inventories of property and equipment governed by IAS 2	73	79
<b>Total Property and equipment – Caption 80</b>	<b>6,558</b>	<b>6,688</b>

### 8.1 Property and equipment used in operations: breakdown of assets measured at cost

	(millions of euro)	
Assets/Amounts	31.12.2020	31.12.2019
<b>1. Property and equipment owned</b>	<b>587</b>	<b>588</b>
a) land	-	-
b) buildings	-	-
c) furniture	122	144
d) electronic equipment	461	439
e) other	4	5
<b>2. Rights of use acquired through the lease</b>	<b>1,023</b>	<b>1,058</b>
a) land	1	-
b) buildings	1,008	1,043
c) furniture	-	-
d) electronic equipment	1	2
e) other	13	13
<b>Total</b>	<b>1,610</b>	<b>1,646</b>

*of which: resulting from the enforcement of guarantees*

-

Sub-caption 2. includes the rights of use acquired through leases following the entry into force of IFRS 16 from 1 January 2019.

## 8.2 Investment property: breakdown of assets measured at cost

There was no investment property measured at cost.

## 8.3 Property and equipment used in operations: breakdown of revalued assets

Assets/Amounts	(millions of euro)					
	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Property and equipment owned</b>	-	-	<b>4,652</b>	-	-	<b>4,753</b>
a) land	-	-	1,947	-	-	2,033
b) buildings	-	-	2,411	-	-	2,433
c) valuable art assets	-	-	294	-	-	287
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
<b>2. Rights of use acquired through the lease</b>	-	-	-	-	-	-
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
<b>Total</b>	-	-	<b>4,652</b>	-	-	<b>4,753</b>
<i>of which: resulting from the enforcement of guarantees</i>	-	-	-	-	-	-

## 8.4 Investment property: breakdown of assets measured at fair value

Assets/Amounts	(millions of euro)					
	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Property and equipment owned</b>	-	-	<b>221</b>	-	-	<b>210</b>
a) land	-	-	71	-	-	70
b) buildings	-	-	150	-	-	140
<b>2. Rights of use acquired through the lease</b>	-	-	<b>2</b>	-	-	-
a) land	-	-	-	-	-	-
b) buildings	-	-	2	-	-	-
<b>Total</b>	-	-	<b>223</b>	-	-	<b>210</b>
<i>of which: resulting from the enforcement of guarantees</i>	-	-	6	-	-	6

As explained in Part A – FAIR VALUE OF REAL ESTATE AND VALUABLE ART ASSETS, please note that:

- in accordance with the rules on valuation frequencies, at the end of 2020 the appraisals were updated for all the investment properties and owner-occupied properties other than trophy assets.

The valuation activity has been assigned to professionally qualified external companies with an international structure, able to provide property valuations based on the RICS Valuation standards which guarantee the determination of the value consistent with the fair value configuration indicated in the IAS/IFRS, as well as compliance with the professional, ethical and independence requirements for experts, in line with the provisions of international and European standards. The properties classified as trophy assets in the real estate portfolio were subject to full valuation at the end of 2019 and, therefore, were subject to scenario analysis for 2020;

at the end of 2020, following the completion of the first three-year fair value measurement cycle, the valuations were updated for all of Intesa Sanpaolo valuable art assets, through external appraisals, entrusted to qualified independent experts.

With regard to the provisions of IAS 40, paragraph 75, letters c), g) and h), there was no information worth mentioning.

## 8.5 Inventories of property and equipment governed by IAS 2: breakdown

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Inventories of property and equipment resulting from the enforcement of guarantees</b>	<b>65</b>	<b>67</b>
a) land	-	-
b) buildings	65	67
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	-
<b>2. Other inventories of property and equipment</b>	<b>8</b>	<b>12</b>
<b>Total</b>	<b>73</b>	<b>79</b>
<i>of which: measured at fair value less cost to sell</i>	-	-

## 8.6 Property and equipment used in operations: annual changes

Captions	(millions of euro)						
	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
<b>A. Gross initial carrying amount</b>	<b>2,033</b>	<b>3,760</b>	<b>1,429</b>	<b>5,210</b>	<b>287</b>	<b>82</b>	<b>12,801</b>
A.1 Total net adjustments	-	-284	-1,285	-4,769	-	-64	-6,402
<b>A. Net carrying amount</b>	<b>2,033</b>	<b>3,476</b>	<b>144</b>	<b>441</b>	<b>287</b>	<b>18</b>	<b>6,399</b>
<b>B. Increases:</b>	<b>19</b>	<b>490</b>	<b>12</b>	<b>184</b>	<b>21</b>	<b>9</b>	<b>735</b>
B.1 Purchases	-	50	2	129	-	7	188
<i>of which: business combinations</i>	-	1	-	-	-	-	1
B.2 Capitalised improvement costs	-	23	10	54	-	-	87
B.3 Recoveries	-	-	-	-	-	-	-
B.4 Positive fair value differences recognised in	18	93	-	-	11	-	122
a) <i>net equity</i>	18	89	-	-	11	-	118
b) <i>income statement</i>	-	4	-	-	-	-	4
B.5 Positive foreign exchange differences	-	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	X	X	X	X	-
B.7 Other changes	1	324	-	1	10	2	338
<b>C. Decreases:</b>	<b>-104</b>	<b>-547</b>	<b>-34</b>	<b>-163</b>	<b>-14</b>	<b>-10</b>	<b>-872</b>
C.1 Sales	-	-27	-	-	-	-	-27
<i>of which: business combinations</i>	-	-	-	-	-	-	-
C.2 Depreciation	-	-215	-21	-134	-	-8	-378
C.3 Impairment losses recognised in	-	-	-	-	-	-	-
a) <i>shareholders' equity</i>	-	-	-	-	-	-	-
b) <i>income statement</i>	-	-	-	-	-	-	-
C.4 Negative fair value differences recognised in	-80	-37	-	-	-14	-	-131
a) <i>shareholders' equity</i>	-61	-37	-	-	-9	-	-107
b) <i>income statement</i>	-19	-	-	-	-5	-	-24
C.5 Negative foreign exchange differences	-	-2	-	-	-	-	-2
C.6 Transfer to:	-19	-37	-	-1	-	-	-57
a) <i>investment property</i>	-10	-18	X	X	X	X	-28
b) <i>non-current assets held for sale and discontinued operations</i>	-9	-19	-	-1	-	-	-29
C.7 Other changes	-5	-229	-13	-28	-	-2	-277
<b>D. Net final carrying amount</b>	<b>1,948</b>	<b>3,419</b>	<b>122</b>	<b>462</b>	<b>294</b>	<b>17</b>	<b>6,262</b>
D.1 Total net adjustments	-	-311	-1,306	-4,877	-	-71	-6,565
<b>D.2 Gross final carrying amount</b>	<b>1,948</b>	<b>3,730</b>	<b>1,428</b>	<b>5,339</b>	<b>294</b>	<b>88</b>	<b>12,827</b>
<b>E. Measurement at cost</b>	<b>1,226</b>	<b>1,563</b>	<b>-</b>	<b>-</b>	<b>89</b>	<b>-</b>	<b>2,878</b>

Sub-captions B.4 and C.4 respectively report the positive and negative changes in fair value relating to owner-occupied real estate (land and buildings) and valuable art assets, for which the Bank applies the revaluation model.

The “Other changes”, both increases and decreases, refer mainly to renegotiations during the year of leases (IFRS 16) and, only regarding decreases, to amortisation and depreciation recorded during the year on assets deriving from the acquisition of business lines of the former Venetian banks, covered using the allowance for risks and charges specifically allocated at the time.

Sub-caption “E - Measurement at cost” only contains property and equipment measured according to the revaluation model, in compliance with the instructions set out in Circular 262 of the Bank of Italy.

### 8.6 bis Of which - Property and equipment used in operations - Rights of use acquired under leases: annual changes

Captions	(millions of euro)						
	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
<b>A. Gross initial carrying amount</b>	-	1,178	-	3	-	19	1,200
A.1 Total net adjustments	-	-135	-	-1	-	-6	-142
<b>A. Net carrying amount</b>	-	<b>1,043</b>	-	<b>2</b>	-	<b>13</b>	<b>1,058</b>
<b>B. Increases:</b>	<b>1</b>	<b>360</b>	-	-	-	<b>9</b>	<b>370</b>
B.1 Purchases	-	41	-	-	-	7	48
<i>of which: business combinations</i>	-	1	-	-	-	-	1
B.2 Capitalised improvement costs	-	-	-	-	-	-	-
B.3 Recoveries	-	-	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	1	-	-	-	-	1
a) <i>net equity</i>	-	1	-	-	-	-	1
b) <i>income statement</i>	-	-	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	X	X	X	X	-
B.7 Other changes	1	318	-	-	-	2	321
<b>C. Decreases:</b>	-	<b>-395</b>	-	<b>-1</b>	-	<b>-9</b>	<b>-405</b>
C.1 Sales	-	-26	-	-	-	-	-26
<i>of which: business combinations</i>	-	-	-	-	-	-	-
C.2 Depreciation	-	-136	-	-1	-	-7	-144
C.3 Impairment losses recognised in	-	-	-	-	-	-	-
a) <i>shareholders' equity</i>	-	-	-	-	-	-	-
b) <i>income statement</i>	-	-	-	-	-	-	-
C.4 Negative fair value differences recognised in	-	-	-	-	-	-	-
a) <i>shareholders' equity</i>	-	-	-	-	-	-	-
b) <i>income statement</i>	-	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-2	-	-	-	-	-2
C.6 Transfer to:	-	-2	-	-	-	-	-2
a) <i>investment property</i>	-	-	X	X	X	X	-
b) <i>non-current assets held for sale and discontinued operations</i>	-	-2	-	-	-	-	-2
C.7 Other changes	-	-229	-	-	-	-2	-231
<b>D. Net final carrying amount</b>	<b>1</b>	<b>1,008</b>	-	<b>1</b>	-	<b>13</b>	<b>1,023</b>
D.1 Total net adjustments	-	-253	-	-2	-	-13	-268
<b>D.2 Gross final carrying amount</b>	<b>1</b>	<b>1,261</b>	-	<b>3</b>	-	<b>26</b>	<b>1,291</b>
<b>E. Measurement at cost</b>	-	-	-	-	-	-	-

**8.7 Investment property: annual changes**

(millions of euro)

Captions	Lands	Buildings
<b>A. Initial carrying amount</b>	<b>70</b>	<b>140</b>
<b>B. Increases</b>	<b>10</b>	<b>23</b>
B.1 Purchases	-	1
<i>of which: business combinations</i>	-	-
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value differences	-	1
B.4 Recoveries	-	-
B.5 Positive foreign exchange differences	-	-
B.6 Transfer from property used in operations	10	18
B.7 Other changes	-	3
<b>C. Decreases</b>	<b>-9</b>	<b>-11</b>
C.1 Sales	-1	-4
<i>of which: business combinations</i>	-	-
C.2 Depreciation	-	-
C.3 Negative fair value differences	-7	-7
C.4 Impairment losses	-	-
C.5 Negative foreign exchange differences	-	-
C.6 Transfer to:	-	-
<i>a) property used in operations</i>	-	-
<i>b) non-current assets held for sale and discontinued operations</i>	-	-
C.7 Other changes	-1	-
<b>D. Final amount</b>	<b>71</b>	<b>152</b>
<b>E. Fair value measurement</b>	<b>-</b>	<b>-</b>

Investment property, comprised of land and buildings, is measured at fair value, in compliance with IAS 40. It is noted that, during the year, the related fair value was updated. The effects of that update are recognised in sub-captions B.3 “Positive fair value differences” and C.3 “Negative fair value differences”.

**8.7 bis Of which - Investment property - Rights of use acquired under leases: annual changes**

(millions of euro)

Captions	Lands	Buildings
<b>A. Initial carrying amount</b>	<b>-</b>	<b>-</b>
<b>B. Increases</b>	<b>-</b>	<b>2</b>
B.1 Purchases	-	-
<i>of which business combinations</i>	-	-
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value differences	-	-
B.4 Recoveries	-	-
B.5 Positive foreign exchange differences	-	-
B.6 Transfer from investment property	-	-
B.7 Other changes	-	2
<b>C. Decreases</b>	<b>-</b>	<b>-</b>
C.1 Sales	-	-
<i>of which business combinations</i>	-	-
C.2 Depreciation	-	-
C.3 Negative fair value differences	-	-
C.4 Impairment losses	-	-
C.5 Negative foreign exchange differences	-	-
C.6 Transfer to:	-	-
<i>a) property used in operations</i>	-	-
<i>b) non-current assets held for sale and discontinued operations</i>	-	-
C.7 Other changes	-	-
<b>D. Final carrying amount</b>	<b>-</b>	<b>2</b>
<b>E. Fair value measurement</b>	<b>-</b>	<b>-</b>



**8.8 Inventories of property and equipment governed by IAS 2: annual changes**

(millions of euro)

Captions	Inventories of property and equipment resulting from the enforcement of guarantees					Other inventories of property and equipment	Total
	Land	Buildings	Furniture	Electronic equipment	Other		
<b>A. Initial carrying amount</b>	-	<b>67</b>	-	-	-	<b>12</b>	<b>79</b>
<b>B. Increases</b>	-	<b>1</b>	-	-	-	-	<b>1</b>
B.1 Purchases	-	-	-	-	-	-	-
<i>- of which: business combinations</i>	-	-	-	-	-	-	-
B.2 Recoveries	-	-	-	-	-	-	-
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	-	1	-	-	-	-	1
<b>C. Decreases</b>	-	<b>-3</b>	-	-	-	<b>-4</b>	<b>-7</b>
C.1 Sales	-	-	-	-	-	-2	-2
C.2 Impairment losses	-	-3	-	-	-	-	-3
C.3 Negative foreign exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-	-	-	-	-	-2	-2
<b>D. Final amount</b>	-	<b>65</b>	-	-	-	<b>8</b>	<b>73</b>

**8.9 Commitments to purchase property and equipment**

Commitments to purchase property and equipment in existence as at 31 December 2020 amounted to approximately 27 million euro.

## SECTION 9 - INTANGIBLE ASSETS - CAPTION 90

## 9.1 Intangible assets: breakdown by type of asset

Captions	(millions of euro)			
	31.12.2020		31.12.2019	
	Finite useful life	Indefinite useful life	Finite life	Indefinite life
<b>A.1 Goodwill</b>	<b>X</b>	<b>67</b>	<b>X</b>	<b>1,242</b>
<b>A.2 Other intangible assets</b>	<b>1,999</b>	<b>1,507</b>	<b>1,803</b>	<b>1,507</b>
A.2.1 Assets measured at cost	1,999	1,507	1,803	1,507
a) <i>internally generated intangible assets</i>	1,792	-	1,603	-
b) <i>other assets</i>	207	1,507	200	1,507
A.2.2 Assets measured at fair value	-	-	-	-
a) <i>internally generated intangible assets</i>	-	-	-	-
b) <i>other assets</i>	-	-	-	-
<b>Total</b>	<b>1,999</b>	<b>1,574</b>	<b>1,803</b>	<b>2,749</b>

Other intangible assets and goodwill with an indefinite useful life essentially reflect components from the purchase price allocation process, as per IFRS 3, as part of the merger by incorporation of Sanpaolo IMI into Banca Intesa finalised on 1 January 2007 and the subsequent business combinations under common control. Due to the negative effects on cash flows expected in the short/medium term deriving from the current economic scenario, especially the expected trend in interest rates, which is also offset by the increase in the carrying amount of the “Banca dei Territori” CGU resulting from the integration of UBI Banca, the impairment test conducted at the end of the year on the goodwill posted in the financial statements showed the need to fully write-down the goodwill of the “Banca dei Territori” Division (for an amount of 1,155 million euro).

The sub-caption “Other internally-generated intangible assets” with a finite useful life refers to software licenses developed internally as well as digital training. The sub-caption “other assets”, on the other hand, comprises the software licenses purchased from external suppliers, in addition to the intangible assets identified under the purchase price allocation of the price paid for business combinations. IFRS 3 requires that an acquisition that is part of a business combination must be recognised using the purchase method and that the price paid must be allocated to the assets acquired and the liabilities assumed, measured at their respective fair values. The “intangibles” identified, which express the value of the relationships acquired, are amortised over the estimated duration of their benefit.

The amount of software as at 31 December 2020, both produced internally and externally purchased, came to 1,769 million euro, in addition to 147 million euro in new investments in software not yet on stream.

## 9.2 Intangible assets: annual changes

Captions	(millions of euro)					Total
	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
<b>A. Initial carrying amount</b>	<b>7,626</b>	<b>6,257</b>	-	<b>2,655</b>	<b>2,009</b>	<b>18,547</b>
A.1 Total net adjustments	-6,384	-4,654	-	-2,455	-502	-13,995
<b>A.2 Net initial carrying amount</b>	<b>1,242</b>	<b>1,603</b>	-	<b>200</b>	<b>1,507</b>	<b>4,552</b>
<b>B. Increases</b>	-	<b>782</b>	-	<b>59</b>	-	<b>841</b>
B.1 Purchases	-	-	-	59	-	59
- of which: business combinations	-	-	-	-	-	-
B.2 Increases of internally generated intangible assets	X	781	-	-	-	781
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	1	-	-	-	1
<b>C. Decreases</b>	<b>-1,175</b>	<b>-593</b>	-	<b>-52</b>	-	<b>-1,820</b>
C.1 Sales	-	-5	-	-	-	-5
- of which: business combinations	-	-	-	-	-	-
C.2 Impairment losses	-1,155	-547	-	-48	-	-1,750
- Amortisation	X	-546	-	-48	-	-594
- Write-downs recognised in	-1,155	-1	-	-	-	-1,156
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-1,155	-1	-	-	-	-1,156
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-20	-1	-	-	-	-21
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-40	-	-4	-	-44
<b>D. Net final carrying amount</b>	<b>67</b>	<b>1,792</b>	-	<b>207</b>	<b>1,507</b>	<b>3,573</b>
D.1 Total net adjustments	7,153	5,204	-	2,507	502	15,366
<b>E. Gross final carrying amount</b>	<b>7,220</b>	<b>6,996</b>	-	<b>2,714</b>	<b>2,009</b>	<b>18,939</b>
F. Measurement at cost	-	-	-	-	-	-

## 9.3 Intangible assets: other information

As at 31 December 2020, the commitments relating to investments in intangible assets, essentially software, amounted to around 18 million euro.

## Information on intangible assets and goodwill

Intangible assets and goodwill recognised into the Intesa Sanpaolo balance sheet derive mainly from the merger between Banca Intesa and Sanpaolo IMI completed on 1 January 2007, and subsequent mergers of the network banks.

During 2020, as specified in the Consolidated Report on Operations, the transfer to Nexi of the Intesa Sanpaolo acquiring business line was finalised at the end of June, with the resulting elimination of the goodwill and specific intangible assets attributable to the line transferred to Nexi, classified under discontinued operations in the 2019 Financial Statements. Note that under the terms of the agreement, Intesa Sanpaolo's acquiring business line was transferred to Nexi and Nexi became Intesa Sanpaolo's sole partner for acquiring activities. In any event, Intesa Sanpaolo maintained the relationships with its customers through the distribution of Nexi's acquiring services.

Moreover, in 2020 an agreement was reached by the Intesa Sanpaolo Group and BPER Banca for the disposal of a going concern consisting of a pool of branches and other relationships of Intesa Sanpaolo, including the respective staff and customer relationships. Also for the Parent Company's financial statements, as specified in the Consolidated Report on Operations, that operation did not entail changes to the total amount of intangible assets recorded in the Parent Company's

financial statements, but resulted in a decrease in the value of goodwill of the Banca dei Territori CGU, for around 20 million euro, in relation to its reclassification under discontinued operations, pursuant to IFRS 5.

Reference should be made to Part B – Information on the consolidated balance sheet – Assets of the consolidated financial statements for further details of the various components and measurement criteria.

The following table summarises the different values recorded for changes occurring during 2020.

	2019 financial statements	Amortisation	Sale of acquiring business line	Reclassification 31 ISP branches sold to BPER	Impairment losses	(millions of euro) 2020 financial statements
<b>BANCA DEI TERRITORI DIVISION</b>	<b>2,758</b>	<b>-9</b>	<b>-</b>	<b>-20</b>	<b>-1,155</b>	<b>1,574</b>
- Asset management intangible assets- distribution	65	-6	-	-	-	59
- Insurance intangible assets - distribution	11	-3	-	-	-	8
- Brand name intangible	1,507	-	-	-	-	1,507
- Goodwill	1,175	-	-	-20	-1,155	-
<b>IMI CORPORATE &amp; INVESTMENT BANKING DIVISION</b>	<b>67</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>67</b>
- Intangible brand name	-	-	-	-	-	-
- Goodwill	67	-	-	-	-	67
<b>CGU TOTAL</b>	<b>2,825</b>	<b>-9</b>	<b>-</b>	<b>-20</b>	<b>-1,155</b>	<b>1,641</b>
- Asset management intangible assets - distribution	65	-6	-	-	-	59
- Insurance intangible assets - distribution	11	-3	-	-	-	8
- Brand name intangible	1,507	-	-	-	-	1,507
- Goodwill	1,242	-	-	-20	-1,155	67
<b>DISCONTINUED OPERATIONS - ACQUIRING BUSINESS LINE</b>	<b>79</b>	<b>-</b>	<b>-79</b>	<b>20</b>	<b>-</b>	<b>20</b>
- Goodwill - Acquiring business line	59	-	-59	-	-	-
- Customer-related intangible - Acquiring business line	20	-	-20	-	-	-
- Goodwill - 31 ISP branches sold to BPER	-	-	-	20	-	20

The intangible assets with finite useful lives shown in the table above refer to assets linked to customer relationships and are represented by the insurance portfolio (the value component relating to distribution activities) and asset management accounts (the value component attributable to distribution activities). Those intangible assets with a finite life are originally measured by discounting the income margin cash flows over a period representing the residual life, contractual and estimated, of relationships existing at the time of the business combination.

The brand name, an intangible asset linked to marketing, was also measured. This asset is considered to have an indefinite life since it is expected to contribute for an indefinite period of time to the formation of income flows.

For the intangible assets with a finite useful life, the amortisation for the year was recognised to the income statement (under “190. Net adjustments to/recoveries on intangible assets”) for a total of 9 million euro.

Based on IAS 36, both intangible assets with an indefinite useful life and goodwill are submitted to impairment testing on an annual basis to verify recoverability of their value. For intangible assets with a finite useful life, impairment must be calculated each time there is evidence of impairment indicators. The recoverable amount consists of the higher of the fair value and the value in use less costs to sell.

In line with the guidance issued by ESMA which views the effects of the COVID-19 pandemic as an indicator of impairment, an impairment test on the recoverability of the value of goodwill and the brand name was carried out for the Half-yearly Report as at 30 June 2020, which showed recoverable amounts of the various CGUs higher than the corresponding book values. Therefore, no adjustments were made to intangible assets. In any event, as also indicated in the Half-yearly Report as at 30 June 2020, the sensitivity analyses conducted on the main parameters relevant for the purposes of the recoverable amount showed marginal critical issues with regard to the Banca dei Territori CGU.

In line with the ESMA guidance, also for the purposes of the 2020 Financial Statements, in conducting the annual impairment testing of goodwill, the effects of the COVID-19 pandemic were carefully considered.

With regard to the other intangible assets with finite useful lives, specific analyses were conducted regarding the recoverable amount which did not identify any problems. Moreover, consideration should be given to the amortisation process that had reduced their carrying amounts compared to their initial book values and bearing in mind that the standard requires the recoverable amount be determined by referring to the assets of the entire CGU at the reporting date and not only to the residual assets for which the initial value of the intangible asset was determined. In that regard, it should be mentioned that IAS 36, for the purpose of calculating the value in use of intangibles subject to impairment testing, states that reference must be made to cash flows for the intangible asset in its current condition (as at the impairment test date), with no distinction between cash flows arising from the asset initially recognised according to IFRS 3 and those deriving from later changes, improvements or developments since its acquisition. This because it would be difficult, especially with regard to extraordinary

transactions between businesses or changes in the asset following significant turnover in volumes, customers, contracts, etc., to separate flows relating to the original asset from others.

This concept can also be applied in impairment testing of goodwill to calculate the value in use of the CGUs, for which the cash flows have to be considered with regard to all assets and liabilities of that CGU and not only the assets and liabilities for which goodwill was recognised on application of IFRS 3.

As in previous financial statements, given the instability of the financial markets and the available market values for calculation of the recoverable amount of goodwill, which generally remain depressed, values in use that represent the present value of net future cash flows from the asset (or business) being valued were used in the impairment tests for the 2020 financial statements and the Half-yearly Report as at 30 June 2020.

Furthermore, the methods and assumptions of the impairment test procedures for intangible assets and goodwill defined by management were approved by the Board of Directors prior to approval of the draft financial statements for 2020.

The outcomes of the impairment test as at 31 December 2020 showed the need to recognise an adjustment on the entire amount of goodwill allocated to the Banca dei Territori CGU.

## Impairment testing of intangibles

### *Insurance portfolio*

For the 2020 financial statements, the amortisation of the asset for the year was recognised to the income statement. The amortisation for the year, which for the insurance portfolio is calculated on a variable basis corresponding to the residual lives of the policies, came to 3 million euro gross of the tax effect, equal to about 27% of the value of the asset recognised at the end of 2019.

The analyses conducted during the year on the main impairment indicators were updated and extended for this type of intangible as well. However, a thorough recalculation of value of the intangible asset was not performed since in 2020 the performance of the insurance business did not present any particular critical issues or indicators of impairment deriving from the performances of the various variables subject to constant monitoring on a periodic basis.

### *Asset management portfolio*

As part of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca in compulsory administrative liquidation, in 2017 the intangible assets linked to Assets Under Management (AUM) deriving from the acquired Aggregate Set were calculated, represented by the capacity of the relationships existing at the acquisition date to generate cash flows over the residual useful life of those relationships. Those intangible assets increased in 2019, following the merger by incorporation of Banca Apulia.

For the purpose of the impairment test as at 31 December 2020, no specific problems arose in relation to the strength of the value recorded, taking account of the fact, also specified above, that the valuation for the purpose of impairment testing should not be limited only to the cash flows deriving from the asset acquired, but should also take account of all the cash flows linked to the assets of the specific CGU, which were significantly higher than the new assets acquired.

For more details, reference is made to Part B - Information on the Consolidated balance sheet – Assets.

### *Brand name*

IFRS 3 considers the "brand name" a potential, marketing-related intangible asset, which may be recorded in the purchase price allocation process for business combinations.

For this purpose, please note that the term "brand" is used in accounting standards with an extensive meaning and not as a synonym of "logo" or "name". It is considered a general marketing term which defines a set of complementary intangible assets (in addition to the name and the logo, also the competencies, consumer trust, service quality, etc.) which concur to form brand equity.

The value recorded in the Intesa Sanpaolo financial statements refers to the Sanpaolo IMI brand recognised at the time of the Banca Intesa-Sanpaolo IMI merger.

Even if this is an intangible asset with no autonomous cash flows, and thus, is considered as part of the activities aimed at verifying the retention of the value of goodwill of the various CGUs, for the purposes of this impairment test it was considered that the impairment test of the value of goodwill of the Banca dei Territori CGU was negative, resulting in the full write down of the goodwill allocated. An autonomous test of the recoverability of the value of the brand name allocated to that CGU was thus conducted by an independent expert, Mauro Bini, Full Professor of Corporate Finance at Bocconi University. By applying various measurement models, Prof. Bini certified a fair value higher than the related carrying amount.

For more details, reference is made to Part B - Information on the Consolidated balance sheet – Assets.

### Impairment testing of CGUs and goodwill

For impairment testing purposes, the estimation of the value in use relating to intangible assets with an indefinite life (including goodwill) that do not generate cash flows unless jointly with other business, as per IAS 36, requires the preliminary assignment of such intangible assets to relatively independent business units, able to generate cash flows strongly independent of those produced in other business areas, but interdependent within the business unit generating them. In IAS/IFRS terminology, such business units are known as Cash Generating Units (CGUs).

Specifically, the allocation of goodwill as at the date of the business combination takes into account the benefits produced by the synergies expected from the combination.

At the Intesa Sanpaolo Group level, the following CGUs have been identified:

- Banca dei Territori;
- IMI Corporate & Investment Banking;
- Insurance;
- Asset Management;
- Private Banking;
- International Subsidiary Banks;
- Bank of Alexandria;
- Pravex Bank.

For a description of the criteria relating to the definition of the Group's CGUs reference is made to Part B - Information on the Consolidated balance sheet – Assets. More specifically, goodwill recognised to the Intesa Sanpaolo financial statements has been allocated to the Banca dei Territori CGU and the IMI Corporate & Investment Banking CGU.

As CGU identification requires an analysis of the management characteristics and reporting methods used by management, and as the logic for strategic decision-making by management of the Parent Company is that of the Group as a whole and not only that of the Parent Company as an individual entity, the CGUs are identified in the consolidated financial statements.

Furthermore, as illustrated in the Accounting Policies, investments in subsidiaries are not treated, for impairment test purposes, as single assets to be individually subjected to testing. Considering the organisational model adopted by Intesa Sanpaolo, CGUs are defined without regard to the structure of legal entities, inasmuch as investments are aggregated, along with the operating activities performed directly by the Parent Company, into CGUs of greater size or different structure. Accordingly, the impairment test performed at the consolidated level is also relevant at the Parent Company's financial statements level.

For an illustration of impairment tests for this caption, reference should be made to Part B - Information on the consolidated balance sheet - Assets.

If a need to recognise an impairment loss on goodwill attributable to a given CGU is identified at the level of the consolidated financial statements, in the Parent Company's financial statements that impairment loss is attributed to the assets pertaining to the same CGU not subject to testing individually, namely goodwill, the brand name and investments in subsidiaries. As described in Part B – Information on the consolidated balance sheet - Assets, impairment tests showed the need to recognise an impairment loss on the goodwill allocated to the Banca dei Territori CGU. As described in Part B – Information on the consolidated balance sheet - Assets, impairment tests showed the need to recognise an impairment loss on the goodwill allocated to the Banca dei Territori CGU, due to the negative effects on cash flows expected in the short/medium term deriving from the current economic scenario, harshly impacted by the COVID-19 pandemic (especially the expected trend in interest rates) and due to the increase in shareholders' equity for the purpose of the acquisition of UBI Banca, which indirectly also entailed an increase in the carrying amount of Banca dei Territori. At the Parent Company's financial statements level, that goodwill is not attributed to any controlling equity investment, considering the operations that led to the merger by incorporation of the network banks into Intesa Sanpaolo over time, but is directly allocated to the Parent Company. As a result, an impairment loss of 1,155 million euro was recognised on the equivalent goodwill at the Parent Company's financial statements level, allocated to the Banca dei Territori CGU.



## SECTION 10 – TAX ASSETS AND LIABILITIES – CAPTION 100 OF ASSETS AND CAPTION 60 OF LIABILITIES

### 10.1 Deferred tax assets: breakdown

(millions of euro)

Corresponding caption in income statement	31.12.2020		31.12.2019	
	IRES (27.5%)	IRAP (5.56%)	IRES (27.5%)	IRAP (5.56%)
<b>A. Temporary deductible differences</b>				
Adjustment to/Impairment of loans deductible in future years	3,611	476	4,010	523
<i>of which pertaining to countries of foreign branches</i>	14	-	12	-
Provisions for future charges	581	83	495	65
Higher tax value of equity investments, securities and other assets	121	57	129	57
Extraordinary charges for incentive-driven exit plans	448	88	261	51
Goodwill, trademarks and other intangible assets	3,927	775	4,045	799
Other	2,092	89	1,530	15
<i>of which pertaining to countries of foreign branches</i>	2	-	4	-
<b>B. Taxable temporary differences offset</b>				
Costs deducted off balance sheet	-	-	-	-
Capital gains in instalments	-	-	-	-
Lower tax value of equity investments, securities and other assets	-79	-1	-49	-2
Other	-	-	-	-
<b>TOTAL (A+B)</b>	<b>10,701</b>	<b>1,567</b>	<b>10,421</b>	<b>1,508</b>
<b>Corresponding caption in Shareholders' equity</b>	<b>IRES (27.5%)</b>	<b>IRAP (5.56%)</b>	<b>IRES (27.5%)</b>	<b>IRAP (5.56%)</b>
Cash flow hedge	335	65	347	68
Recognition of actuarial gains/losses	139	8	141	8
Financial assets measured at fair value	66	13	20	4
Property and equipment	23	4	17	3
Offset against deferred tax liabilities recorded in equity	-110	-23	-	-
<b>TOTAL</b>	<b>453</b>	<b>67</b>	<b>525</b>	<b>83</b>
<b>Total deferred tax assets</b>	<b>11,154</b>	<b>1,634</b>	<b>10,946</b>	<b>1,591</b>

Deductible temporary differences - "Other" include losses carried forward of 1,485 million euro.

For the purpose of completeness, note that caption 110 "Non-current assets held for sale and discontinued operations" under balance sheet assets include Deferred tax assets (recorded through profit and loss) for 16 million euro relating to provisions for future charges related to the branches that will be sold to a BPER.

**10.2 Deferred tax liabilities: breakdown**

(millions of euro)

Corresponding caption in income statement	31.12.2020		31.12.2019	
	IRES (27.5%)	IRAP (5.56%)	IRES (27.5%)	IRAP (5.56%)
<b>A. Taxable temporary differences</b>				
Costs deducted off balance sheet	418	82	473	88
Lower tax value of securities and other assets	190	16	151	13
<i>of which pertaining to countries of foreign branches</i>	-	-	-	-
Other	4	-	-	-
<b>B. Deductible temporary differences offset</b>				
Adjustment to/Impairment of loans deductible in future years	-	-	-	-
Higher tax value of securities and other assets	-55	-1	-	-
Other	-	-	-	-
<b>TOTAL (A+B)</b>	<b>557</b>	<b>97</b>	<b>624</b>	<b>101</b>
<b>Corresponding caption in Shareholders' equity</b>	<b>IRES (27.5%)</b>	<b>IRAP (5.56%)</b>	<b>IRES (27.5%)</b>	<b>IRAP (5.56%)</b>
Cash flow hedge	12	3	-	-
Recognition of actuarial gains/losses	-	-	-	-
Financial assets measured at fair value	98	21	15	5
Property and equipment	133	31	130	30
Offset against deferred tax assets recorded in equity	-110	-23	-	-
<b>TOTAL</b>	<b>133</b>	<b>32</b>	<b>145</b>	<b>35</b>
<b>Total deferred tax liabilities</b>	<b>690</b>	<b>129</b>	<b>769</b>	<b>136</b>

**10.3 Changes in deferred tax assets (through profit or loss)**

(millions of euro)

Captions	31.12.2020	31.12.2019
<b>1. Initial amount</b>	<b>11,929</b>	<b>10,751</b>
<b>2. Increases</b>	<b>1,618</b>	<b>1,584</b>
2.1 Deferred tax assets recognised in the period	1,232	196
<i>a) related to previous years</i>	6	20
<i>b) due to changes in accounting criteria</i>	-	-
<i>c) recoveries</i>	-	-
<i>d) other</i>	1,226	176
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	205	1,388
2.4 Business combinations	181	1,288
<b>3. Decreases</b>	<b>-1,279</b>	<b>-406</b>
3.1 Deferred tax assets eliminated in the period	-1,161	-302
<i>a) reversals</i>	-1,046	-288
<i>b) write-offs</i>	-	-
<i>c) due to changes in accounting criteria</i>	-	-
<i>d) other</i>	-115	-14
3.2 Tax rate reductions	-	-
3.3 Other decreases:	-118	-104
<i>a) changes into tax credits pursuant to Law no. 214/2011</i>	-	-
<i>b) other</i>	-118	-104
3.4 Business combinations	-	-
<b>4. Final amount</b>	<b>12,268</b>	<b>11,929</b>

Increases d) “other” refers mainly to deductible temporary differences arising during the year, connected to provisions for risks and charges (620 million euro) and the recognition of convertible deferred tax assets on the IRES tax loss (521 million euro).

“Other increases” refer to the reversal of netting against deferred tax liabilities, applied as at 31 December 2019, amounting to 71 million euro, of which 51 million euro relating to deferred tax liabilities through profit and loss and 20 million euro relating to deferred tax liabilities recorded in equity.

That caption also includes 73 million euro in deferred tax assets posted in relation to the tax loss carried forward (3.5% additional IRES) and 61 million euro in deferred tax assets posted in relation to the tax loss carried forward (24% IRES) not used in the fiscal consolidation.

Decreases a) “reversals” mainly refer to the elimination of deferred tax assets pursuant to Law no. 214/2011 (587 million euro) and deferred tax assets previously recorded in relation to provisions for risks and charges, as a result of their use during the year (310 million euro).

Other decreases b) “other” include 16 million euro attributable to deferred tax assets relating to provisions for future charges related to the branches that will be sold to BPER, which were reclassified under “Non-current assets held for sale and discontinued operations” in compliance with IFRS 5 and 80 million euro relating to the netting with deferred tax liabilities for the year, of which 56 million euro against deferred tax liabilities through profit and loss and 24 million euro against deferred tax liabilities recorded in equity.

#### 10.3.1 Changes in deferred tax assets pursuant to Law 214/2011

Items	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Initial amount</b>	<b>8,246</b>	<b>7,437</b>
<b>2. Increases</b>	<b>690</b>	<b>830</b>
- of which: business combinations	101	830
<b>3. Decreases</b>	<b>-606</b>	<b>-21</b>
3.1 Reversals	-587	-
3.2 Changes into tax credits	-	-
a) from losses for the year	-	-
b) from fiscal losses	-	-
3.3 Other decreases	-19	-21
<b>4. Final amount</b>	<b>8,330</b>	<b>8,246</b>

#### 10.4 Changes in deferred tax liabilities (through profit or loss)

Items	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Initial amount</b>	<b>725</b>	<b>797</b>
<b>2. Increases</b>	<b>65</b>	<b>187</b>
2.1 Deferred tax liabilities recognised in the period	13	75
a) related to previous years	-	2
b) due to changes in accounting criteria	-	-
c) other	13	73
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	51	112
2.4 Business combinations	1	28
<b>3. Decreases</b>	<b>-136</b>	<b>-259</b>
3.1 Deferred tax liabilities eliminated in the period	-70	-199
a) reversals	-65	-2
b) due to changes in accounting criteria	-	-
c) other	-5	-197
3.2 Tax rate reductions	-	-
3.3 Other decreases:	-66	-60
3.4 Business combinations	-	-
<b>4. Final amount</b>	<b>654</b>	<b>725</b>

Increases c) “other” refers to taxable temporary differences arising during the year, mainly relating to goodwill (7 million euro) and the higher value of equity investments (4 million euro).

Other increases refer to write-off of netting against deferred tax assets through profit or loss applied as at 31 December 2019, amounting to 51 million euro.

Decreases a) “reversals” mainly refer to the discharge of deferred tax liabilities on goodwill (64 million euro).

Other decreases include 56 million euro attributable to the netting against deferred tax assets through profit or loss for the year.

## 10.5 Changes in deferred tax assets (recorded in equity)

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Initial amount</b>	<b>608</b>	<b>587</b>
<b>2. Increases</b>	<b>413</b>	<b>168</b>
2.1 Deferred tax assets recognised in the period	412	119
<i>a) related to previous years</i>	-	-
<i>b) due to changes in accounting criteria</i>	-	-
<i>c) other</i>	412	119
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	49
2.4 Business combinations	1	49
<b>3. Decreases</b>	<b>-501</b>	<b>-147</b>
3.1 Deferred tax assets eliminated in the period	-366	-131
<i>a) reversals</i>	-366	-131
<i>b) write-offs</i>	-	-
<i>c) due to changes in accounting criteria</i>	-	-
<i>d) other</i>	-	-
3.2 Tax rate reductions	-	-
3.3 Other decreases:	-135	-16
3.4 Business combinations	-	-
<b>4. Final amount</b>	<b>520</b>	<b>608</b>

Increases c) “other” refers to deductible temporary differences arising during the year, mainly connected with the results of cash flow hedging derivatives (302 million euro) and financial assets measured at fair value through other comprehensive income (99 million euro).

Decreases a) “reversals” mainly refer to the elimination of deferred tax assets previously recorded in relation to the fair value measurement of cash flow hedging derivatives (316 million euro) and financial assets measured at fair value through other comprehensive income (44 million euro) following the adjustment of the valuation effects or the related realisation during the year.

“Other decreases – other” include 133 million euro attributable to the netting against deferred tax liabilities recorded in equity.

**10.6 Changes in deferred tax liabilities (recorded in equity)**

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Initial amount</b>	<b>180</b>	<b>574</b>
<b>2. Increases</b>	<b>266</b>	<b>122</b>
2.1 Deferred tax liabilities recognised in the period	245	76
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	245	76
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	20	46
2.4 Business combinations	1	46
<b>3. Decreases</b>	<b>-281</b>	<b>-516</b>
3.1 Deferred tax liabilities eliminated in the period	-124	-487
a) reversals	-122	-86
b) due to changes in accounting criteria	-	-
c) other	-2	-401
3.2 Tax rate reductions	-	-
3.3 Other decreases:	-157	-29
3.4 Business combinations	-	-
<b>4. Final amount</b>	<b>165</b>	<b>180</b>

Increases c) “other” mainly refers to taxable temporary differences arising during the year connected with the measurement of financial assets measured at fair value through other comprehensive income (223 million euro). Other increases refer to write-off of netting against deferred tax assets through profit or loss applied as at 31 December 2019.

Decreases a) “reversals” mainly refer to the discharge of deferred tax liabilities previously recorded in relation to the valuation of financial assets measured at fair value through other comprehensive income. Other decreases include 133 million euro attributable to the netting against deferred tax assets recorded in equity and 24 million euro to the netting against deferred tax assets through profit or loss.

As indicated in the accounting policies, with regard to current and deferred taxation, no provision is made in the financial statements for reserves subject to latent taxation only in the event of distribution, since the size of the available reserves which have already been taxed leads to the belief that the Bank will not undertake any transactions which may cause taxation of those untaxed reserves.

***Probability test on deferred taxation***

For information concerning the probability test on deferred taxation, refer to the contents of Part B – Assets of the Notes to the consolidated financial statements.

The test performed at Group and Parent Company levels showed a taxable base that was sufficient and adequate to allow recovery of the deferred taxes carried in the financial statements as at 31 December 2020.

**10.7 Other information**

There is no other information to be provided in addition to that already contained in this Section.

## SECTION 11 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES - CAPTION 110 OF ASSETS AND CAPTION 70 OF LIABILITIES

### 11.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>A. Non-current assets held for sale</b>		
A.1 Financial assets	1,710	325
A.2 Investments in associates and companies subject to joint control	-	-
A.3 Property and equipment	38	11
<i>of which: resulting from the enforcement of guarantees</i>	-	-
A.4 Intangible assets	20	-
A.5 Other	30	-
<b>Total A</b>	<b>1,798</b>	<b>336</b>
<i>of which measured at cost</i>	1,795	336
<i>of which Fair value level 1</i>	-	-
<i>of which Fair value level 2</i>	3	-
<i>of which Fair value level 3</i>	-	-
<b>B. Discontinued operations</b>		
B.1 Financial assets measured at fair value through profit or loss	-	-
- <i>Financial assets held for trading</i>	-	-
- <i>Financial assets designated at fair value</i>	-	-
- <i>Other financial assets mandatorily measured at fair value</i>	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	49
B.4 Investments in associates and companies subject to joint control	-	-
B.5 Property and equipment	-	-
<i>of which: resulting from the enforcement of guarantees</i>	-	-
B.6 Intangible assets	-	80
B.7 Other assets	-	4
<b>Total B</b>	<b>-</b>	<b>133</b>
<i>of which measured at cost</i>	-	133
<i>of which Fair value level 1</i>	-	-
<i>of which Fair value level 2</i>	-	-
<i>of which Fair value level 3</i>	-	-
<b>C. Liabilities associated with non-current assets held for sale</b>		
C.1 Debts	-2,500	-4
C.2 Securities	-	-
C.3 Other	-94	-2
<b>Total C</b>	<b>-2,594</b>	<b>-6</b>
<i>of which measured at cost</i>	-2,592	-6
<i>of which Fair value level 1</i>	-	-
<i>of which Fair value level 2</i>	-2	-
<i>of which Fair value level 3</i>	-	-
<b>D. Liabilities associated with discontinued operations</b>		
D.1 Financial liabilities measured at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Allowances	-	-1
D.5 Other	-	-34
<b>Total D</b>	<b>-</b>	<b>-35</b>
<i>of which measured at cost</i>	-	-35
<i>of which Fair value level 1</i>	-	-
<i>of which Fair value level 2</i>	-	-
<i>of which Fair value level 3</i>	-	-



The table above contains assets and related liabilities which no longer refer to continuing operations as they are being disposed of.

As at 31 December 2020, “Non-current assets held for sale” include the branches to be sold to BPER (for a total of 1,486 million euro, of which 1,441 million euro composed of loans to customers) and the related assets (for 35 million euro). After aligning the carrying amount with the estimated prices that it may be possible to realise, also through specific fairness opinions – the non-performing loans to be sold as part of operations planned for 2021 (for a GBV of 2,324 million euro and a book value of 267 million euro) and single properties to be sold (for 10 million euro) are added to the above.

“Liabilities associated with non-current assets held for sale” mainly include the liabilities of the branches to be sold to BPER (for a total of 2,513 million euro, of which 2,500 million euro composed of amounts due to customers) and the related liabilities (for 76 million euro).

## 11.2 Other information

There is no other significant information to note as at 31 December 2020.

## SECTION 12 – OTHER ASSETS – CAPTION 120

### 12.1 Other assets: breakdown

Captions	(millions of euro)
Amounts to tax authorities	1,476
Amounts to be credited and items under processing	706
Invoices to be issued	456
Bank cheques drawn on third parties to be settled	278
Accruals, prepayments and deferrals to be allocated	156
Cheques and other instruments held	104
Leasehold improvements	62
Due from Group companies on fiscal consolidation	43
Other	581
<b>TOTAL 31.12.2020</b>	<b>3,862</b>
<b>TOTAL 31.12.2019</b>	<b>3,740</b>

As required by paragraph 116 et. seq. of IFRS 15, assets arising from contracts with customers, which are included under the sub-caption “Other” and “Invoices to be issued” amounted to 232 million euro (457 million euro at the end of 2019).

## LIABILITIES

### SECTION 1 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - CAPTION 10

#### 1.1 Financial liabilities measured at amortised cost: breakdown of amounts due to banks

Transaction type/Amount	(millions of euro)								
	31.12.2020					31.12.2019			
	Book value	Fair Value			Book value	Fair value			
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3			
<b>1. Due to central banks</b>	<b>72,809</b>	X	X	X	<b>49,834</b>	X	X	X	
<b>2. Due to banks</b>	<b>57,845</b>	X	X	X	<b>103,145</b>	X	X	X	
2.1 Current accounts and on demand deposits	8,368	X	X	X	14,697	X	X	X	
2.2 Time deposits	28,659	X	X	X	64,431	X	X	X	
2.3 Loans	14,323	X	X	X	22,624	X	X	X	
2.3.1 Repurchase agreements	8,935	X	X	X	16,470	X	X	X	
2.3.2 Other	5,388	X	X	X	6,154	X	X	X	
2.4 Debts for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X	
2.5 Lease liabilities	4	X	X	X	7	X	X	X	
2.6 Other debts	6,491	X	X	X	1,386	X	X	X	
<b>Total</b>	<b>130,654</b>	-	<b>102,440</b>	<b>28,367</b>	<b>152,979</b>	-	<b>91,216</b>	<b>62,056</b>	

The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies. Amounts due to Central Banks include loans received from the European Central Bank as part of the TLTRO programme, for a total of 70 billion euro, fully attributable to the “TLTRO III” tranche. Repurchase agreements related to financial assets sold not derecognised are detailed in Part E – Section E of the Notes to the Parent Company’s financial statements.

#### 1.2 Financial liabilities measured at amortised cost: breakdown of amounts due to customers

Transaction type/Amount	(millions of euro)								
	31.12.2020					31.12.2019			
	Book value	Fair Value			Book value	Fair value			
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3			
<b>1. Current accounts and on demand deposits</b>	<b>268,077</b>	X	X	X	<b>232,262</b>	X	X	X	
<b>2. Time deposits</b>	<b>9,779</b>	X	X	X	<b>6,664</b>	X	X	X	
<b>3. Loans</b>	<b>2,131</b>	X	X	X	<b>2,815</b>	X	X	X	
3.1 Repurchase agreements	875	X	X	X	1,495	X	X	X	
3.2 Other	1,256	X	X	X	1,320	X	X	X	
<b>4. Debts for commitments to repurchase own equity instruments</b>	<b>-</b>	X	X	X	<b>-</b>	X	X	X	
<b>5. Lease liabilities</b>	<b>1,031</b>	X	X	X	<b>1,057</b>	X	X	X	
<b>6. Other debts</b>	<b>7,676</b>	X	X	X	<b>5,139</b>	X	X	X	
<b>Total</b>	<b>288,694</b>	-	<b>282,174</b>	<b>6,622</b>	<b>247,937</b>	-	<b>241,767</b>	<b>6,224</b>	

Repurchase agreements related to financial assets sold not derecognised are detailed in Part E – Section E of the Notes to the Parent Company’s financial statements. Other debts include 98 million euro regarding the Berica ABS 3 S.r.l and Berica ABS 4 S.r.l securitisations and those that are part of the K-Equity programme. For additional details, see Part E - Section C of the Notes to the Parent Company’s financial statements.

**1.3 Financial liabilities measured at amortised cost: breakdown of securities issued**

(millions of euro)

Transaction type/Amount	31.12.2020				31.12.2019			
	Book value	Fair Value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>A. Securities</b>								
1. bonds	71,074	38,256	34,833	43	73,653	40,918	34,398	37
1.1 structured	2,362	-	2,377	43	442	-	399	37
1.2 other	68,712	38,256	32,456	-	73,211	40,918	33,999	-
2. other	971	-	968	3	1,756	-	1,752	3
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	971	-	968	3	1,756	-	1,752	3
<b>Total</b>	<b>72,045</b>	<b>38,256</b>	<b>35,801</b>	<b>46</b>	<b>75,409</b>	<b>40,918</b>	<b>36,150</b>	<b>40</b>

The increase in sub-caption 1.1 “Bonds – structured” compared to 31 December 2019 is attributable to the merger of the subsidiary Banca IMI during 2020.

**1.4 Details of subordinated debts/securities**

There were no subordinated debts with banks and customers as at 31 December 2020.

At the reporting date, Intesa Sanpaolo has subordinated securities issued of 9,893 million euro, while it has no subordinated debts to banks or customers.

**1.5 Details of structured debts**

At the reporting date, Intesa Sanpaolo has structured debts totalling 227 million euro.

**1.6 Lease payables**

As at 31 December 2020, Intesa Sanpaolo has lease payables of 1,035 million euro, of which 145 million euro maturing within one year, 472 million euro maturing within 1 to 5 years and 418 million euro maturing in over 5 years.

Lease payables comprise 4 million euro referring to bank counterparties and 1,031 million euro to customer counterparties.

These derive from the application of the financial reporting standard IFRS 16 relating to “Leases”, with effect from 1 January 2019.

**SECTION 2 – FINANCIAL LIABILITIES HELD FOR TRADING – CAPTION 20****2.1 Financial liabilities held for trading: breakdown**

(millions of euro)

Transaction type/Amount	31.12.2020					31.12.2019				
	Nominal or notional amount	Fair value			Fair Value (*)	Nominal or notional amount	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
<b>A. Cash liabilities</b>										
<b>1. Due to banks</b>	11,117	12,913	210	-	13,123	-	-	-	-	-
<b>2. Due to customers</b>	2,107	2,451	12	-	2,462	429	433	-	-	433
<b>3. Debt securities</b>	4,649	-	4,733	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other	4,649	-	4,733	-	X	-	-	-	-	X
3.2.1 Structured	4,649	-	4,733	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
<b>Total A</b>	17,873	15,364	4,955	-	15,585	429	433	-	-	433
<b>B. Derivatives</b>										
<b>1. Financial derivatives</b>	X	19	38,612	122	X	X	-	15,507	71	X
1.1 Trading	X	19	38,557	73	X	X	-	15,421	1	X
1.2 Fair value option	X	-	-	-	X	X	-	4	-	X
1.3 Other	X	-	55	49	X	X	-	82	70	X
<b>2. Credit derivatives</b>	X	-	1,757	1	X	X	-	435	-	X
2.1 Trading	X	-	1,757	1	X	X	-	435	-	X
2.2 Fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
<b>Total B</b>	X	19	40,369	123	X	X	-	15,942	71	X
<b>Total (A+B)</b>	17,873	15,383	45,324	123	X	429	433	15,942	71	X

(\*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

Amounts due to banks and customers consist entirely of short selling of securities.

Other structured securities under Debt securities entirely consist of certificates which provide for partial or full redemption of the premiums paid on maturity, pursuant to Bank of Italy Circular no. 1034598/14 of 21 October 2014. The market environment resulting from the COVID-19 emergency that the Bank is required to operate in also had a significant effect on the trend in own credit risk (DVA), which recorded a sudden and material increase. The analysis of the number of daily trades and their values on the two related listed markets (EuroTLX and SeDeX) showed an extremely illiquid situation, especially in the initial months of the year, as well as a significant widening of the bid-ask spread. As a result, certificates were transferred from level 1 to level 2 of the fair value hierarchy.

Derivative instruments include 4,683 million euro in certificates with characteristics similar to financial derivative instruments due to the prevalence of market risk in relation to the return of the premiums paid.

The changes in fair value recorded during the year due to the change in its own credit rating were negative overall by 76 million euro and related to derivatives and Debt securities - Other.

The amounts of Derivatives as at 31 December 2020 include the results of the offsetting of gross positive and negative balances pursuant to IAS 32, paragraph 42, for the operations deriving from the merged company Banca IMI, which are not represented in Part E of these Notes to the Parent Company's financial statements.

In particular, Financial liabilities held for trading - Derivatives state the offset negative net fair value of 2,168 million euro relating to the fair value of OTC derivatives originated by customers and Group companies transferred to the clearing agent LCH Ltd. That net fair value derives from the on-balance sheet offsetting of the positive fair value of Financial assets held for trading for 1,317 million euro and the negative fair value of Financial liabilities held for trading for 3,485 million euro. Lastly, it is noted that the gross negative fair value of OTC derivatives implemented with the legal clearing agent LCH Ltd for transactions on own behalf, equal to 48,390 million euro, was subject to offsetting, with recognition of the net fair value under Liabilities in hedging derivatives.

The overall negative fair value of OTC derivatives gross of on-balance sheet offsetting would amount to 90,218 million euro, including the results of offsetting of 1,317 million euro for transactions originated by customers and Group companies and 48,390 million euro for transactions on own behalf.

**2.2 Breakdown of “Financial liabilities held for trading”: subordinated liabilities**

The aggregate “Financial liabilities held for trading” includes subordinated liabilities for 131 million euro.

**2.3 Breakdown of “Financial liabilities held for trading”: structured debts**

As at 31 December 2020, structured debts classified under Financial liabilities held for trading amounted to 42 million euro due to customers and 27 million euro due to banks.

**SECTION 3 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE – CAPTION 30****3.1 Financial liabilities designated at fair value: breakdown**

Transaction type/Amount	31.12.2020					31.12.2019				
	Nominal value	Fair value			Fair value (*)	Nominal value	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
<b>1. Due to banks</b>	<b>1</b>	-	<b>1</b>	-	<b>1</b>	<b>1</b>	-	<b>1</b>	-	<b>1</b>
1.1 Structured	1	-	1	-	X	1	-	1	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
<i>of which:</i>										
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
<b>2. Due to customers</b>	<b>6</b>	-	<b>4</b>	-	<b>4</b>	<b>4</b>	-	<b>4</b>	-	<b>4</b>
2.1 Structured	6	-	4	-	X	4	-	4	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
<i>of which:</i>										
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
<b>3. Debt securities</b>	<b>2,716</b>	-	<b>2,805</b>	-	<b>2,668</b>	<b>1,850</b>	-	<b>1,909</b>	-	<b>1,850</b>
3.1 Structured	2,716	-	2,805	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	1,850	-	1,909	-	X
<b>Total</b>	<b>2,723</b>	-	<b>2,810</b>	-	<b>2,673</b>	<b>1,855</b>	-	<b>1,914</b>	-	<b>1,855</b>

(\*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date

The Bank has classified the LECOIP for the employment agreements, terminated early, of employees of Group companies under amounts “due to customers” and “due to banks”, and life policies connected to social initiatives, managed by the Bank based on fair value, under amounts “due to customers”.

As at 31 December 2020, sub-caption 3.1 Debt securities - Structured comprised certificates which provide for partial or full redemption of the premiums paid on maturity, pursuant to Bank of Italy Circular no. 1034598/14 of 21 October 2014 (certificates with guaranteed or protected capital). As they were issued after 1 January 2020, these are classified under Financial liabilities designated at fair value (Fair Value Option), as a result of the Bank’s implementation of a new business model based on a banking book approach, with the goal of generating stable inflows.

Certificates representing Financial liabilities designated at fair value record the related changes in fair value attributable to changes in own credit risk in the statement of comprehensive income (shareholders’ equity). Changes in the Bank’s own credit rating during the year were negative by 137 million euro.

As at 31 December 2019, sub-caption 3.2 Debt securities - Other included bond issues of the Bank fully subscribed by the subsidiary Banca IMI, which were eliminated from the accounts following the merger of Banca IMI into the Parent Company Intesa Sanpaolo in 2020.

**3.2 Breakdown of “Financial liabilities designated at fair value”: subordinated liabilities**

Intesa Sanpaolo has no subordinated liabilities classified under Financial liabilities designated at fair value.

## SECTION 4 – HEDGING DERIVATIVES – CAPTION 40

## 4.1 Hedging derivatives: breakdown by type of hedge and level

Captions	Fair value 31.12.2020			Notional value 31.12.2020	Fair value 31.12.2019			Notional value 31.12.2019
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
	(millions of euro)							
<b>A) Financial derivatives</b>	<b>1</b>	<b>5,383</b>	<b>3</b>	<b>127,995</b>	<b>-</b>	<b>7,319</b>	<b>4</b>	<b>111,035</b>
1) Fair value	1	1,690	3	122,175	-	5,775	4	105,391
2) Cash flows	-	3,693	-	5,820	-	1,544	-	5,644
3) Foreign investments	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1</b>	<b>5,383</b>	<b>3</b>	<b>127,995</b>	<b>-</b>	<b>7,319</b>	<b>4</b>	<b>111,035</b>

The amounts of hedging derivatives as at 31 December 2020 include the results of the offsetting of gross positive and negative balances pursuant to IAS 32, paragraph 42, for the operations deriving from the merged company Banca IMI, which are not represented in Part E of these Notes to the Parent Company's financial statements.

In particular, liabilities in Hedging derivatives state the offset net fair value of 3,411 million euro relating to the fair value of OTC derivatives for transactions on own behalf transferred to the clearing agent LCH Ltd. That net fair value derives from the on-balance sheet offsetting of the gross positive fair value of Financial assets held for trading for 50,891 million euro and of Hedging derivatives for 2,437 million euro, and the gross negative fair value of Financial liabilities held for trading for 48,390 million euro and of Hedging derivatives for 8,349 million euro.

The total negative fair value of hedging derivatives gross of on-balance sheet offsetting would amount to 10,325 million euro (of which 8,842 million euro hedging fair value and 1,483 million euro hedging cash flows).

## 4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transactions/Type of hedge	Fair Value							Cash flow		Foreign invest.
	Specific				Generic			Specific	Generic	
	debt securities and interest rates	equities and stock indices	Foreign exchange rates and gold	credit risk	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	52	-	2	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	1,196	X	273	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	13	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
<b>Total assets</b>	<b>1,248</b>	<b>-</b>	<b>275</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>-</b>
1. Financial liabilities	44	X	114	-	-	-	X	16	X	X
2. Portfolio	X	X	X	X	X	X	-	X	3,677	X
<b>Total liabilities</b>	<b>44</b>	<b>-</b>	<b>114</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16</b>	<b>3,677</b>	<b>-</b>
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

The table indicates negative fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.

Considering the values gross of netting in the financial statements, these mainly refer to macro fair value hedges of loans disbursed and micro fair value hedge of loans and debt securities, as well as macro hedges of cash flows from liability portfolios. Cash flow hedges refer to funding through floating-rate securities issued used to fund fixed-rate investments.



**SECTION 5 – FAIR VALUE CHANGE OF FINANCIAL LIABILITIES IN HEDGED PORTFOLIOS – CAPTION 50****5.1 Fair value change of financial liabilities in hedged portfolios: breakdown by hedged portfolios**

Fair value change of hedged liabilities/Group members	(millions of euro)	
	31.12.2020	31.12.2019
1. Positive fair value change of financial liabilities	721	522
2. Negative fair value change of financial liabilities	-	-
<b>Total</b>	<b>721</b>	<b>522</b>

The balance of the changes in value of liabilities subject to macrohedging against interest rate risk is recorded in this caption. For the application the Bank took advantage of the option envisaged by IFRS 9 to continue to apply the provisions permitted by the IAS 39 carve out.

**SECTION 6 – TAX LIABILITIES – CAPTION 60**

For information on this section, see Section 10 of Assets.

**SECTION 7 – LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – CAPTION 70**

For information on this section, see Section 11 of Assets.

**SECTION 8 – OTHER LIABILITIES – CAPTION 80****8.1 Other liabilities: breakdown**

Captions	(millions of euro)	
	31.12.2020	31.12.2019
Amounts to be credited and items under processing	2,743	1,544
Amounts to be credited and items under processing	1,544	1,214
Due to suppliers	1,214	1,023
Due to tax authorities	1,023	404
Amounts due to third parties	404	173
Due to social security entities	173	156
Due to Group companies on fiscal consolidation	156	139
Accruals, prepayments and deferrals not allocated	139	78
Personnel charges	78	526
Other	526	8,000
<b>TOTAL 31.12.2020</b>	<b>8,000</b>	<b>7,500</b>
<b>TOTAL 31.12.2019</b>	<b>7,500</b>	<b>7,500</b>

As required by paragraph 116 a) of IFRS 15, liabilities arising from contracts with customers, which are included under the sub-caption “Accruals, prepayments and deferrals not allocated”, amounted to 94 million euro, while at the end of 2019 they amounted to 92 million euro.

**SECTION 9 – EMPLOYEE TERMINATION INDEMNITIES – CAPTION 90****9.1 Employee termination indemnities: annual changes**

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>A. Initial amount</b>	<b>1,057</b>	<b>845</b>
<b>B. Increases</b>	<b>253</b>	<b>569</b>
B.1 Provisions in the year	7	13
B.2 Other	246	556
- of which business combinations	9	269
<b>C. Decreases</b>	<b>-383</b>	<b>-357</b>
C.1 Benefits paid	-136	-136
C.2 Other	-247	-221
- of which business combinations	-1	-
<b>D. Final amount</b>	<b>927</b>	<b>1,057</b>
<b>Total</b>	<b>927</b>	<b>1,057</b>

C.1. refers to benefits paid during the year.

For greater detail on actuarial calculations, see Section 10.5 – Post employment defined benefit plans.

**9.2 Other information**

There is no information further to that already provided in the previous sections.

**SECTION 10 – ALLOWANCES FOR RISKS AND CHARGES – CAPTION 100****10.1 Allowances for risks and charges: breakdown**

Captions/Components	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Allowances for credit risk associated with commitments and financial guarantees given</b>	<b>404</b>	<b>385</b>
<b>2. Allowances on other commitments and other guarantees given</b>	<b>-</b>	<b>-</b>
<b>3. Post-employment benefits</b>	<b>212</b>	<b>206</b>
<b>4. Other allowances for risks and charges</b>	<b>3,508</b>	<b>2,509</b>
4.1 legal disputes	646	616
4.2 personnel charges	2,120	1,437
4.3 other	742	456
<b>Total</b>	<b>4,124</b>	<b>3,100</b>

There are no amounts attributable to the caption “2-Allowances on other commitments and other guarantees given”. The contents of 4 – Other allowances for risks and charges are illustrated in point 10.6 below.

**10.2 Allowances for risks and charges: annual changes**

Captions	(millions of euro)			
	Allowances on other commitments and other guarantees given	Post-employment benefits	Other allowances for risks and charges	Total
<b>A. Initial amount</b>	-	206	2,509	2,715
<b>B. Increases</b>	-	18	2,102	2,120
B.1 Provisions in the year	-	5	2,053	2,058
B.2 Time value changes	-	2	1	3
B.3 Changes due to discount rate variations	-	-	-	-
B.4 Other	-	11	48	59
- of which business combinations	-	-	17	17
<b>C. Decreases</b>	-	-12	-1,103	-1,115
C.1 Uses in the year	-	-5	-988	-993
C.2 Changes due to discount rate variations	-	-	-5	-5
C.3 Other	-	-7	-110	-117
- of which business combinations	-	-	-	-
<b>D. Final amount</b>	-	212	3,508	3,720

As specified in the comment to the previous table, there are no amounts attributable to the caption “Allowances on other commitments and other guarantees given”.

Other allowances for risks and charges include net provisions of 615 million euro to caption 170, letter b) of the income statement and net provisions to other income statement captions, for the residual amount. The latter include the provision of 1,060 million euro following the agreement on exit incentives signed with the trade unions on 29 September 2020, as a result of the integration with UBI Banca.

**10.3 Allowances for credit risk associated with commitments and financial guarantees given**

Captions	(millions of euro)			
	Allowances for credit risk associated with commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	Total
1. Commitments to disburse funds	65	58	34	157
2. Financial guarantees given	29	60	158	247
<b>Total</b>	<b>94</b>	<b>118</b>	<b>192</b>	<b>404</b>

**10.4 Allowances on other commitments and other guarantees given**

This caption is not filled in.

**10.5 Post-employment defined benefit plans***1. Illustration of the characteristics of the funds and related risks*

As already illustrated in Part A – Accounting policies, for defined benefit plans, the liability of the Bank, according to IAS 19 “Employee Benefits”, is determined via the “projected unit credit method” by an independent actuary.

The defined benefit plans, in which Intesa Sanpaolo S.p.A. is jointly responsible, can be distinguished in:

- internal supplementary pension funds;
- external supplementary pension funds.

Internal funds include:

- Three defined benefit plans in force for the London branch, relating to the former Cariplo, Banca Commerciale Italiana and Banco Ambrosiano Veneto branches. The private pension funds have been set up by the UK employers to integrate the levels of the local state pension, which has always been very low. The London branches of Banca Commerciale Italiana, Cariplo and Banco Ambrosiano Veneto set up defined benefit plans for their employees at the time of their opening, under the form of Trusts incorporated under English law and managed by Boards of Trustees, appointed partly by the employers and partly by beneficiaries. Such funds are operational for employees hired until the end of 1999 for Banco Ambrosiano Veneto and Cariplo and until the end of 2000 for Banca Commerciale Italiana. In general, all funds guarantee a pension payable when the beneficiary turns 65 and the benefit is

determined, with different rules for the various funds, on the basis of the annual gross wage received in the last year of service.

External funds include:

- the Intesa Sanpaolo Group Defined-Benefit Pension Fund “Fondo Pensione a Prestazione definita del Gruppo Intesa Sanpaolo”, the new name given to the former Supplementary Pension Fund for the Employees of Banco di Napoli “Fondo di Previdenza Complementare per il Personale del Banco di Napoli – Sezione A”, identified as a collector of other “defined benefit” forms under the reorganisation and rationalisation of the existing pension schemes within the Intesa Sanpaolo Group, with protection of the rights of the (active and retired) subscribers. To this end, the “Fund” – in the virtually separated sections within Section A – has been assigned the asset captions contained in the financial statements of the pre-existing pension schemes, in order to ensure full coverage of the supplementary benefits. The Fund, an entity with legal status and independent asset management, includes several separate management assets and Intesa Sanpaolo is jointly responsible for: employees enrolled in the plan and other beneficiaries from former Banco di Napoli; retired employees receiving Supplementary Pension Cheques, formerly the Sanpaolo IMI internal fund; current and retired employees of the Cassa di Risparmio in Bologna, formerly enrolled in the Complementary pension fund for the Employees of said Cassa, transferred to the Complementary pension fund for the employees of the Banco di Napoli in 2004; current and retired employees of the Banca Popolare dell’Adriatico, formerly enrolled in the Company pension fund for the employees of the former Banca Popolare dell’Adriatico, transferred to the Fund in question on 30 June 2006; retired employees of the former Carive internal Fund, transferred to the Fund on 1 January 2008; retired tax-collection personnel of the Supplementary pension fund for tax-collection personnel formerly employed by Cariplo; retired employees formerly enrolled in the supplementary pension fund for employees of Mediocredito Lombardo S.p.A.; retired employees formerly enrolled in the Pension Fund for Key Managers, former Key Managers and entitled parties of former Comit; retired employees formerly enrolled in the “Casse del Centro” Pension Funds, in particular those enrolled in the Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Città di Castello, Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Foligno, Company supplementary pension AGO fund for employees of Cassa di Risparmio di Spoleto, Supplementary/complementary pension fund for the mandatory pension for employees of Cassa di Risparmio di Rieti, Pension fund for the Employees of Cassa di Risparmio della Provincia di Viterbo and Company supplementary pension fund for employees of Cassa di Risparmio di Ascoli Piceno, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Company Supplementary pension of INPS benefits for employees of Cassa di Risparmio di Civitavecchia, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the supplementary fund of SIL – Società Italiana Leasing S.p.A., transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of Banca Monte Parma, transferred to the Fund in question on 1 January 2016; employees and retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of the former Crediop hired before 30 September 1989, transferred to the Fund in question on 1 January 2016; retired employees formerly enrolled in the Company Supplementary pension funds for Employees of the former Cassa di Risparmio di Prato, transferred to the Fund in question on 1 May 2018; retired employees formerly enrolled in the Defined benefit plan of the former Cassa di Risparmio di Fabriano e Cupramontana, transferred to the Fund in question on 1 May 2018; employees and retired employees from the Supplementary pension fund for Employees of Istituto Bancario Sanpaolo di Torino, transferred to the Fund in question on 1 January 2019; and employees and retired employees from the Pension fund for Employees of Cassa di Risparmio di Padova e Rovigo, transferred to the Fund in question on 1 July 2019.  
It is necessary to specify that if the Fund, after approval of the financial statements, shows a technical imbalance according to the statutory method, the Articles of Association envisage immediate settlement by the Banks jointly responsible;
- Pension fund for the employees of Cariplo, a fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment in addition to AGO cheques to former Cariplo employees already retired on 30 June 1998;
- A defined benefit plan at the New York branch: the fund was established in 1977 by the branch of Banca Commerciale Italiana and guarantees a pension treatment to all the employees resident in the United States who have been in service at the Bank for at least 5 years. The benefit is considered to be accrued even if the employment relationship ceases in advance. The benefit is calculated based on the highest average wage considering three consecutive years out of the last 10 years of service, or, if the employment relationship ceases before, based on the average wage in the last three years of service. The fund is no longer managed by the New York branch, but has been fully transferred to the Prudential Fund (a defined benefit plan that manages the positions of members);
- Pension fund of Cassa di Risparmio di Firenze: fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment to the bank’s employees in service as at 31 December 1990 and already enrolled in the former “contracted-out” fund.

On 5 December 2017, Intesa Sanpaolo S.p.A., also in its capacity as Parent Company, signed an agreement with the Trade Unions, as Fund Founders, for the integration of the Supplementary Pension Fund for the Personnel of Istituto Bancario San Paolo di Torino into the Supplementary Pension Fund for the Personnel of Banco di Napoli - Section A (which from 1 January 2019 changed its name to the “Fondo pensione a prestazione definita del Gruppo Intesa Sanpaolo”, with registered office in Torino). This agreement also provided for the formulation of an individual capitalisation offer for the supplementary benefits to be made to the participants, which was carried out in the second half of 2018 and continued during 2019 and 2020: the subscriptions received in the current year led to a decrease in the obligation of around 10 million euro, partly covered by the Fund’s assets (around 5 million euro) and partly through the use of Funds set up specifically for this purpose by the Bank, under the guarantee given (around 5 million euro).

With regard to the investment and integrated risk management policies, the Funds verify the level of coverage and the possible outcomes under various scenarios. For this purpose, various investment configurations and portfolio mixes and allocations are defined, in order to satisfy the pension and profitability objectives as adequately as possible.

## 2. Changes in the year of net liabilities (assets) with defined benefits and redemption rights

(millions of euro)

Pension plan liabilities defined benefit obligations	31.12.2020			31.12.2019		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
<b>Initial amount</b>	<b>1,057</b>	<b>169</b>	<b>1,667</b>	<b>845</b>	<b>138</b>	<b>1,718</b>
Current service costs	2	2	3	1	2	4
Recognised past service costs	-	-	-	-	-	-
Interest expense	5	3	11	12	4	21
Actuarial losses due to changes in financial assumptions	20	17	58	53	21	118
Actuarial losses due to changes in demographic assumptions	-	-	1	1	-	35
Actuarial losses based on past experience	-	-	8	-	-	-
Positive exchange differences	-	-	-	-	7	-
Increases - business combinations	9	-	-	269	-	-
Participants' contributions	X	-	-	X	-	-
Actuarial profits due to changes in financial assumptions	-	-	-	-	-	-
Actuarial profits due to changes in demographic assumptions	-10	-	-1	-	-	-
Actuarial profits based on past experience	-28	-	-10	-	-	-30
Negative exchange differences	-	-9	-2	-	-	-
Benefits paid	-136	-3	-117	-136	-3	-122
Decreases - business combinations	-1	-	-	-	-	-
Curtailments of the fund	X	-	-14	X	-	-78
Settlements of the fund	X	-	-	X	-	-
Other increases	217	-	-	233	-	1
Other decreases	-208	-1	-	-221	-	-
<b>Final amount</b>	<b>927</b>	<b>178</b>	<b>1,604</b>	<b>1,057</b>	<b>169</b>	<b>1,667</b>

Liabilities of the defined benefit obligations pension plan	31.12.2020			31.12.2019		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Unfunded plans	927	-	-	1,057	-	-
Partly funded plans	-	-	-	-	-	-
Wholly funded plans	-	178	1,604	-	169	1,667

The actuarial gains and losses recorded for variations in financial assumptions are due to the changes in the rates. The trend of the EUR Composite AA curve used for calculating the current value of defined benefit obligations showed an average decline of 0.49% for the various maturities, compared to the previous year.

On the basis of actuarial calculations, the present value of the defined benefit obligations, excluding Employee termination indemnities, was as follows.

Internal plans:

- as said before, these refer to defined benefit plans at the London branch, entirely contributed by Intesa Sanpaolo S.p.A.;

External plans:

- 702 million euro referred to the Intesa Sanpaolo Group Defined-Benefit Fund Pension Fund (of which 693 million euro pertaining to Intesa Sanpaolo S.p.A.);
- 485 million euro referred to the Pension fund for employees of Cariplo, entirely contributed by Intesa Sanpaolo S.p.A.;
- 28 million euro referred to defined benefit plans at the New York branch, entirely contributed by Intesa Sanpaolo S.p.A.;
- 389 million euro referred to the Pension Fund of Cassa di Risparmio di Firenze, almost fully contributed by Intesa Sanpaolo S.p.A.

## 3. Information on the fair value of plan assets

(millions of euro)

Plan assets	31.12.2020		31.12.2019	
	Internal plans	External plans	Internal plans	External plans
<b>Initial amount</b>	<b>132</b>	<b>1,533</b>	<b>109</b>	<b>1,572</b>
Return on assets net of interest	2	49	11	75
Interest income	3	9	3	19
Positive exchange differences	-	-	6	-
Increases - business combinations	-	-	-	-
Employer contributions	5	-	6	-
Participants' contributions	-	-	-	-
Negative exchange differences	-7	-2	-	-
Decreases - business combinations	-	-	-	-
Benefits paid	-3	-117	-3	-122
Curtailments of the fund	-	-9	-	-39
Settlements of the fund	-	-	-	-
Other changes	-1	12	-	28
<b>Final amount</b>	<b>131</b>	<b>1,475</b>	<b>132</b>	<b>1,533</b>

The final amount of the internal plans, as said before, refer to defined benefit plans at the London branch, entirely contributed by Intesa Sanpaolo S.p.A.

The final amount of external plans was broken down as follows:

- 567 million euro relating to the Intesa Sanpaolo Group Defined-Benefit Fund Pension Fund;
- 475 million euro referred to the Pension fund for employees of Cariplo;
- 16 million euro referred to defined benefit plans at the New York branch;
- 417 million euro referred to the Pension fund of Cassa di Risparmio di Firenze.

(millions of euro)

Plan assets: additional information	31.12.2020				31.12.2019			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
<b>Equities</b>	<b>67</b>	<b>51.2</b>	<b>250</b>	<b>17.0</b>	<b>70</b>	<b>53.2</b>	<b>231</b>	<b>15.0</b>
- of which level-1 fair value	67		231		70		211	
<b>Mutual funds</b>	<b>-</b>	<b>-</b>	<b>278</b>	<b>18.8</b>	<b>-</b>	<b>-</b>	<b>224</b>	<b>14.6</b>
- of which level-1 fair value	-		216		-		165	
<b>Debt securities</b>	<b>52</b>	<b>39.8</b>	<b>455</b>	<b>30.8</b>	<b>50</b>	<b>37.8</b>	<b>571</b>	<b>37.3</b>
- of which level-1 fair value	52		455		50		571	
<b>Real estate assets and investments in real estate companies</b>	<b>8</b>	<b>5.7</b>	<b>396</b>	<b>26.9</b>	<b>8</b>	<b>6.1</b>	<b>423</b>	<b>27.6</b>
- of which level-1 fair value	-		-		-		-	
<b>Insurance business</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- of which level-1 fair value	-		-		-		-	
<b>Other assets</b>	<b>4</b>	<b>3.3</b>	<b>96</b>	<b>6.5</b>	<b>4</b>	<b>2.9</b>	<b>84</b>	<b>5.5</b>
- of which level-1 fair value	-		-		-		-	
<b>TOTAL</b>	<b>131</b>	<b>100.0</b>	<b>1,475</b>	<b>100.0</b>	<b>132</b>	<b>100.0</b>	<b>1,533</b>	<b>100.0</b>



(millions of euro)

Plan assets: additional information	31.12.2020				31.12.2019			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
<b>Equities</b>	<b>67</b>	<b>51.2</b>	<b>250</b>	<b>17.0</b>	<b>70</b>	<b>53.2</b>	<b>231</b>	<b>15.0</b>
- of which financial companies	67		56		70		57	
- of which non financial companies	-		194		-		174	
<b>Mutual funds</b>	<b>-</b>	<b>-</b>	<b>278</b>	<b>18.8</b>	<b>-</b>	<b>-</b>	<b>224</b>	<b>14.6</b>
<b>Debt securities</b>	<b>52</b>	<b>39.8</b>	<b>455</b>	<b>30.8</b>	<b>50</b>	<b>37.8</b>	<b>571</b>	<b>37.3</b>
Government bonds	52		243		50		361	
- of which investment grade	52		239		50		361	
- of which speculative grade	-		4		-		-	
Financial companies	-		97		-		109	
- of which investment grade	-		66		-		78	
- of which speculative grade	-		31		-		31	
Non Financial companies	-		115		-		101	
- of which investment grade	-		81		-		75	
- of which speculative grade	-		34		-		26	
<b>Real estate assets and investments in real estate companies</b>	<b>8</b>	<b>5.7</b>	<b>396</b>	<b>26.9</b>	<b>8</b>	<b>6.1</b>	<b>423</b>	<b>27.6</b>
<b>Insurance business</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other assets</b>	<b>4</b>	<b>3.3</b>	<b>96</b>	<b>6.5</b>	<b>4</b>	<b>2.9</b>	<b>84</b>	<b>5.5</b>
<b>TOTAL ASSETS</b>	<b>131</b>	<b>100.0</b>	<b>1,475</b>	<b>100.0</b>	<b>132</b>	<b>100.0</b>	<b>1,533</b>	<b>100.0</b>

The difference between net defined benefit liabilities (Table 10.5.2) and the plan assets (Table 10.5.3) is recognised in the post-employment plans.

#### 4. Description of the main actuarial assumptions

Actuarial assumptions	31.12.2020				31.12.2019			
	Discount rate	Expected yield rates	Expected increase in salaries (a)	Annual inflation rate	Discount rate	Expected yield rates	Expected increase in salaries (a)	Annual inflation rate
<b>EMPLOYEE TERMINATION INDEMNITIES</b>	0.0%	X	2.0%	1.1%	0.4%	X	2.7%	1.5%
<b>INTERNAL PLANS</b>	1.5%	0.0%	2.7%	2.7%	2.0%	0.0%	1.9%	1.9%
<b>EXTERNAL PLANS</b>	0.7%	2.9%	2.0%	1.0%	1.2%	3.5%	2.6%	1.2%

(a) Net of career developments.

Starting from 2013, the Intesa Sanpaolo Group primarily uses the Eur Composite AA rate as its discounting rate, weighted by the ratio of payments and advances referring to each maturity, on the one hand, and the total amount of payments and advances to be made for the final fulfilment of the entire obligation, on the other. In the case of defined-benefit plans in particular, the rate used is the average rate that reflects the market parameters covered by the plan. The EUR Composite AA curve is obtained daily from the Bloomberg’s information provider and refers to a basket of securities issued by investment-grade corporate issuers included in the AA rating class, residing in the Eurozone and belonging to various sectors.

### 5. Information on amount, timing and uncertainty of cash flows

Sensitivity analysis	31.12.2020					
	EMPLOYEE TERMINATION INDEMNITIES		INTERNAL PLANS		EXTERNAL PLANS	
	+50 bps	-50 bps	+50 bps	-50 bps	+50 bps	-50 bps
Discount rate	891	971	175	182	1,519	1,699
Rate of wage rises	929	929	181	176	1,627	1,582
Inflation rate	962	898	180	177	1,668	1,545

The sensitivity analysis is not conducted on the expected rate of return as it has no effect on the calculation of the liabilities.

The sensitivity analysis was carried out on the net defined benefit liabilities pursuant to Table 10.5.2. The absolute values of the data presented indicate the possible amount of net defined benefit liabilities in the event of a change in rate of +/-50 bps.

The average duration of the defined benefit obligation is 12.44 years for pension funds and 8.5 years for employee termination indemnities.

Any outflows to be made over the next year (settlement of the technical imbalance envisaged by the Articles of Association of the Intesa Sanpaolo Group Defined-Benefit Fund “Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo”) shall be determined upon preparation of the financial statements of said Fund, which will take place in the upcoming months of May/June.

### 6. Multi-employer plans

The Bank has a defined benefit plan regarding more than one employer. This is the Pension Fund for the employees of the former Crediop hired before 30 September 1989, which on 1 January 2016 was transferred to Section A of the Supplementary Pension Fund for the Employees of Banco di Napoli (now the Intesa Sanpaolo Group Defined-Benefit Fund “Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo”).

The commitments of Crediop S.p.A. (now Dexia-Crediop) and the former Sanpaolo IMI S.p.A. (now Intesa Sanpaolo) with regard to the Fund are governed by the agreement entered into between the parties on 28/05/1999. Its transfer into the Section A of the Intesa Sanpaolo Group Defined-Benefit Fund “Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo” did not modify the guarantees and commitments undertaken by the parties in the past.

### 7. Defined benefit plans that share risks among entities under joint control

The Intesa Sanpaolo Group Defined-Benefit Fund “Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo” and the Pension fund of Cassa di Risparmio di Firenze are defined benefit plans that share the risks among the various Group Companies. These Companies issue a joint guarantee for their registered employees and pensioners with respect to the subject pension entities.

The liabilities of each jointly responsible Company are determined by an Independent Actuary through the “projected unit credit method” and are recorded in the financial statements net of the plan assets. Similarly, the current service cost, which represents the average present value at the measurement date of the benefits accrued by workers in service during the year, is calculated for each Company by said Actuary.

Each jointly responsible Company reports in this section, for each table, the total liabilities/assets of the Funds for which it is jointly responsible, highlighting at the bottom of said tables the liability/asset amount under their responsibility.

**10.6 Allowances for risks and charges – Other allowances**

Captions/Components	(millions of euro)	
	31.12.2020	31.12.2019
<b>Other allowances</b>		
1. legal disputes	646	616
2. personnel charges	2,120	1,437
<i>incentive-driven exit plans</i>	1,652	991
<i>employee seniority bonuses</i>	108	112
<i>other personnel expenses</i>	360	334
3. other risks and charges	742	456
<b>Total</b>	<b>3,508</b>	<b>2,509</b>

Other allowances refers to:

- Legal and tax disputes: the allowance was set up mainly to cover expected outlay for litigation, revocatory action and tax disputes;
- Personnel charges: the allowance includes charges for incentive-driven exit plans, employee seniority bonuses (calculated on the basis of actuarial assumptions) and provisions for bonuses and other outlays relating to employees; the increase during the year is mainly due to the agreement on exit incentives signed with the trade unions on 29 September 2020, as a result of the integration with UBI Banca;
- Other risks and charges: these mainly refer to provisions to cover charges for integration of UBI Banca and the former Venetian banks, charges deriving from the sale of a group of branches to BPER, charges connected with the sale of a portfolio of NPLs and other charges relating to sundry obligations.

**SECTION 11 – REDEEMABLE SHARES – CAPTION 120****11.1 Redeemable shares: breakdown**

This caption is not present for Intesa Sanpaolo.

## SECTION 12 – PARENT COMPANY'S SHAREHOLDERS' EQUITY – CAPTIONS 110, 130, 140, 150, 160, 170 AND 180

### 12.1 Share capital and Treasury shares: breakdown

As at 31 December 2020, the Bank's portfolio amounts to 42,128,001 treasury shares fully paid in. For information on this section, see point 12.3 below.

### 12.2 Share capital – Parent Company's number of shares: annual changes

	Ordinary
<b>A. Initial number of shares</b>	<b>17,509,728,425</b>
- fully paid-in	17,509,728,425
- not fully paid-in	-
<b>A.1 Treasury shares (-)</b>	<b>-26,380,005</b>
<b>A.2 Shares outstanding: initial number</b>	<b>17,483,348,420</b>
<b>B. Increases</b>	<b>1,927,436,679</b>
B.1 New issues	1,920,734,880
- for consideration	1,920,734,880
<i>business combinations</i>	-
<i>conversion of bonds</i>	-
<i>exercise of warrants</i>	-
<i>other (UBI public purchase and exchange offer)</i>	1,920,734,880
- for free	-
<i>in favour of employees</i>	-
<i>in favour of directors</i>	-
<i>other</i>	-
B.2 Sale of treasury shares	99,992
B.3 Other	6,601,807
<b>C. Decreases</b>	<b>-22,449,795</b>
C.1 Annulment	-
C.2 Purchase of treasury shares	-15,891,692
C.3 Disposal of companies	-
C.4 Other	-6,558,103
<b>D. Shares outstanding: final number</b>	<b>19,388,335,304</b>
D.1 Treasury shares (+)	42,128,001
D.2 Final number of shares	19,430,463,305
- fully paid-in	19,430,463,305
- not paid-in	-

### 12.3 Share capital: other information

The share capital of the Bank as at 31 December 2020 amounted to 10,084 million euro, divided into 19,430,463,305 ordinary shares, with no par value. Each ordinary share gives the right to one vote in the Shareholders' Meeting. At the date of this document, the share capital was fully paid-in.

Entries made in accordance with IFRS 3 regarding the merger between Banca Intesa and Sanpaolo IMI, finalised on 1 January 2007, generated a reserve of 23,734 million euro as at 31 December 2020, equal to the difference between the acquisition cost of the Sanpaolo IMI Group and the nominal value of the shares issued to service the exchange. In the 2007 financial statements, it was reported under share premium reserve, based on the opinions expressed by legal experts. This reserve will be reported differently should the Law or Supervisory Authorities indicate a different solution.

During 2020 the following changes occurred in share capital as a part of the Voluntary Public Purchase and Exchange Offer (Public Offer) made by Intesa Sanpaolo S.p.A. on all the ordinary shares of UBI Banca S.p.A.:

- an increase of 912,250,895.40 euro with the issue of 1,754,328,645 new ordinary shares, with no par value, for the partial execution of the Public Offer capital increase;
- an increase of 77,662,579.28 euro with the issue of 149,351,114 new ordinary shares, with no par value, following the fulfilment of the compulsory Squeeze-Out pursuant to Art. 108, paragraph 2, of the Consolidated Law on Finance;
- an increase of 8,868,662.92 euro with the issue of 17,055,121 new ordinary shares, with no par value, following the conclusion of the Joint Procedure for the exercise of the Right of Squeeze-Out pursuant to Art. 111 of the Consolidated Law on Finance and the fulfilment of the compulsory Squeeze-Out pursuant to Art. 108, paragraph 1, of the Consolidated Law on Finance on all remaining shares of UBI Banca.

For the purpose of completeness, note that in 2020, the share premium reserve was subject to:

- an increase of 2,234,312,962.27 euro as a result of paid capital increases for the Public Purchase and Exchange Offer on UBI Banca shares;
- an increase of 190,213,578.79 euro due to the Joint Procedure for the exercise of the Right of Squeeze-Out pursuant to Article 108, paragraph 2, of the Consolidated Law on Finance;
- an increase of 21,721,402.11 euro following subsequent Joint Procedure for the exercise of the right of Squeeze-Out pursuant to Article 111 of the Consolidated Law on Finance and the fulfilment of the compulsory squeeze-out pursuant to Article 108, paragraph 1, of the Consolidated Law on Finance;
- the allocation of directly attributable accessory costs connected with said capital increase, net of the related tax effects, for a net negative total of 81,259,776.56 euro.

The share premium reserve was also increased by a positive amount of 5,939,286.77 euro in relation to the assignment of shares to Key Managers and decreased by a negative amount of 1,304,426.55 euro in relation to the trading of treasury shares.

#### 12.4 Reserves: other information

Reserves amounted to 7,609 million euro and included: legal reserve, extraordinary reserve, concentration reserves (Law 218 of 30 July 1990, Art. 7, par. 3, and Law 218 of 30 July 1990, Art. 7) and other reserves. The legal reserve, set up as provided for by law, must be at least one fifth of share capital; in the past it was set up by allocating each year at least one twentieth of net income for the year. Should the reserve decrease, it must be reintegrated through mandatory allocation of at least one twentieth of net income for the year. Concentration reserves under Law 218 of 30 July 1990 were set up at the time of reorganisations or concentrations carried out pursuant to the aforementioned law.

Other reserves included reserves pertaining to international branches and other reserves set up in the past following specific legal provisions.

Valuation reserves amounted to 1,176 million euro and included reserves of financial assets measured at fair value through other comprehensive income, reserves for cash flow hedge derivatives, changes connected with the Bank’s own credit rating of financial assets measured at fair value through profit or loss and revaluations of net defined benefit liabilities (assets), as well as legally-required revaluation reserves and revaluation reserves of properties and valuable art assets.

Note that in 2020, the following changes in the reserves occurred:

- allocation to the Extraordinary reserve of the residual income for 2019, equal to 2,124,474,390 euro, as per the resolution of the Ordinary Shareholders’ Meeting of 27 April 2020;
- allocation to the Extraordinary reserve of the total net positive amount of 2,080,191,861 euro relating to the merger surplus arising from the cancellation of the shares of the subsidiary Banca IMI S.p.A., merged during the year. In that regard, it should be noted that, pursuant to Art. 172, paragraph 5, of the Consolidated Law on Income Taxes, Suspended tax reserves of 4,395 euro will be reconstituted for the merger surplus mentioned above;
- allocation to Other reserves of the total net negative amount of 237,601,478 euro for the coupons paid to subscribers of the Additional Tier 1 instruments, net of the related taxes;
- adjustment of the reserves for the Equity Settled Share Based Payment plans (named “LECOIP 2.0” and targeted to all employees) and the Performance-based Option Plan (named “POP” and reserved for the top management, Risk Takers and Key Managers of the Bank), for a total positive amount of 189,678,466 euro.
- recognition under Other reserves pursuant to IFRS 2 of the fair value of the shares to be assigned to the top management as part of the equity settled plans reserved to them for a total net positive amount of 20,259,513 euro;
- transfer to Other reserves of the Valuation reserves for the gains/losses realised on Financial assets measured at fair value through other comprehensive income, on Financial liabilities designated at fair value through profit or loss (due to the changes in the Bank’s own credit rating on certificates issued), on Property and equipment measured at fair value and on Defined benefit pension plans, for a total net positive amount of 33,854,660 euro;
- allocation to Other reserves of the total net negative amount of 2,059,833 euro for the gains/losses on the repurchase of own Additional Tier 1 instruments, net of the related taxes;
- other effects, for a total net positive amount of 920,112 euro.

	Amount as at 31.12.2020	Principal	Portion of net income	Portion subject to a suspended tax regime	Portion available (a)	(millions of euro) Uses in the past three years
<b>Shareholders' equity</b>						
– Share capital	10,084	7,560	1,335	1,189	-	-
– Equity instruments	7,053	7,098	-45	-	-	-
– Share premium reserve (b)	27,603	13,566	11,840	2,197	A, B, C	2,065
– Legal reserve	2,065	520	1,545	-	A(1), B, C(1)	-
– Extraordinary reserve	5,357	61	5,296	-	A, B, C	-
– Concentration reserve (Law 218 of 30/7/1990, art. 7, par. 3)	232	-	-	232	A, B(2), C(3)	-
– Concentration reserve (Law 218 of 30/7/1990, art. 7)	302	-	-	302	A, B(2), C(3)	-
– Other reserves, of which:						
<i>Legal Reserve Branches abroad</i>	16	-	16	-	A, B, C	-
<i>Reserve for contribution to LECOIP 2.0/POP incentive plans</i>	491	491	-	-	A	-
<i>Reserve for POP incentive plan novation agreement</i>	-160	-160	-	-	-	-
<i>IFRS 2 reserve for employee incentive scheme</i>	78	78	-	-	A	-
<i>Reserve for AT1 equity instruments coupons</i>	-906	-	-906	-	-	-
<i>Reserves: other</i>	134	-	131	3	A	-
– Valuation reserves						
<i>Revaluation reserve (Law 576 of 2/12/1975)</i>	4	-	-	4	A, B(2), C(3)	-
<i>Revaluation reserve (Law 72 of 19/3/1983)</i>	146	-	-	146	A, B(2), C(3)	-
<i>Revaluation reserve (Law 408 of 29/12/1990)</i>	9	-	-	9	A, B(2), C(3)	-
<i>Revaluation reserve (Law 413 of 30/12/1991)</i>	380	-	-	380	A, B(2), C(3)	-
<i>Revaluation reserve (Law 342 of 22/11/2000)</i>	457	-	-	457	A, B(2), C(3)	-
<i>FVOCI revaluation reserve</i>	-76	-	-76	-	-	-
<i>Property and equipment and intangible assets valuation reserve</i>	1,503	-	1,503	-	(4)	-
<i>CFH valuation reserve</i>	-789	-	-789	-	-	-
<i>Defined benefit plans valuation reserve</i>	-359	-	-359	-	-	-
<i>- Financial liabilities designated at fair value through profit or loss (change in own credit rating)</i>	-99	-	-99	-	-	-
– Treasury shares	-90	-90	-	-	-	-
<b>Total Capital and Reserves</b>	<b>53,435</b>	<b>29,124</b>	<b>19,392</b>	<b>4,919</b>	(5)	-
Non-distributable portion (C)	7,835	-	-	-	-	-

(a) A = capital increase; B = loss coverage; C = distribution to shareholders.

(b) This reserve includes 23,734 million euro originating from the merger between Banca Intesa and Sanpaolo IMI, as a result of the application of IFRS 3 relating to business combinations. Pending the issue of legal measures concerning the classification of the reserve recognised in application of that accounting standard, the reserve is considered unavailable up to the amount of goodwill and intangible assets recognised in the financial statements.

It should be noted that, solely for the amount classified as suspended tax, if the reserve is used to cover losses, net income cannot be distributed unless the reserve is replenished or correspondingly reduced. In addition, if the suspended tax amount is distributed to shareholders, it contributes to the formation of the company income.

The reserve also includes an amount of 1,685 million euro, subject to taxation in the event of distribution as a result of the realignment of the tax values to the higher book values of some real estate assets in accordance with Article 1, paragraph 948, of Law 145/2018.

(c) The non-distributable portion mainly relates to the revaluation reserves, the valuation reserves established as a direct balancing entry to the fair value measurement of property and equipment, the reserve established under the LECOIP 2.0/POP long-term incentive plans, a portion of the share premium reserve, the other suspended tax reserves, the share of net income corresponding to the capital gains recognised in the income statement of the previous year, net of the related tax charge, arising from the application of the fair value measurement, pursuant to Article 6, paragraph 1, letter a) of Legislative Decree 38/2005, and the amount of the legal reserve corresponding to one-fifth of the share capital, pursuant to Article 2430 of the Italian Civil Code.

(1) May be used to increase capital (A) and for distribution to shareholders (C) for the portion exceeding one fifth of the share capital.

(2) In case of use of the reserve to cover losses, net income may not be distributed unless the reserve is integrated or correspondingly reduced.

(3) The reserve, if it is not recorded under shareholders' equity, may be reduced only in compliance with the provisions of par. 2 and 3 of art. 2445 of the Italian Civil Code. If it is distributed to shareholders, it is recorded in the Company's taxable income.

(4) The reserve is unavailable pursuant to art. 6 of Legislative Decree no. 38/2005.

(5) Pursuant to art. 47, par. 1 of the Combined Tax Regulations, the portion of net income includes retained earnings reserves for 4,208 million euro classified for tax purposes as capital reserves.

The valuation reserves have been included under retained earnings reserves given that these are either reserves destined to be reversed to the income statement at the time of sale or discharge of the corresponding assets or liabilities, i.e. reserves essentially similar to retained earnings reserves.

The proposal for allocation of net income for the year 2020 is reported in the specific separate chapter of these financial statements.



**12.5 Equity instruments: breakdowns and annual changes**

In 2020, Intesa Sanpaolo launched four new Additional Tier 1 issues of a nominal amount of 750 million euro each, with characteristics in line with the CRD IV regulations. Those instruments were added to two Additional Tier 1 issues from 2017, of 1.25 billion euro and 750 million euro, respectively, targeted at the international markets. Lastly, note that in 2016 and 2015 two other instruments were issued, for 1.25 billion euro and 1 billion USD, respectively, the latter targeted at the US and Canadian markets. These instruments also have characteristics in line with CRD IV provisions.

For the purpose of completeness, note that some of these issues of Additional Tier 1 equity instruments were repurchased as part of operations carried out by the Bank on the secondary market of those instruments.

**12.6 Other information**

There is no other information to be provided in addition to that already contained in this Section.

**OTHER INFORMATION****1. Commitments and financial guarantees given (other than those designated at fair value)**

	Nominal value on financial release obligations and guarantees			(millions of euro)	
				31.12.2020	31.12.2019
	First stage	Second stage	Third stage		
<b>1. Commitment to supply funds</b>	<b>227,075</b>	<b>29,848</b>	<b>1,359</b>	<b>258,282</b>	<b>250,802</b>
a) Central Banks	1,246	34	-	1,280	1,267
b) Public Administration	5,930	1,372	2	7,304	6,945
c) Banks	69,651	1,400	7	71,058	70,491
d) Other financial companies	53,347	4,319	21	57,687	55,945
e) Non-financial companies	91,731	21,952	1,291	114,974	110,594
f) Families	5,170	771	38	5,979	5,560
<b>2. Financial release guarantees</b>	<b>63,759</b>	<b>7,518</b>	<b>769</b>	<b>72,046</b>	<b>53,507</b>
a) Central Banks	-	-	-	-	1
b) Public Administration	383	28	-	411	226
c) Banks	33,777	140	1	33,918	16,845
d) Other financial companies	4,702	741	4	5,447	2,502
e) Non-financial companies	24,686	6,569	760	32,015	33,658
f) Families	211	40	4	255	275

The “commitments to disburse funds” include the commitments that can give rise to credit risk subject to the rules for determining the expected loss in accordance with IFRS 9, including revocable margins available on credit lines granted to customers and banks (for a total amount of 199,322 million euro in 2020).

**2. Other commitments and other guarantees given**

This caption is not present for Intesa Sanpaolo.

**3. Assets pledged as collateral of liabilities and commitments**

Portfolios	(millions of euro)	
	31.12.2020	31.12.2019
1. Financial assets measured at fair value through profit or loss	1,550	95
2. Financial assets measured at fair value through other comprehensive income	4,596	16,091
3. Financial assets measured at amortised cost	169,354	126,064
4. Property and equipment	-	-
<i>of which: property and equipment that constitute inventories</i>	-	-

**4. Management and dealing on behalf of third parties**

Type of service	(millions of euro)	
	31.12.2020	31.12.2019
<b>1. Trading on behalf of customers</b>		
a) Purchases	622,303	-
1. settled	609,873	-
2. to be settled	12,430	-
b) Sales	620,602	-
1. settled	620,489	-
2. to be settled	113	-
<b>2. Portfolio management</b>		
a) individual	-	-
b) collective	-	-
<b>3. Custody and administration of securities</b>		
a) third party securities held in deposit: related to depositary bank activities (excluding portfolio management)	-	-
1. securities issued by companies included in the consolidation area	-	-
2. other securities	-	-
b) third party securities held in deposit	495,788	505,074
1. securities issued by companies included in the consolidation area	15,844	7,021
2. other securities	479,944	498,053
c) third party securities deposited with third parties	491,261	500,659
d) portfolio securities deposited with third parties	136,038	81,747
<b>4. Other</b>	<b>532,127</b>	<b>65,703</b>

Sub-caption 1. includes the purchases and sales made as part of trading on behalf of customers, operations which were not present in 2019 because they were carried out by the former Group company Banca IMI Group, which was merged during 2020.

Sub-caption 4. “Other transactions” relates to receipt and transmission of orders and to placement activities. The increase compared to 2019 was mainly attributable to the merger of Banca IMI.

**Note regarding contractual clauses of financial payables**

For details, reference should be made to the relevant section of the Notes to the Consolidated Financial Statements.

**5. Financial assets subject to offsetting in the financial statements or subject to master netting arrangements or similar agreements**

Types	Gross amount of financial assets (a)	Amount of financial liabilities offset in the balance sheet (b)	Net amount of financial assets presented in the balance sheet (c = a-b)	Related amounts not subject to offsetting in the balance sheet		Net amount	
				Financial instruments (d)	Cash collateral (e)	31.12.2020 (f=c-d-e)	31.12.2019
1. Derivatives	79,329	-54,645	24,684	19,198	3,933	1,553	477
2. Repurchase agreements	25,186	-	25,186	25,043	17	126	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
<b>TOTAL 31.12.2020</b>	<b>104,515</b>	<b>-54,645</b>	<b>49,870</b>	<b>44,241</b>	<b>3,950</b>	<b>1,679</b>	<b>X</b>
<b>TOTAL 31.12.2019</b>	<b>52,906</b>	<b>-</b>	<b>52,906</b>	<b>50,871</b>	<b>1,558</b>	<b>X</b>	<b>477</b>

**6. Financial liabilities subject to offsetting in the financial statements or subject to master netting arrangements or similar agreements**

Types	Gross amount of financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheet (c=a-b)	Related amounts not subject to offsetting in the balance sheet		Net amount	
				Financial instruments (d)	Cash deposits pledged as collateral (e)	31.12.2020 (f=c-d-e)	31.12.2019
1. Derivatives	91,851	54,645	37,206	18,243	16,991	1,972	627
2. Repurchase agreements	9,809	-	9,809	9,720	38	51	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
<b>TOTAL 31.12.2020</b>	<b>101,660</b>	<b>54,645</b>	<b>47,015</b>	<b>27,963</b>	<b>17,029</b>	<b>2,023</b>	<b>X</b>
<b>TOTAL 31.12.2019</b>	<b>23,810</b>	<b>-</b>	<b>23,810</b>	<b>15,623</b>	<b>7,560</b>	<b>X</b>	<b>627</b>

IFRS 7, amended in 2013, requires specific disclosure for financial instruments that have been offset in the Balance Sheet pursuant to IAS 32 or that may be potentially offset, upon occurrence of specific conditions, but are recognised in the Balance Sheet without any netting since they are regulated by “master netting arrangements or similar agreements” that do not respect all of the criteria set forth by IAS 32, paragraph 42.

In this respect, Intesa Sanpaolo has netting arrangements in force that meet the requirements envisaged by IAS 32, paragraph 42, for netting in the financial statements.

In terms of instruments that may be potentially offset upon occurrence of such events and to be presented in Tables 5 and 6, it is noted that Intesa Sanpaolo uses bilateral netting arrangements that allow, in the event of counterparty default, the netting of claims and obligations in relation to financial and credit derivatives, as well as securities financing transactions (SFTs). In particular, there are ISDA agreements (for transactions in derivatives) and GMRA (for repurchase agreements).

With regard to securities lending transactions, only those transactions that require the payment of a cash guarantee fully available to the lender must be reported in tables 5 and 6, as this is the only type of transaction recognised in the Balance Sheet. Intesa Sanpaolo did not have any such transactions as at 31 December 2020.

For the purposes of preparing the tables and in compliance with the provisions of IFRS 7 and the new provisions that govern the financial statements of banks, the following are noted:

- the effects of the potential offsetting of the balance sheet values of financial assets and liabilities are indicated under column (d) “Financial instruments”, together with the fair value of financial collateral consisting of securities;
- the effects of the potential offsetting of the exposure with the relative cash collateral are included under column (e) “Cash deposits received/pledged as collateral”;
- repurchase agreement transactions are recognised in the tables based on the amortised cost measurement criterion, while the relative collateral is measured at fair value;
- derivatives transactions are recognised at fair value.

These effects are calculated for each individual counterparty included in a master netting arrangement, to the extent of the exposure indicated in column (c).

Based on the preparation methods indicated above, the netting arrangements between financial instruments and the relative collateral permit a significant reduction in credit/debt exposure to the counterparty, as indicated under column (f) “Net amount”.

#### **7. Securities lending transactions**

The securities lending accessory banking service, offered by Intesa Sanpaolo to its customers (natural persons, legal entities and commercial entities), is worth mentioning. The contract envisages transfer of the ownership exclusively of government bonds and equity instruments, with the obligation for Intesa Sanpaolo to return them, paying a consideration amount as remuneration for their availability. The transaction has no speculative purposes.

As at 31 December 2020, the collateral of transactions amounted to 64 million euro.

#### **8. Disclosure on joint-control assets**

Intesa Sanpaolo has no joint-control assets.

# Part C – Information on the Parent Company’s income statement

## SECTION 1 – INTEREST – CAPTIONS 10 AND 20

### 1.1 Interest and similar income: breakdown

Captions	Debt securities	Loans	Other transactions	(millions of euro)	
				2020	2019
<b>1. Financial assets measured at fair value through profit or loss</b>	<b>52</b>	<b>22</b>	<b>-</b>	<b>74</b>	<b>132</b>
1.1 Financial assets held for trading	29	-	-	29	70
1.2 Financial assets designated at fair value	2	-	-	2	4
1.3 Other financial assets mandatorily measured at fair value	21	22	-	43	58
<b>2. Financial assets measured at fair value through other comprehensive income</b>	<b>410</b>	<b>4</b>	<b>X</b>	<b>414</b>	<b>138</b>
<b>3. Financial assets measured at amortised cost</b>	<b>415</b>	<b>6,548</b>	<b>X</b>	<b>6,963</b>	<b>7,431</b>
3.1 Due from banks	15	214	X	229	441
3.2 Loans to customers	400	6,334	X	6,734	6,990
<b>4. Hedging derivatives</b>	<b>X</b>	<b>X</b>	<b>-942</b>	<b>-942</b>	<b>-801</b>
<b>5. Other assets</b>	<b>X</b>	<b>X</b>	<b>8</b>	<b>8</b>	<b>13</b>
<b>6. Financial liabilities</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>748</b>	<b>369</b>
<b>Total</b>	<b>877</b>	<b>6,574</b>	<b>-934</b>	<b>7,265</b>	<b>7,282</b>
<i>of which: interest income on impaired financial assets</i>	2	633	-	635	793
<i>of which: interest income on financial lease</i>	-	210	-	210	245

Interest and similar income also includes interest income on securities relating to repurchase agreements. Interest income on impaired financial assets relate almost entirely to loans to customers and also include interest due to the passing of time, equal to 364 million euro (time value). Lastly, the caption “Hedging derivatives” includes the differentials on hedging transactions, which adjust interest income recognised on hedged financial instruments. “Financial liabilities” include interest on funding transactions with negative rates.

### 1.2 Interest and similar income: other information

#### 1.2.1 Interest income on foreign currency financial assets

As at 31 December 2020, interest income on foreign currency financial assets amounted to 686 million euro.

**1.3 Interest and similar expense: breakdown**

	(millions of euro)				
	Debts	Securities	Other transactions	2020	2019
<b>1. Financial liabilities measured at amortised cost</b>	<b>506</b>	<b>1,498</b>	X	<b>2,004</b>	<b>2,752</b>
1.1 Due to Central Banks	33	X	X	33	87
1.2 Due to banks	307	X	X	307	685
1.3 Due to customers	166	X	X	166	248
1.4 Securities issued	X	1,498	X	1,498	1,732
<b>2. Financial liabilities held for trading</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>4</b>	<b>18</b>
<b>3. Financial liabilities designated at fair value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23</b>
<b>4. Other liabilities and allowances</b>	<b>X</b>	<b>X</b>	<b>28</b>	<b>28</b>	<b>31</b>
<b>5. Hedging derivatives</b>	<b>X</b>	<b>X</b>	<b>-377</b>	<b>-377</b>	<b>-328</b>
<b>6. Financial assets</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>379</b>	<b>378</b>
<b>Total</b>	<b>508</b>	<b>1,498</b>	<b>-347</b>	<b>2,038</b>	<b>2,874</b>
<i>of which: interest expense on lease liabilities</i>	-16	-	-	-16	-19

Due to banks and Due to customers also include interest expense on repurchase agreements, even if the transaction referred to securities recorded under assets.

Lastly, the caption "Hedging derivatives" includes the differentials on hedging transactions, which adjust interest expense recognised on hedged financial instruments.

"Financial assets" include interest on lending transactions with negative rates.

**1.4 Interest and similar expense: other information****1.4.1 Interest expense on foreign currency financial liabilities**

Interest and similar expense as at 31 December 2020 included 456 million euro relative to financial liabilities in foreign currency.

**1.5 Differentials on hedging transactions**

	(millions of euro)	
Captions	2020	2019
A. Positive differentials on hedging transactions	2,301	1,589
B. Negative differentials on hedging transactions	-2,866	-2,062
<b>C. Balance (A-B)</b>	<b>-565</b>	<b>-473</b>



**SECTION 2 – NET FEE AND COMMISSION INCOME - CAPTIONS 40 AND 50****2.1 Fee and commission income: breakdown**

Type of service/Amounts	(millions of euro)	
	2020	2019
<b>a) guarantees given</b>	<b>318</b>	<b>300</b>
<b>b) credit derivatives</b>	-	-
<b>c) management, dealing and consultancy services</b>	<b>2,358</b>	<b>2,214</b>
1. trading in financial instruments	113	-
2. currency dealing	8	6
3. portfolio management	-	-
3.1 <i>individual</i>	-	-
3.2 <i>collective</i>	-	-
4. custody and administration of securities	37	44
5. depositary bank	10	10
6. placement of securities	1,065	1,033
7. reception and transmission of orders	83	81
8. consultancy services	99	34
8.1 <i>on investments</i>	58	34
8.2 <i>on financial structure</i>	41	-
9. distribution of third party services	943	1,006
9.1 <i>portfolio management</i>	112	123
9.1.1 <i>individual</i>	112	123
9.1.2 <i>collective</i>	-	-
9.2 <i>insurance products</i>	799	824
9.3 <i>other products</i>	32	59
<b>d) collection and payment services</b>	<b>403</b>	<b>414</b>
<b>e) servicing related to securitisations</b>	-	-
<b>f) services related to factoring</b>	<b>70</b>	<b>87</b>
<b>g) tax collection services</b>	-	-
<b>h) management of multilateral trading facilities</b>	-	-
<b>i) management of current accounts</b>	<b>1,045</b>	<b>1,076</b>
<b>j) Other services</b>	<b>1,049</b>	<b>1,007</b>
<b>Total</b>	<b>5,243</b>	<b>5,098</b>

Sub-caption j) "other services" recorded fees on credit and debit cards of 406 million euro, commissions on loans of 539 million euro and commissions on sundry services rendered to customers and banks of 104 million euro.

It should be noted that the contents of sub-caption c) 2. and sub-caption d) from 2019 were restated due to the reclassification of fee and commission income on foreign credit transfers, previously included among foreign exchange trading, to collection and payment services.

As required by IFRS 15, paragraph 116 b), it is noted that fee and commission income includes the revenues recognised during the year included in the opening balance of liabilities deriving from contracts with customers.

In line with paragraph 116 c) of IFRS 15, revenues deriving from performance obligations satisfied in the previous years are included, amounting to 17 million euro.

**2.2 Fee and commission income: distribution channels of products and services**

Channels/Amounts	(millions of euro)	
	2020	2019
<b>a) Group branches</b>	<b>2,000</b>	<b>2,036</b>
1. portfolio management	-	-
2. placement of securities	1,060	1,031
3. third party services and products	940	1,005
<b>b) “Out-of-Branch” offer</b>	<b>7</b>	<b>3</b>
1. portfolio management	-	-
2. placement of securities	4	2
3. third party services and products	3	1
<b>c) Other distribution channels</b>	<b>1</b>	<b>-</b>
1. portfolio management	-	-
2. placement of securities	1	-
3. third party services and products	-	-

**2.3 Fee and commission expense: breakdown**

Services/Amounts	(millions of euro)	
	2020	2019
<b>a) Guarantees received</b>	<b>163</b>	<b>113</b>
<b>b) Credit derivatives</b>	<b>13</b>	<b>10</b>
<b>c) Management, dealing and consultancy services</b>	<b>263</b>	<b>41</b>
1. trading in financial instruments	60	1
2. currency dealing	3	3
3. portfolio management	-	-
3.1 own portfolio	-	-
3.2 third party portfolio	-	-
4. custody and administration of securities	43	35
5. placement of financial instruments	150	-
6. “out-of-branch” offer of financial instruments, products and services	7	2
<b>d) Collection and payment services</b>	<b>85</b>	<b>87</b>
<b>e) Other services</b>	<b>324</b>	<b>359</b>
<b>Total</b>	<b>848</b>	<b>610</b>

Sub-caption e) “other services” includes 22 million euro fees on debit cards, 172 million euro fees on credit cards and use of international circuits, 3 million euro securities lending operations and 127 million euro other services rendered by banks.

As required by IFRS 15, paragraph 116 b), it is noted that fee and commission income includes the revenues recognised during the year included in the opening balance of liabilities deriving from contracts with customers in the amount of 54 million euro.

In line with paragraph 116 c) of IFRS 15, revenues deriving from performance obligations satisfied in the previous years are included, amounting to 9 million euro.

**SECTION 3 – DIVIDEND AND SIMILAR INCOME - CAPTION 70****3.1 Dividend and similar income: breakdown**

Captions/Income	(millions of euro)			
	2020		2019	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	23	-	-	-
B. Other financial assets mandatorily measured at fair value	2	22	3	5
C. Financial assets measured at fair value through other comprehensive income	34	4	43	-
D. Investments in associates and companies subject to joint control	2,451	-	2,093	-
<b>Total</b>	<b>2,510</b>	<b>26</b>	<b>2,139</b>	<b>5</b>

Sub-caption B. includes 2 million euro of dividends on equities and 22 million euro of income on quotas of closed-end funds classified among "Financial assets mandatorily measured at fair value".

The other income in sub-caption C. refers to equity instruments classified as "Financial assets measured at fair value through other comprehensive income".

Sub-caption "D. Equity investments" includes the dividends distributed by the subsidiaries and associates:

- Fideuram – Intesa Sanpaolo Private Banking S.p.A. for 650 million euro;
- Eurizon Capital SGR S.p.A. for 600 million euro;
- Intesa Sanpaolo Vita S.p.A. for 504 million euro;
- Intesa Sanpaolo Holding International S.A. for 500 million euro;
- Private Equity International S.A. for 102 million euro;
- Bank of Alexandria for 89 million euro;
- other equity investments for 6 million euro.

**SECTION 4 – PROFITS (LOSSES) ON TRADING - CAPTION 80****4.1 Profits (Losses) on trading: breakdown**

Transactions/Income components	(millions of euro)				
	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
<b>1. Financial trading assets</b>	<b>525</b>	<b>6,002</b>	<b>-397</b>	<b>-5,805</b>	<b>325</b>
1.1 Debt securities	437	4,840	-323	-4,429	525
1.2 Equities	84	1,038	-63	-1,179	-120
1.3 Quotas of UCI	4	15	-10	-28	-19
1.4 Loans	-	-	-1	-	-1
1.5 Other	-	109	-	-169	-60
<b>2. Financial liabilities held for trading</b>	<b>36</b>	<b>25</b>	<b>-207</b>	<b>-94</b>	<b>-240</b>
2.1 Debt securities	-	-	-	-	-
2.2 Payables	12	-	-174	-	-162
2.3 Other	24	25	-33	-94	-78
<b>3. Financial assets and liabilities: foreign exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>-245</b>
<b>4. Derivatives</b>	<b>37,761</b>	<b>96,023</b>	<b>-31,786</b>	<b>-101,483</b>	<b>623</b>
4.1 Financial derivatives:	36,463	94,024	-30,308	-99,934	353
- on debt securities and interest rates	32,811	83,280	-28,520	-87,441	130
- on equities and stock indexes	3,383	8,942	-1,512	-10,715	98
- on currencies and gold	X	X	X	X	108
- other	269	1,802	-276	-1,778	17
4.2 Credit derivatives	1,298	1,999	-1,478	-1,549	270
<i>of which: natural hedging associated with the fair value option</i>	X	X	X	X	-
<b>Total</b>	<b>38,322</b>	<b>102,050</b>	<b>-32,390</b>	<b>-107,382</b>	<b>463</b>

Profits and losses on "Financial assets held for trading" are shown for each single purchase or sale, in line with the method of accounting recognition used by the Bank and include the results of both long and short positions.

“Net result” includes profits, losses, revaluations and write-downs on currency transactions and currency and gold derivatives.

## SECTION 5 – FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING - CAPTION 90

### 5.1 Fair value adjustments in hedge accounting: breakdown

Income component/Amount	(millions of euro)	
	2020	2019
<b>A. Income from:</b>		
A.1 fair value hedge derivatives	5,762	420
A.2 financial assets hedged (fair value)	4,658	2,571
A.3 financial liabilities hedged (fair value)	523	130
A.4 cash flow hedge: derivatives	-	-
A.5 currency assets and liabilities	-	-
<b>Total income from hedging (A)</b>	<b>10,943</b>	<b>3,121</b>
<b>B. Expenses for</b>		
B.1 fair value hedge derivatives	-8,054	-1,938
B.2 financial assets hedged (fair value)	-1,604	-595
B.3 financial liabilities hedged (fair value)	-1,249	-625
B.4 cash flow hedge: derivatives	-	-
B.5 currency assets and liabilities	-	-
<b>Total expense from hedging (B)</b>	<b>-10,907</b>	<b>-3,158</b>
<b>C. Fair value adjustments in hedge accounting (A - B)</b>	<b>36</b>	<b>-37</b>
<i>of which: fair value adjustments in hedge accounting on net positions</i>	-	-

Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges). For this reason, the table “5.1 Fair value adjustments in hedge accounting: breakdown”, contains no amounts in the row “of which: profits (losses) on hedges of net positions” envisaged for parties that apply IFRS 9 also to hedges.

**SECTION 6 – PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE - CAPTION 100****6.1 Profits (Losses) on disposal or repurchase: breakdown**

Captions/Income components	2020			2019		
	Profits	Losses	Net result	Profits	Losses	Net result
(millions of euro)						
<b>A. Financial assets</b>						
1. Financial assets measured at amortised cost	118	-318	-200	92	-118	-26
1.1 Due from banks	-	-	-	-	-2	-2
1.2 Loans to customers	118	-318	-200	92	-116	-24
2. Financial assets measured at fair value through other comprehensive income	1,355	-573	782	223	-8	215
2.1 Debt securities	1,355	-573	782	223	-8	215
2.2 Loans	-	-	-	-	-	-
<b>Total assets</b>	<b>1,473</b>	<b>-891</b>	<b>582</b>	<b>315</b>	<b>-126</b>	<b>189</b>
<b>B. Financial liabilities measured at amortised cost</b>						
1. Due to banks	41	-14	27	4	-	4
2. Due to customers	4	-2	2	1	-	1
3. Securities issued	214	-263	-49	185	-21	164
<b>Total liabilities</b>	<b>259</b>	<b>-279</b>	<b>-20</b>	<b>190</b>	<b>-21</b>	<b>169</b>

The Net result on Financial assets measured at amortised cost in sub-caption 1.2 mainly relate to the sale on the market of government debt securities and a portfolio of non-performing loans to an SPV formed pursuant to Law No. 130/99 with the obtainment of a "GACS" (government guarantee on securitisation of NPLs).

Profits and losses on Financial assets measured at fair value through other comprehensive income, represented by debt securities, are shown for each single purchase or sale, in line with the method of accounting recognition used by the Bank. The Net result on Financial assets measured at fair value through other comprehensive income in sub-caption 2.1 relates to profits and losses mainly deriving from the sale of government debt securities.

**SECTION 7 – PROFITS (LOSSES) ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 110****7.1 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value**

Transactions/Income components	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
					(millions of euro)
<b>1. Financial assets</b>	-	-	-	-1	-1
1.1 Debt securities	-	-	-	-1	-1
1.2 Loans	-	-	-	-	-
<b>2. Financial liabilities</b>	<b>78</b>	-	<b>-20</b>	<b>-1</b>	<b>57</b>
2.1 Securities issued	78	-	-20	-1	57
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
<b>3. Foreign currency financial assets and liabilities: foreign exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>-</b>
<b>Total</b>	<b>78</b>	<b>-</b>	<b>-20</b>	<b>-2</b>	<b>56</b>

For information on the methods used to determine credit spread, reference should be made to Part A.4 - Information on fair value of these Notes to the financial statements.

## 7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income components	Revaluations	Gains on disposal	Write-downs	Losses on trading	(millions of euro)	
					Net result	
<b>1. Financial assets</b>	<b>98</b>	<b>31</b>	<b>-228</b>	<b>-8</b>	<b>-107</b>	
1.1 Debt securities	7	13	-153	-4	-137	
1.2 Equities	14	1	-7	-1	7	
1.3 Quotas of UCI	58	-	-53	-	5	
1.4 Loans	19	17	-15	-3	18	
<b>2. Financial assets: foreign exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>-</b>	
<b>Total</b>	<b>98</b>	<b>31</b>	<b>-228</b>	<b>-8</b>	<b>-107</b>	

The capital losses in sub-caption 1.1 Debt securities include 126 million euro relating to the fair value measurement of the debt securities of Penelope SPV - a vehicle formed pursuant to Law 130/99 - subscribed by the Bank as part of the securitisation of a portfolio of non-performing loans originated by the Group.

## SECTION 8 – NET LOSSES/RECOVERIES FOR CREDIT RISK – CAPTION 130

### 8.1 Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown

Transactions/Income components	(millions of euro)						
	IMPAIRMENT LOSSES			RECOVERIES		2020	2019
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
<b>A. Credit to banks</b>	<b>-16</b>	<b>-</b>	<b>-</b>	<b>56</b>	<b>-</b>	<b>40</b>	<b>-7</b>
- Loans	-15	-	-	56	-	41	-6
- Debt securities	-1	-	-	-	-	-1	-1
<i>of which: acquired or originated deteriorated credits</i>	-	-	-	-	-	-	-
<b>B. Credit to clients</b>	<b>-755</b>	<b>-257</b>	<b>-3,117</b>	<b>88</b>	<b>632</b>	<b>-3,409</b>	<b>-1,947</b>
- Loans	-715	-257	-3,117	48	631	-3,410	-1,923
- Debt securities	-40	-	-	40	1	1	-24
<i>of which: acquired or originated impaired credits</i>	-	-	-96	-	-	-96	-54
<b>C. Total</b>	<b>-771</b>	<b>-257</b>	<b>-3,117</b>	<b>144</b>	<b>632</b>	<b>-3,369</b>	<b>-1,954</b>

### 8.1a Net adjustments for credit risk associated with loans measured at amortised cost subject to Covid-19 support measures: breakdown

Transactions/Income components	(millions of euro)			
	Net Adjustments			Total
	Stage 1 and 2	Stage 3		
		Write-off	Others	2020
1. EBA-compliant moratoria loans	-222	-	-35	<b>-257</b>
2. Other loans with COVID-19-related forbearance measures	-	-	-1	<b>-1</b>
3. Newly originated loans	-41	-	-4	<b>-45</b>
<b>Total</b>	<b>-263</b>	<b>-</b>	<b>-40</b>	<b>-303</b>

The row “Loans subject to forbearance measures compliant with GL” shows the information relating to financial assets subject to moratoria that fall within the scope of application of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis”, published by the EBA (EBA/GL/2020/02), as amended.



**8.2 Net adjustments for credit risk associated with financial assets measured at fair value through other comprehensive income: breakdown**

Transactions/Income components	(millions of euro)						2020	2019
	IMPAIRMENT LOSSES			RECOVERIES				
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3			
		Write-off	Other					
<b>A. Debt securities</b>	-12	-	-	10	-	-2	-12	
<b>B. Loans</b>	-2	-	-4	-	-	-6	-	
- to customers	-2	-	-4	-	-	-6	-	
- to banks	-	-	-	-	-	-	-	
<i>of which: purchased or originated credit-impaired financial assets</i>	-	-	-	-	-	-	-	
<b>C. Total</b>	-14	-	-4	10	-	-8	-12	

**8.2a Net adjustments for credit risk associated with loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown**

Disclosure is not shown as the Bank did not implement COVID-19 support measures for this case in 2020.

**SECTION 9 – PROFITS/LOSSES FROM CHANGES IN CONTRACTS WITHOUT DERECOGNITION – CAPTION 140****9.1 Profits (Losses) from changes in contracts: breakdown**

As part of profits (losses) from changes in contracts without derecognition, losses of 7 million euro were recognised.

**SECTION 10 - ADMINISTRATIVE EXPENSES - CAPTION 160****10.1 Personnel expenses: breakdown**

Type of expense	(millions of euro)	
	2020	2019
<b>1) Employees</b>	<b>5,541</b>	<b>4,516</b>
a) wages and salaries	3,037	3,021
b) social security charges	823	813
c) termination indemnities	31	38
d) supplementary benefits	-	-
e) provisions for termination indemnities	7	13
f) provisions for post employment benefits	7	8
- <i>defined contribution plans</i>	-	-
- <i>defined benefit plans</i>	7	8
g) payments to external pension funds	270	272
- <i>defined contribution plans</i>	270	272
- <i>defined benefit plans</i>	-	-
h) costs from share based payments	176	165
i) other benefits in favour of employees	1,190	186
<b>2) Other non-retired personnel</b>	<b>5</b>	<b>6</b>
<b>3) Directors and statutory auditors</b>	<b>7</b>	<b>8</b>
<b>4) Early retirement costs</b>	<b>-</b>	<b>-</b>
<b>5) Recovery of expenses for employees seconded to other companies</b>	<b>-48</b>	<b>-44</b>
<b>6) Reimbursement of expenses for third party employees seconded to the company</b>	<b>16</b>	<b>13</b>
<b>Total</b>	<b>5,521</b>	<b>4,499</b>

The “other benefits in favour of employees” include 1,060 million euro relating to the agreement on voluntary exit incentives signed with the trade unions on 29 September 2020, as a result of the integration with UBI Banca.

Provisions to employee termination indemnities determined on the basis of Art. 2120 of the Italian Civil Code amounted to 14 million euro.

## 10.2 Average number of employees by categories

	2020	2019
<b>Personnel employed</b>	<b>54,293</b>	<b>55,558</b>
a) managers	816	757
b) total officers	23,259	23,734
c) other employees	30,218	31,067
<b>Other personnel</b>	<b>25</b>	<b>24</b>
<b>TOTAL</b>	<b>54,318</b>	<b>55,582</b>

The change in the average number of employees was due to the increase resulting from the integration of the subsidiary Banca IMI and the reduction due to the downsizing of the headcount during the year.

## 10.3 Post-employment defined benefit plans: costs and revenues

	(millions of euro)					
		2020		2019		
	Employee Termination Indemnities	Internal plans	External plans	Employee Termination Indemnities	Internal plans	External plans
Current service cost	-2	-2	-3	-1	-2	-4
Interest expense	-5	-3	-11	-12	-4	-21
Interest income	-	3	9	-	3	19
Reimbursement from third parties	-	-	-	-	-	-
Past service cost	-	-	-	-	-	-
Curtailement of the fund	X	-	-	X	-	-
Settlement of the fund	X	-	-	X	-	-

This table illustrates the economic components referred to “Employee termination indemnities” – caption 90 of Balance sheet liabilities and “Allowances for risks and charges - post employment benefits” – caption 100b of Balance sheet liabilities.

## 10.4 Other benefits in favour of employees

In 2020, “other benefits in favour of employees” amounted to 1,190 million euro, of which 1,060 million euro relating to the agreement on voluntary exit incentives signed with the trade unions on 29 September 2020, as a result of the integration with UBI Banca. The remainder essentially refers to contributions for health assistance, lunch and restaurant vouchers and provisions for seniority bonuses.

**10.5 Other administrative expenses: breakdown**

Type of expense/Amount	(millions of euro)	
	2020	2019
Expenses for maintenance of information technology and electronic equipment	600	462
Telephonic, teletransmission and transmission expenses	33	31
<b>Information technology expenses</b>	<b>633</b>	<b>493</b>
Rentals and service charges - real estate	24	31
Security services	23	24
Cleaning of premises	33	33
Expenses for maintenance of real estate assets furniture and equipment	58	59
Energy costs	75	82
Property costs	7	7
<b>Management of real estate assets expenses</b>	<b>220</b>	<b>236</b>
Printing, stationery and consumables expenses	36	20
Transport and related services expenses (including counting of valuables)	58	81
Information expenses	150	104
Postal and telegraphic expenses	33	33
<b>General structure costs</b>	<b>277</b>	<b>238</b>
Expenses for consultancy fees	140	140
Legal and judiciary expenses	127	117
Insurance premiums - banks and customers	33	34
<b>Professional and legal expenses</b>	<b>300</b>	<b>291</b>
<b>Advertising and promotional expenses</b>	<b>103</b>	<b>87</b>
<b>Services rendered by third parties</b>	<b>309</b>	<b>250</b>
<b>Indirect personnel costs</b>	<b>28</b>	<b>55</b>
<b>Other costs</b>	<b>16</b>	<b>18</b>
<b>Other costs</b>	<b>602</b>	<b>427</b>
<b>Taxes and duties</b>	<b>608</b>	<b>600</b>
<b>Recovery of other expenses</b>	<b>-44</b>	<b>-39</b>
<b>Total</b>	<b>3,052</b>	<b>2,656</b>

The increase in the costs of IT services was mainly due to the integration of UBI Banca - Unione Banche Italiane S.p.A.

The amount of the sub-caption "Rentals and service charges - real estate" relates to contracts with a total lease term of 12 months or less and to contracts with a value of the underlying asset, when new, of 5,000 euro or less ("low value"). In such cases, as allowed by IFRS 16, the lease payments for these leases are recognised as an expense – in the same way as in the past – on a straight-line basis for the lease term.

"Other costs" include 515 million euro concerning contributions to the Single Resolution Fund for Banking Crisis and the Interbank Deposit Guarantee Fund.

"Other administrative expenses" included costs of around 55 million euro related to the COVID-19 pandemic, mainly due to the purchase of personal protective equipment, cleaning and sanitisation of premises, provision of remote working equipment and social initiatives to support local communities.

**SECTION 11 - NET PROVISIONS FOR RISKS AND CHARGES - CAPTION 170****11.1 Net provisions for credit risk associated with loan commitments and financial guarantees given: breakdown**

Captions	Provision	Reallocations	(millions of euro)
			Net provision
Stage 1	-59	20	-39
Stage 2	-53	10	-43
Stage 3	-44	112	68
<b>Total</b>	<b>-156</b>	<b>142</b>	<b>-14</b>

**11.2 Net provisions associated with commitments and other guarantees given: breakdown**

This case was not present.

**11.3 Net provisions for other risks and charges: breakdown**

	Provisions	Reallocations	(millions of euro)
			Net provision
Net provisions for legal disputes	-122	13	-109
Net provisions for other personnel charges	-	-	-
Net provisions for risks and charges	-545	39	-506
<b>Total</b>	<b>-667</b>	<b>52</b>	<b>-615</b>

"Net provisions for other risks and charges", which amounted to 615 million euro, recorded the provisions attributable to the year relating to legal disputes and other risks and charges, net of reallocations.

In particular, the sub-caption "Net provisions for legal disputes" includes provisions for legal disputes, including revocatory actions and other disputes, net of releases for the year.

The sub-caption "Other net provisions for risks and charges" mainly includes the provisions recognised in relation to the integration of UBI Banca (372 million euro).

**SECTION 12 – NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT - CAPTION 180****12.1 Net adjustments to property and equipment: breakdown**

Assets/Income component	Depreciation	Impairment losses	Recoveries	(millions of euro)
				Net result
<b>A. Property and equipment</b>				
A.1 Used in operations	-378	-	-	-378
- <i>Owned</i>	-234	-	-	-234
- <i>Licenses acquired through lease</i>	-144	-	-	-144
A.2 Investment property	-	-	-	-
- <i>Owned</i>	-	-	-	-
- <i>Licenses acquired through lease</i>	-	-	-	-
A.3 Inventories	X	-3	-	-3
<b>B. Non-current assets held for sale</b>	X	-	-	-
<b>Total</b>	<b>-378</b>	<b>-3</b>	<b>-</b>	<b>-381</b>

Depreciation of rights of use acquired under leases is associated with application of the accounting standard IFRS 16, which entered into effect on 1 January 2019. Please note that as at 31 December 2020 the analysis of factors internal and external to the Company did not indicate any impairment of rights of use (RoUs). Reference should be made to Part A "Accounting policies".

Impairment losses on inventories refer to the impairment of certain repossessed properties.

**SECTION 13 – NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS - CAPTION 190****13.1 Net adjustments to intangible assets: breakdown**

Assets/Income component	Amortisation	Impairment losses	Recoveries	(millions of euro)
				Net result
<b>A. Intangible assets</b>				
A.1 Owned	-594	-1	-	-595
- <i>internally generated</i>	-546	-1	-	-547
- <i>Others</i>	-48	-	-	-48
A.2 Rights of use acquired through the lease	-	-	-	-
<b>B. Non-current assets held for sale</b>	X	-	-	-
<b>Total</b>	<b>-594</b>	<b>-1</b>	<b>-</b>	<b>-595</b>

With regard to the method of the impairment testing for intangible assets and related impairment recognised to the income statement, see Part B – Section 9 – Intangible Assets in these Notes to the financial statements.

**SECTION 14 – OTHER OPERATING EXPENSES (INCOME) - CAPTION 200****14.1 Other operating expenses: breakdown**

Type of expense/Amount		(millions of euro)
Other expenses for consumer credit and leasing transactions		16
Settlements for legal disputes		5
Amortisation of leasehold improvements		22
Other		183
<b>Total</b>	<b>2020</b>	<b>226</b>
<b>Total</b>	<b>2019</b>	<b>178</b>

The sub-caption “Other expenses” comprises 60 million euro for the negative result on gold and precious metals.

**14.2 Other operating income: breakdown**

Type of expense/Amount		(millions of euro)
Recovery of insurance costs		7
Recovery of other expenses		6
Rentals and recovery of expenses on real estate		29
Income related to consumer credit and leasing		37
Recovery of services rendered to third parties		157
Recovery of taxes and duties		488
Other		122
<b>Total</b>	<b>2020</b>	<b>846</b>
<b>Total</b>	<b>2019</b>	<b>985</b>

The sub-caption “Other income” comprises 70 million euro for the positive result on gold and precious metals.

As required by paragraph 116 c) of IFRS 15, revenues deriving from performance obligations satisfied in the previous years are included, amounting to 23 million euro.

**SECTION 15 – PROFITS (LOSSES) ON EQUITY INVESTMENTS - CAPTION 220****15.1 Profits (Losses) on equity investments: breakdown**

Income component/Amount	(millions of euro)	
	2020	2019
<b>A. Revenues</b>	<b>78</b>	<b>23</b>
1. Revaluations	-	-
2. Profits on disposal	78	1
3. Recoveries	-	18
4. Other	-	4
<b>B. Charges</b>	<b>-232</b>	<b>-79</b>
1. Write-downs	-	-
2. Impairment losses	-232	-79
3. Losses on disposal	-	-
4. Other	-	-
<b>Net result</b>	<b>-154</b>	<b>-56</b>

Sub-caption A.2. “Profits on disposal” relates to the sale of equity investments in Autostrade Lombarde S.p.A. for 72 million euro, AM Investco Italy S.p.A. for 4 million euro and other minor equity investments totalling 2 million euro.



Sub-caption B.2. "Impairment losses" refers to the impairment losses on the equity investments in Intesa Sanpaolo Provis S.p.A. for 149 million euro, AM Investco Italy S.p.A. for 45 million euro (later sold), Pravex Bank Joint Stock Company for 13 million euro, Risanamento S.p.A. for 10 million euro, FI.NAV Comparto A Crediti for 3 million euro, Rainbow for 3 million euro, Intesa Sanpaolo RE.O.CO. S.p.A. for 3 million euro and other minor equity investments for 6 million euro.

## SECTION 16 - VALUATION DIFFERENCES ON PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS MEASURED AT FAIR VALUE – CAPTION 230

### 16.1 Valuation differences on property, equipment and intangible assets measured at fair value or estimated realisable value: breakdown

Assets/Income component	Revaluations	Write-downs	Foreign exchange differences		Net result
			(millions of euro)		
			Positive	Negative	
<b>A. Property and equipment</b>	<b>5</b>	<b>-38</b>	-	-	<b>-33</b>
A.1 Used in operations:	4	-24	-	-	-20
- Owned	4	-24	-	-	-20
- Licenses acquired through lease	-	-	-	-	-
A.2 Investment:	1	-14	-	-	-13
- Owned	1	-14	-	-	-13
- Licenses acquired through lease	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
<b>B. Intangible assets</b>	-	-	-	-	-
B.1 Owned:	-	-	-	-	-
B.1.1 Internally generated	-	-	-	-	-
B.1.2 Other	-	-	-	-	-
B.2 Licenses acquired through lease	-	-	-	-	-
<b>Total</b>	<b>5</b>	<b>-38</b>	-	-	<b>-33</b>

## SECTION 17 – GOODWILL IMPAIRMENT - CAPTION 240

### 17.1 Goodwill impairment: breakdown

Due to the negative effects on cash flows expected in the short/medium term deriving from the current economic scenario, harshly impacted by the COVID-19 pandemic and, especially the expected trend in interest rates, the impairment test conducted at the end of the year on the goodwill posted in the financial statements showed the need to fully write-down the goodwill allocated to the "Banca dei Territori" Division (for an amount of 1,155 million euro), also due to the increase in the carrying amount of the CGU resulting from the integration of UBI Banca. The remaining CGUs to which intangible assets with finite useful lives have been allocated did not indicate a need for this, since their values in use at 31 December 2020 were higher than their accounting carrying amounts.

For a description of the impairment testing methods for goodwill, reference should be made to Part B of – Assets Section 9 – Intangible Assets.

**SECTION 18 – PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS - CAPTION 250****18.1 Profits (Losses) on disposal of investments: breakdown**

Income component/Amount	(millions of euro)	
	2020	2019
<b>A. Real estate assets</b>	-	-
- profits on disposal	-	1
- losses on disposal	-	-1
<b>B. Other assets</b>	<b>29</b>	-
- profits on disposal	30	-
- losses on disposal	-1	-
<b>Net result</b>	<b>29</b>	<b>-</b>

The profits on disposal in sub-caption B. Other assets refer to the sale of the pledge lending business line.

**SECTION 19 - TAXES ON INCOME FROM CONTINUING OPERATIONS - CAPTION 270****19.1 Taxes on income from continuing operations: breakdown**

	(millions of euro)	
	2020	2019
1. Current taxes (-)	361	-23
2. Changes in current taxes of previous years (+/-)	40	38
3. Reduction in current taxes of the year (+)	110	1
3. bis Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	-	-
4. Changes in deferred tax assets (+/-)	70	-106
5. Changes in deferred tax liabilities (+/-)	58	124
<b>6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)</b>	<b>639</b>	<b>34</b>

Due to the sale for consideration of non-performing loans, the deferred tax assets on IRES tax loss were converted into tax credits pursuant to Art. 44-*bis* of the Law Decree of 30 April 2019 (the "Decreto Crescita"), as replaced by Art. 55 of Law Decree 18 of 17 March 2020 (the "Cura Italia" Decree), subsequently amended by Art. 72 of the Law Decree of 14 August 2020. This effect was taken to the caption "Reduction in current taxes of the year" for 110 million euro, with the corresponding decrease in the caption "Changes in deferred tax assets".

In 2020, total tax benefits of 39 million euro were recognised under the "Patent Box" tax relief scheme (pursuant to Italian Law 190 of 23 December 2014) for the Intesa Sanpaolo trademark with respect to tax periods 2015-2019. The benefit is obtained through reductions of the IRES and IRAP taxable amounts of 30% of the economic contribution of the trademark for which an application was filed in 2015, 40% in 2016 and 50% in subsequent tax periods.

**19.2 Reconciliation of theoretical tax charge to total income tax expense for the period**

	(millions of euro)	
	2020	2019
Income before tax from continuing operations	-1,086	2,039
Income (Loss) before tax from discontinued operations	1,154	88
<b>Theoretical taxable income</b>	<b>68</b>	<b>2,127</b>
	Taxes (a)	Impact (%) on theoretical taxable income
<b>Income taxes - theoretical tax expense (income) <sup>(b)</sup></b>	<b>22</b>	<b>33.1</b>
<b>Increases of taxes</b>	<b>403</b>	<b>-</b>
Greater IRAP taxable income	-	-
Non-deductible costs (goodwill impairment)	249	-
Other non-deductible costs (loss on investments, out-of-period items, fines, IMU property tax)	116	-
Other	38	55.8
<b>Decreases of taxes</b>	<b>-1,036</b>	<b>-</b>
Lower IRAP taxable income	-21	-31.0
Non-taxed capital gains on equity investments	-321	-
Capital gains subject to substitute tax	-	-
Tax-exempt portion of dividends	-647	-
ACE Benefit - Aid for Economic Growth	-	-
Other	-47	-69.2
<b>Total change in taxes</b>	<b>-633</b>	<b>-</b>
<b>Total tax expense (income) for the period</b>	<b>-611</b>	<b>-</b>
<b>of which: - effective tax expense (income) from continuing operations</b>	<b>-639</b>	<b>-</b>
<b>- effective tax expense (income) from discontinued operations</b>	<b>28</b>	<b>41.2</b>

(a) Tax expenses are indicated with a positive sign and tax income with a negative sign.

(b) Includes IRES ordinary tax 24%, IRES additional rate 3.5% and IRAP weighted average rate 5.56%.

**SECTION 20 – INCOME (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS - CAPTION 290****20.1 Income (Loss) after tax from discontinued operations: breakdown**

	(millions of euro)	
Income component/Amount	2020	2019
1. Income	180	426
2. Charges	-126	-338
3. Valuation differences on discontinued operations and related liabilities	-	-
4. Profits (losses) on disposal	1,100	-
5. Taxes and duties	-28	-24
<b>Income (Loss)</b>	<b>1,126</b>	<b>64</b>

Income (Loss) from discontinued operations represented the income effects of the business line connected to the acquiring operations carried out by the Bank, which was transferred to NEXI S.p.A. in June 2020 under the relevant agreement on payment systems. The sale yielded a capital gain of 1,100 million euro, presented in sub-caption 4. Profits (losses) on disposal.

**20.2 Breakdown of taxes on income from discontinued operations**

Captions	(millions of euro)	
	2020	2019
1. Current taxes (-)	-28	-24
2. Changes in deferred tax assets (+/-)	1	-
3. Changes in deferred tax liabilities (-/+)	-1	-
<b>4. Taxes on income (-1+/-2+/-3)</b>	<b>-28</b>	<b>-24</b>

**SECTION 21 – OTHER INFORMATION**

There is no information further to that already provided in the previous sections.

**SECTION 22 – EARNINGS PER SHARE**

For details, reference should be made to the relevant section of the Notes to the consolidated financial statements.

## Part D – Comprehensive income

Statement of comprehensive income		(millions of euro)	
		2020	2019
10	<b>Net income (loss)</b>	<b>679</b>	<b>2,137</b>
	<b>Other comprehensive income that may not be reclassified to the income statement</b>	<b>-360</b>	<b>185</b>
20	Equity instruments measured at fair value through other comprehensive income	-290	-44
	<i>a) fair value changes</i>	-256	-35
	<i>b) transfer to other components of shareholders' equity</i>	-34	-9
30	Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-137	-
	<i>a) fair value changes</i>	-137	-
	<i>b) transfer to other components of shareholders' equity</i>	-	-
40	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
	<i>a) fair value changes (hedged instrument)</i>	-	-
	<i>b) fair value changes (hedging instrument)</i>	-	-
50	Property and equipment	10	246
60	Intangible assets	-	-
70	Defined benefit plans	8	-36
80	Non-current assets held for sale and discontinued operations	-	-
90	Share of valuation reserves connected with investments carried at equity	-	-
100	Income taxes associated with other comprehensive income that may not be reclassified to the income statement	49	19
	<b>Other comprehensive income that may be reclassified to the income statement</b>	<b>147</b>	<b>127</b>
110	Hedges of foreign investments:	-	-
	<i>a) fair value changes</i>	-	-
	<i>b) reclassification to the income statement</i>	-	-
	<i>c) other changes</i>	-	-
120	Foreign exchange differences:	-	-
	<i>a) value change</i>	-	-
	<i>b) reclassification to the income statement</i>	-	-
	<i>c) other changes</i>	-	-
130	Cash flow hedges:	86	-49
	<i>a) fair value changes</i>	313	186
	<i>b) reclassification to the income statement</i>	-227	-235
	<i>c) other changes</i>	-	-
	<i>of which: gains (losses) on net positions</i>	-	-
140	Hedging instruments (not designated elements)	-	-
	<i>a) value change</i>	-	-
	<i>b) reclassification to the income statement</i>	-	-
	<i>c) other changes</i>	-	-
150	Financial assets (other than equities) measured at fair value through other comprehensive income	133	239
	<i>a) fair value changes</i>	402	440
	<i>b) reclassification to the income statement</i>	-273	-202
	- <i>adjustments for credit risk</i>	6	12
	- <i>gains/losses on disposals</i>	-279	-214
	<i>c) other changes</i>	4	1
160	Non-current assets held for sale and discontinued operations	-	-
	<i>a) fair value changes</i>	-	-
	<i>b) reclassification to the income statement</i>	-	-
	<i>c) other changes</i>	-	-
170	Share of valuation reserves connected with investments carried at equity:	-	-
	<i>a) fair value changes</i>	-	-
	<i>b) reclassification to the income statement</i>	-	-
	- <i>impairment losses</i>	-	-
	- <i>gains/losses on disposals</i>	-	-
	<i>c) other changes</i>	-	-
180	Income taxes associated with other comprehensive income that may be reclassified to the income statement	-72	-63
190	<b>Total other comprehensive income</b>	<b>-213</b>	<b>312</b>
200	<b>Comprehensive income (Captions 10+190)</b>	<b>466</b>	<b>2,449</b>

# Part E – Information on risks and relative hedging policies

## INTRODUCTION

This part of the Notes to the Parent Company's financial statements provides the quantitative information on risks relative to the Parent Company, Intesa Sanpaolo. For qualitative information regarding the methods whereby risks are managed and monitored, the organisation of the Bank's risk governance, the associated processes and key functions, the culture of risk-awareness at the Bank and the methods whereby it is ensured that this culture is spread, the main risks associated with the Bank's business model, the risk appetite and the methods whereby such risks are managed and the use of stress tests within risk governance strategies, refer to Part E of the Notes to the consolidated financial statements.

Part E of the Notes to the consolidated financial statements also provides a description of the impact of the COVID-19 pandemic on each type of risk.

The qualitative and quantitative disclosure is presented according to the order established by Bank of Italy Circular 262, which specifically regulates not only the format of the tables but also the sequence of the various topics, except for the section relating to market risks in relation to the application of internal models.

## SECTION 1 – CREDIT RISK

### QUALITATIVE INFORMATION

Qualitative information on Intesa Sanpaolo's credit quality is contained in Part E of the Notes to the consolidated financial statements.

### QUANTITATIVE INFORMATION

#### A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and quotas of UCI.

The term "on-balance sheet credit exposures" refers to all the on-balance sheet financial assets due from banks or customers, irrespective of the accounting portfolio they are allocated to (measured at fair value through profit or loss, measured at fair value through other comprehensive income, measured at amortised cost, or discontinued financial assets).

The term "off-balance sheet exposures" refers to all the financial transactions that are not on the balance sheet (guarantees given, revocable and irrevocable commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of those transactions (trading, hedging, etc.). The off-balance sheet credit exposures also include the counterparty risk associated with any securities lending transactions. Where necessary, the counterparty risk associated with exposures relating to repurchase agreements, transactions involving the granting or assumption of goods on loan, and loans with margins falling within the notion of securities financing transactions defined by the prudential regulations, is also reported.

Non-performing credit exposures (on-balance sheet and off-balance sheet) do not include financial assets held for trading and hedging derivatives, which are therefore normally recognised as performing credit exposures.

The tables below also include the revocable commitments among the off-balance sheet exposures.

#### A.1 Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

##### A.1.1 Breakdown of financial assets by portfolio classification and credit quality (book values)

Portfolios/quality	(millions of euro)					TOTAL
	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	
1. Financial assets measured at amortised cost	3,442	5,822	382	1,973	458,626	470,245
2. Financial assets measured at fair value through other comprehensive income	1	-	-	-	37,656	37,657
3. Financial assets designated at fair value	-	-	-	-	1	1
4. Other financial assets mandatorily measured at fair value	-	76	-	-	1,214	1,290
5. Non-current financial assets held for sale	267	1	3	6	1,433	1,710
<b>Total 31.12.2020</b>	<b>3,710</b>	<b>5,899</b>	<b>385</b>	<b>1,979</b>	<b>498,930</b>	<b>510,903</b>
<b>Total 31.12.2019</b>	<b>5,922</b>	<b>6,682</b>	<b>668</b>	<b>2,975</b>	<b>456,442</b>	<b>472,689</b>



## A.1.2 Breakdown of financial assets by portfolio classification and credit quality (gross and net values)

Portfolios/quality	IMPAIRED ASSETS				NOT IMPAIRED ASSETS			(millions of euro)
	Gross exposure	Overall writedowns of value	Net exposure	Overall partial write-off	Gross exposure	Overall writedowns of value	Net exposure	TOTAL (net exposure)
1. Financial assets valued to amortized cos	18,725	-9,079	9,646	6,390	462,605	-2,006	460,599	470,245
2. Financial assets valued to fair value with impact on overall profitability	39	-38	1	-	37,682	-26	37,656	37,657
3. Financial assets designated to fair value	-	-	-	-	X	X	1	1
4. Other financial assets mandatorily valuated to fair value	103	-27	76	-	X	X	1,214	1,290
5. Financial assets as held for sale	2,330	-2,059	271	1,632	1,446	-7	1,439	1,710
<b>Total 31.12.2020</b>	<b>21,197</b>	<b>-11,203</b>	<b>9,994</b>	<b>8,022</b>	<b>501,733</b>	<b>-2,039</b>	<b>500,909</b>	<b>510,903</b>
<b>Total 31.12.2019</b>	<b>28,391</b>	<b>-15,119</b>	<b>13,272</b>	<b>7,743</b>	<b>458,869</b>	<b>-1,302</b>	<b>459,417</b>	<b>472,689</b>

Portfolios/quality	ASSETS OF EVIDENTLY LOW CREDIT QUALITY		OTHER ASSETS	
	Cumulative capital losses	Net exposure	Net exposure	
1. Financial assets held for trading		-44	33	52,996
2. Hedging derivatives		-	-	1,015
<b>Total 31.12.2020</b>		<b>-44</b>	<b>33</b>	<b>54,011</b>
<b>Total 31.12.2019</b>		<b>-36</b>	<b>48</b>	<b>22,612</b>

## A.1.3 Breakdown of financial assets by past-due brackets (book value)

Portfolios/risk stages	STAGE 1			STAGE 2			STAGE 3		
	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days
1. Financial assets measured at amortised cost	500	271	153	292	445	312	383	193	7,237
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	1
3. Non-current financial assets held for sale	2	-	-	2	1	1	-	-	269
<b>Total 31.12.2020</b>	<b>502</b>	<b>271</b>	<b>153</b>	<b>294</b>	<b>446</b>	<b>313</b>	<b>383</b>	<b>193</b>	<b>7,507</b>
<b>Total 31.12.2019</b>	<b>485</b>	<b>162</b>	<b>1,532</b>	<b>225</b>	<b>278</b>	<b>292</b>	<b>252</b>	<b>252</b>	<b>9,843</b>

**A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and total provisions**

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS									
	Stage 1 assets					Stage 2 assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses
<b>Initial total adjustments</b>	<b>446</b>	<b>9</b>	<b>-</b>	<b>455</b>	<b>-</b>	<b>840</b>	<b>7</b>	<b>-</b>	<b>847</b>	<b>-</b>
Increases in purchased or originated financial assets	393	3	-	396	-	21	-	-	21	-
Derecognition other than write-offs	-119	-5	-	-124	-	-55	-4	-	-59	-
Net losses/recoveries for credit risk (+/-)	-261	-	-	-261	-	609	1	-	610	-
Changes in contracts without derecognition	-	-	-	-	-	26	-	-	26	-
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-
Other changes	49	6	2	57	-	57	9	5	71	-
- of which: business combinations	74	18	-	92	-	90	12	-	102	-
<b>Final total adjustments</b>	<b>508</b>	<b>13</b>	<b>2</b>	<b>523</b>	<b>-</b>	<b>1,498</b>	<b>13</b>	<b>5</b>	<b>1,516</b>	<b>-</b>
Recoveries on collection of financial assets previously written off	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS						Purchased or originated credit-impaired financial assets	TOTAL PROVISIONS ON COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES GIVEN			TOTAL
	Stage 3 assets					Stage 3		Stage 1	Stage 2		
	Financial assets measured at amortized cost	Financial assets measured at fair value with an impact on total profitability	Non-current financial assets held for sale	of which: individual writedowns	of which: collective writedowns						
<b>Initial total adjustments</b>	<b>14,974</b>	<b>35</b>	<b>91</b>	<b>15,100</b>	<b>-</b>	<b>225</b>	<b>64</b>	<b>63</b>	<b>259</b>	<b>16,788</b>	
Increases in purchased or originated financial assets	8	-	-	8	-	-	7	-	-	432	
Derecognition other than write-offs	-6,087	-	-91	-6,178	-	-19	-5	-11	-	-6,377	
Net losses/recoveries for credit risk (+/-)	2,674	4	-	2,678	-	96	37	53	-67	3,050	
Changes in contracts without derecognition	19	-	-	19	-	-	-	-	-	45	
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-	
Write-offs not recognised directly through profit or loss	-2,308	-	-	-2,308	-	-92	-	-	-	-2,308	
Other changes	-201	-1	2,059	1,857	-	-37	-9	13	-	1,989	
- of which: business combinations	320	-	-	320	-	-	3	3	-	520	
<b>Final total adjustments</b>	<b>9,079</b>	<b>38</b>	<b>2,059</b>	<b>11,176</b>	<b>-</b>	<b>173</b>	<b>94</b>	<b>118</b>	<b>192</b>	<b>13,619</b>	
Recoveries on collection of financial assets previously written off	60	-	-	60	-	-	-	-	-	60	
Write-offs recognised directly through profit or loss	-257	-	-	-257	-	-	-	-	-	-257	

Intesa Sanpaolo does not use the simplified method for the valuation of the loss allowance in relation to trade receivables, contract assets and lease receivables (method envisaged by IFRS 9, paragraph 5.5.15).

*A.1.5 Financial assets, commitments to disburse funds and financial guarantees given: transfers between stages of credit risk (gross and nominal amounts)*

(millions of euro)

Portfolios/risk stages	GROSS AMOUNTS/NOMINAL VALUE					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
1. Financial assets measured at amortised cost	34,282	5,220	928	283	1,020	72
2. Financial assets measured at fair value through other comprehensive income	313	166	12	1	3	-
3. Non-current financial assets held for sale	345	46	11	8	16	3
4. Commitments to provide funds and financial guarantees issued	28,113	5,086	113	14	195	19
<b>Total 31.12.2020</b>	<b>63,053</b>	<b>10,518</b>	<b>1,064</b>	<b>306</b>	<b>1,234</b>	<b>94</b>
<b>Total 31.12.2019</b>	<b>49,149</b>	<b>32,952</b>	<b>3,047</b>	<b>903</b>	<b>960</b>	<b>280</b>

*A.1.5a Loans subject to Covid-19 support measures: transfers between stages of credit risk (gross amounts)*

(millions of euro)

Portfolios/Risk stages	GROSS EXPOSURE / PAR VALUE					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfer between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
<b>A. Loans measured at amortized cost</b>	<b>7,558</b>	<b>720</b>	<b>100</b>	<b>105</b>	<b>137</b>	<b>31</b>
A.1 subject to EBA-compliant moratoria	5,857	720	91	104	97	28
A.2 subject to COVID-19-related forbearance measures	18	-	9	-	11	-
A.3 newly originated loans	1,683	-	-	1	29	3
<b>B. Loans and advances valued at fair value with an impact on overall profitability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
B.1 subject to EBA-compliant moratoria	-	-	-	-	-	-
B.2 subject to COVID-19-related forbearance measures	-	-	-	-	-	-
B.3 newly originated loans	-	-	-	-	-	-
<b>Total 31.12.2020</b>	<b>7,558</b>	<b>720</b>	<b>100</b>	<b>105</b>	<b>137</b>	<b>31</b>

The row "Loans subject to forbearance measures compliant with GL" shows the information relating to financial assets subject to moratoria that fall within the scope of application of the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis", published by the EBA (EBA/GL/2020/02), as amended.

## A.1.6. On- and off-balance sheet credit exposures to banks: gross and net values

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	(millions of euro)	
	Impairment	Non impairment		Net exposure	Total partial write-offs
<b>A. On-balance sheet exposures</b>					
a) Bad loans	4	X	-4	-	4
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	78	X	-14	64	-
- of which: forborne exposures	78	X	-14	64	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	95,470	-33	95,437	-
- of which: forborne exposures	X	-	-	-	-
<b>Total (A)</b>	<b>82</b>	<b>95,470</b>	<b>-51</b>	<b>95,501</b>	<b>4</b>
<b>B. Off-balance sheet exposures</b>					
a) Non-performing	8	X	-	8	-
b) Performing	X	139,550	-7	139,543	-
<b>Total (B)</b>	<b>8</b>	<b>139,550</b>	<b>-7</b>	<b>139,551</b>	<b>-</b>
<b>Total (A+B)</b>	<b>90</b>	<b>235,020</b>	<b>-58</b>	<b>235,052</b>	<b>4</b>

## A.1.7. On- and off-balance sheet credit exposures to customers: gross and net values

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	(millions of euro)	
	Non-performing	Performing		Net exposure	Total partial write-offs
<b>A. On-balance sheet exposures</b>					
a) Bad loans	10,647	X	-6,937	3,710	7,334
- of which: forborne exposures	1,518	X	-852	666	353
b) Unlikely to pay	10,024	X	-4,189	5,835	682
- of which: forborne exposures	3,935	X	-1,285	2,650	468
c) Non-performing past due exposures	444	X	-59	385	2
- of which: forborne exposures	31	X	-4	27	-
d) Performing past due exposures	X	2,018	-39	1,979	-
- of which: forborne exposures	X	120	-7	113	-
e) Other performing exposures	X	426,346	-1,967	424,379	-
- of which: forborne exposures	X	4,286	-221	4,065	-
<b>Total (A)</b>	<b>21,115</b>	<b>428,364</b>	<b>-13,191</b>	<b>436,288</b>	<b>8,018</b>
<b>B. Off-balance sheet exposures</b>					
a) Non-performing	2,120	X	-192	1,928	-
b) Performing	X	293,452	-205	293,247	-
<b>Total (B)</b>	<b>2,120</b>	<b>293,452</b>	<b>-397</b>	<b>295,175</b>	<b>-</b>
<b>Total (A+B)</b>	<b>23,235</b>	<b>721,816</b>	<b>-13,588</b>	<b>731,463</b>	<b>8,018</b>

During the year, as part of business combinations under common control, non-performing loans of 254 million euro were acquired. For those transactions, as a general rule, the Intesa Sanpaolo Group adopts the principle of consistency for recognition in the separate financial statements of the companies involved in the business combination.

## A.1.7a Loans subject to Covid-19 support measures: gross and net amounts

Loans types / amounts	Gross exposure	Total value adjustments and total provisions	(millions of euro)
			Net exposure
<b>A. BAD LOANS</b>	<b>9</b>	<b>-3</b>	<b>6</b>
a) Subject to EBA-compliant moratoria	9	-3	6
b) Subject to other COVID-19-related forbearance measures	-	-	-
c) Newly originated loans	-	-	-
<b>B. UNLIKELY TO PAY LOANS</b>	<b>279</b>	<b>-59</b>	<b>220</b>
a) Subject to EBA-compliant moratoria	246	-55	191
b) Subject to other COVID-19-related forbearance measures	15	-1	14
c) Newly originated loans	18	-3	15
<b>C. NON-PERFORMING PAST DUE LOANS</b>	<b>39</b>	<b>-4</b>	<b>35</b>
a) Subject to EBA-compliant moratoria	31	-3	28
b) Subject to other COVID-19-related forbearance measures	1	-	1
c) Newly originated loans	7	-1	6
<b>D. OTHER PAST DUE PERFORMING LOANS</b>	<b>166</b>	<b>-3</b>	<b>163</b>
a) Subject to EBA-compliant moratoria	91	-3	88
b) Subject to other COVID-19-related forbearance measures	-	-	-
c) Newly originated loans	75	-	75
<b>E. OTHER PERFORMING LOANS</b>	<b>53,226</b>	<b>-449</b>	<b>52,777</b>
a) Subject to EBA-compliant moratoria	24,683	-405	24,278
b) Subject to other COVID-19-related forbearance measures	31	-1	30
c) Newly originated loans	28,512	-43	28,469
<b>TOTAL (A+B+C+D+E)</b>	<b>53,719</b>	<b>-518</b>	<b>53,201</b>

The row “Loans subject to forbearance measures compliant with GL” shows the information relating to financial assets subject to moratoria that fall within the scope of application of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis”, published by the EBA (EBA/GL/2020/02), as amended.

## A.1.8. On-balance sheet credit exposures to banks: changes in gross non-performing exposures

Reasons/Categories	Bad loans	Unlikely to pay	(millions of euro) Non-performing past due exposures
<b>A. Initial gross exposure</b>	<b>4</b>	<b>96</b>	-
<i>- of which: exposures sold not derecognised</i>	-	-	-
<b>B. Increases</b>	-	<b>1</b>	-
B.1 inflows from performing exposures	-	1	-
B.2 inflows from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures categories	-	-	-
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	-	-	-
<b>C. Decreases</b>	-	<b>-19</b>	-
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-18	-
C.4 profits on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposure categories	-	-	-
C.7 changes in contracts without derecognition	-	-	-
C.8 other decreases	-	-1	-
<b>D. Final gross exposure</b>	<b>4</b>	<b>78</b>	-
<i>- of which: exposures sold not derecognised</i>	-	-	-



## A.1.8 Bis On-balance sheet credit exposures to banks: changes in gross forborne exposures broken down by credit quality

Description/Quality	(millions of euro)	
	Forborne exposures: non-performing	Forborne exposures: performing
<b>A. Initial gross exposure</b>	<b>96</b>	-
- of which: exposures sold not derecognised	-	-
<b>B. Increases</b>	<b>1</b>	-
B.1 inflows from performing not forborne exposures	1	-
B.2 inflows from performing forborne exposures	-	X
B.3 inflows from impaired forborne exposures	X	-
B.4 inflows from non-performing non-forborne exposures	-	-
B.5 other increases	-	-
<b>C. Decreases</b>	<b>-19</b>	-
C.1 outflows to performing not forborne exposures	X	-
C.2 outflows to performing forborne exposures	-	X
C.3 outflows to exposures subject to impaired concessions	X	-
C.4 write-offs	-	-
C.5 collections	-18	-
C.6 profits on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-1	-
<b>D. Final gross exposure</b>	<b>78</b>	-
- of which: exposures sold not derecognised	-	-

## A.1.9. On-balance sheet credit exposures to customers: changes in gross non-performing exposures

Reasons/Categories	(millions of euro)		
	Bad loans	Unlikely to pay	Non-performing past due exposures
<b>A. Initial gross exposure</b>	<b>17,053</b>	<b>10,463</b>	<b>775</b>
- of which: exposures sold not derecognised	26	34	9
<b>B. Increases</b>	<b>1,435</b>	<b>3,181</b>	<b>484</b>
B.1 inflows from performing exposures	122	1,708	449
B.2 inflows from purchased or originated credit-impaired financial assets	81	-	-
B.3 transfers from other non-performing exposures categories	825	605	14
B.4 changes in contracts without derecognition	-	4	-
B.5 other increases	407	864	21
<b>C. Decreases</b>	<b>-7,841</b>	<b>-3,620</b>	<b>-815</b>
C.1 outflows to performing exposures	-9	-284	-118
C.2 write-offs	-2,176	-388	-1
C.3 collections	-622	-877	-83
C.4 profits on disposal	-1,124	-574	-3
C.5 losses on disposal	-185	-50	-
C.6 transfers to other non-performing exposure categories	-50	-800	-594
C.7 changes in contracts without derecognition	-	-18	-
C.8 other decreases	-3,675	-629	-16
<b>D. Final gross exposure</b>	<b>10,647</b>	<b>10,024</b>	<b>444</b>
- of which: exposures sold not derecognised	8	15	1

The “other increases” mainly include the increases in the amounts for charges and the increase in the amounts in foreign currency due to changes in the exchange rate.

During the year, as part of business combinations under common control, gross non-performing loans of 574 million euro were acquired. For those transactions, as a general rule, the Intesa Sanpaolo Group adopts the principle of consistency for recognition in the separate financial statements of the companies involved in the business combination.

The “other decreases” mainly include the portfolio of loans classified as “bad loans” and “unlikely to pay” sold during the year.

*A.1.9 Bis On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality*

Reasons/Quality	(millions of euro)	
	Forborne exposures: non-performing	Forborne exposures: performing
<b>A. Opening balance (gross amount)</b>	<b>6,672</b>	<b>5,273</b>
- Sold but not derecognised	22	-
<b>B. Increases</b>	<b>1,140</b>	<b>2,015</b>
B.1 transfers from performing not forborne exposures	185	1,301
B.2.transfers from performing forborne exposures	341	X
B.3. transfers from impaired forborne exposures	X	188
B.4 inflows from forborne non-performing exposures	197	10
B.5 other increases	417	516
<b>C. Decreases</b>	<b>-2,328</b>	<b>-2,882</b>
C.1 Transfers to performing not forborne exposures	X	-1,931
C.2 Transfers to performing forborne exposures	-188	X
C.3 transfers to impaired exposures not forborne	X	-341
C.4 write-offs	-446	-
C.5 recoveries	-391	-530
C.6 sales proceeds	-437	-3
C.7 losses on disposals	-43	-
C.8 other decreases	-823	-77
<b>D. Closing balance (gross amounts)</b>	<b>5,484</b>	<b>4,406</b>
- Sold but not derecognised	11	2

The “other increases” mainly include the increases in the amounts for charges.

The “other decreases” mainly include the portfolio of loans classified as “bad loans” and “unlikely to pay” sold during the year. During the year, as part of business combinations under common control, gross forborne exposures of 372 million euro (non-performing) and of 365 million euro (performing) were acquired. For those transactions, as a general rule, the Intesa Sanpaolo Group adopts the principle of consistency for recognition in the separate financial statements of the companies involved in the business combination.

## A.1.10 Non-performing on-balance sheet credit exposures to banks: changes in total adjustments

Reasons/Categories	(millions of euro)					
	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
<b>A. Initial total adjustments</b>	<b>4</b>	-	<b>14</b>	<b>14</b>	-	-
- of which: exposures sold not derecognised	-	-	-	-	-	-
<b>B. Increases</b>	-	-	-	-	-	-
B.1 adjustments to purchased or originated credit-impaired assets	-	X	-	X	-	X
C.2 other adjustments	-	-	-	-	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposures categories	-	-	-	-	-	-
B.5 changes in contracts without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	-	-	-	-
<b>C. Decreases</b>	-	-	-	-	-	-
C.1 recoveries on impairment losses	-	-	-	-	-	-
C.2 recoveries on repayments	-	-	-	-	-	-
C.3 profits on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing exposure categories	-	-	-	-	-	-
C.6 changes in contracts without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
<b>D. Final total adjustments</b>	<b>4</b>	-	<b>14</b>	<b>14</b>	-	-
- of which: exposures sold not derecognised	-	-	-	-	-	-

## A.1.11 Non-performing on-balance sheet credit exposures to customers: changes in total adjustments

Description/Category	(millions of euro)					
	NON-PERFORMING LOANS		UNLIKELY TO PAY		IMPAIRED PAST DUE EXPOSURES	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
<b>A. Opening balance overall amount of writedowns</b>	<b>11,131</b>	<b>1,479</b>	<b>3,863</b>	<b>1,274</b>	<b>107</b>	<b>14</b>
- Sold but not derecognised	9	3	6	2	1	-
<b>B. Increases</b>	<b>2,465</b>	<b>390</b>	<b>1,959</b>	<b>676</b>	<b>67</b>	<b>4</b>
B.1 impairment losses on acquired or originated assets	-	X	-	X	-	X
B.2 other value adjustments	1,773	241	1,517	439	57	4
B.3 losses on disposal	185	30	50	13	-	-
B.4 transfer from other impaired exposure	316	83	103	17	9	-
B.5 contractual changes without cancellations	-	-	28	28	-	-
B.6 other increases	191	36	261	207	1	-
<b>C. Reductions</b>	<b>-6,659</b>	<b>-1,017</b>	<b>-1,633</b>	<b>-665</b>	<b>-115</b>	<b>-14</b>
C.1 write-backs from assessments	-213	-27	-187	-98	-12	-
C.2 write-backs from recoveries	-135	-8	-68	-28	-2	-
C.3 gains on disposal	-	-	-7	-	-	-
C.4 write-offs	-2,176	-327	-388	-119	-1	-
C.5 transfers to other impaired exposures	-27	-6	-312	-82	-89	-12
C.6 contractual changes without cancellations	-	-	-8	-8	-	-
C.7 other decreases	-4,108	-649	-663	-330	-11	-2
<b>D. Closing overall amount of writedowns</b>	<b>6,937</b>	<b>852</b>	<b>4,189</b>	<b>1,285</b>	<b>59</b>	<b>4</b>
- Sold but not derecognised	3	1	3	2	-	-

The “other increases” mainly include the collections of loans already derecognised in full (through “recoveries on repayments”) and increases in the balances of allowances in foreign currency due to changes in the exchange rate.

During the year, as part of business combinations under common control, adjustments to non-performing financial assets of 320 million euro were made. For those transactions, as a general rule, the Intesa Sanpaolo Group adopts the principle of consistency for recognition in the separate financial statements of the companies involved in the business combination.

The “other decreases” mainly include the portfolio of loans classified as “bad loans” and “unlikely to pay” sold during the year. This caption also includes the collections of overdue interest applied in previous years, losses on disposal not covered by the allowance, the decrease in allowances in foreign currency due to changes in the exchange rate and the reduction in the allowances for adjustment due to the passing of time.

## A.2 Classification of financial assets, commitments to disburse funds and financial guarantees given based on internal and external rating

### A.2.1 Breakdown of financial assets, commitments to disburse funds and financial guarantees given by external rating classes (gross amounts)

Intesa Sanpaolo uses the ratings supplied by the following external rating agencies for portfolios subject to reporting: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings e DBRS Morningstar Ratings.

In compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used, when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken.

For the mapping of the risk classes and agency ratings employed, see the corresponding section of the Notes to the consolidated financial statements.

Exposures	EXTERNAL RATING CLASSES						(millions of euro)	
	Class 1	class 2	class 3	class 4	class 5	class 6	UNRATED	TOTAL
<b>A. Financial assets measured at amortised cost</b>	<b>14,508</b>	<b>27,434</b>	<b>117,010</b>	<b>10,649</b>	<b>3,348</b>	<b>621</b>	<b>307,760</b>	<b>481,330</b>
- Stage 1	14,307	26,251	112,204	6,233	1,999	289	242,131	403,414
- Stage 2	201	1,183	4,806	4,416	1,349	263	46,973	59,191
- Stage 3	-	-	-	-	-	69	18,656	18,725
<b>B. Financial assets measured at fair value through other comprehensive income</b>	<b>9,514</b>	<b>13,965</b>	<b>12,218</b>	<b>1,419</b>	<b>98</b>	<b>78</b>	<b>429</b>	<b>37,721</b>
- Stage 1	9,429	13,645	12,101	1,107	90	59	341	36,772
- Stage 2	85	320	117	312	8	6	62	910
- Stage 3	-	-	-	-	-	13	26	39
<b>C. Non-current financial assets held for sale</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,776</b>	<b>3,776</b>
- Stage 1	-	-	-	-	-	-	1,282	1,282
- Stage 2	-	-	-	-	-	-	165	165
- Stage 3	-	-	-	-	-	-	2,329	2,329
<b>Total (A+B+C)</b>	<b>24,022</b>	<b>41,399</b>	<b>129,228</b>	<b>12,068</b>	<b>3,446</b>	<b>699</b>	<b>311,965</b>	<b>522,827</b>
<i>of which: purchased or originated credit-impaired financial assets</i>	-	-	-	-	-	2	462	464
<b>D. Commitments to disburse funds and financial guarantees given</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Stage 1	8,918	24,218	147,665	9,190	2,093	126	98,624	290,834
- Stage 2	184	2,064	5,575	2,720	502	243	26,078	37,366
- Stage 3	-	-	-	-	-	-	2,128	2,128
<b>Total (D)</b>	<b>9,102</b>	<b>26,282</b>	<b>153,240</b>	<b>11,910</b>	<b>2,595</b>	<b>369</b>	<b>126,830</b>	<b>330,328</b>
<b>Total (A+B+C+D)</b>	<b>33,124</b>	<b>67,681</b>	<b>282,468</b>	<b>23,978</b>	<b>6,041</b>	<b>1,068</b>	<b>438,795</b>	<b>853,155</b>

### A.2.2 Breakdown of financial assets, commitments to disburse funds and financial guarantees given by internal rating classes (gross amounts)

The breakdown of exposures by internal rating classes shown in the following table is based on all ratings available in the credit risk management and control system, in addition to ratings for validated models. These ratings include credit ratings assigned by external agencies for counterparties in customer segments for which an internal model is not available.

Exposures	Internal rating classes						UNRATED	TOTAL
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6		
(millions of euro)								
<b>A. Financial assets measured at amortised cost</b>	<b>50,258</b>	<b>78,401</b>	<b>213,793</b>	<b>91,367</b>	<b>19,246</b>	<b>3,631</b>	<b>24,634</b>	<b>481,330</b>
- Stage 1	50,179	76,630	201,000	63,892	6,876	400	4,437	403,414
- Stage 2	79	1,771	12,793	27,475	11,848	1,631	3,594	59,191
- Stage 3	-	-	-	-	522	1,600	16,603	18,725
<b>B. Financial assets measured at fair value through other comprehensive income</b>	<b>10,691</b>	<b>11,097</b>	<b>12,962</b>	<b>648</b>	<b>92</b>	<b>71</b>	<b>2,160</b>	<b>37,721</b>
- Stage 1	10,643	10,937	12,571	470	54	59	2,038	36,772
- Stage 2	48	160	391	178	38	5	90	910
- Stage 3	-	-	-	-	-	7	32	39
<b>C. Non-current financial assets held for sale</b>	<b>338</b>	<b>312</b>	<b>435</b>	<b>299</b>	<b>50</b>	<b>9</b>	<b>2,333</b>	<b>3,776</b>
- Stage 1	337	310	411	212	9	-	3	1,282
- Stage 2	1	2	24	87	41	7	3	165
- Stage 3	-	-	-	-	-	2	2,327	2,329
<b>Total (A+B+C)</b>	<b>61,287</b>	<b>89,810</b>	<b>227,190</b>	<b>92,314</b>	<b>19,388</b>	<b>3,711</b>	<b>29,127</b>	<b>522,827</b>
of which: purchased or originated credit-impaired financial assets	-	1	2	6	7	19	429	464
<b>D. Commitments and financial guarantees given</b>								
- Stage 1	18,178	44,180	192,864	29,520	3,262	70	2,760	290,834
- Stage 2	276	4,287	11,044	14,409	3,862	372	3,116	37,366
- Stage 3	-	-	-	-	596	373	1,159	2,128
<b>Total (D)</b>	<b>18,454</b>	<b>48,467</b>	<b>203,908</b>	<b>43,929</b>	<b>7,720</b>	<b>815</b>	<b>7,035</b>	<b>330,328</b>
<b>Total (A+B+C+D)</b>	<b>79,741</b>	<b>138,277</b>	<b>431,098</b>	<b>136,243</b>	<b>27,108</b>	<b>4,526</b>	<b>36,162</b>	<b>853,155</b>



### A.3 Breakdown of guaranteed credit exposures by type of guarantee

#### A.3.1 Guaranteed on- and off-balance sheet credit exposures to banks

(millions of euro)

	Gross exposure	Net exposures	Collaterals (*)				Personal guarantees		
			(1)				(2)		
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	Credit derivatives		
							CLN	Other derivatives	
						Central counterparties			
<b>1. Guaranteed on-balance sheet credit exposures:</b>	<b>9,316</b>	<b>9,309</b>	-	<b>5</b>	<b>8,423</b>	-	-	-	
1.1 totally guaranteed	8,582	8,575	-	5	8,399	-	-	-	
- of which non-performing	-	-	-	-	-	-	-	-	
1.2 partly guaranteed	734	734	-	-	24	-	-	-	
- of which non-performing	-	-	-	-	-	-	-	-	
<b>2. Guaranteed off-balance sheet credit exposures:</b>	<b>10,122</b>	<b>10,122</b>	-	-	<b>3,690</b>	<b>3,869</b>	-	-	
2.1 totally guaranteed	7,122	7,122	-	-	3,690	1,995	-	-	
- of which non-performing	-	-	-	-	-	-	-	-	
2.2 partly guaranteed	3,000	3,000	-	-	-	1,874	-	-	
- of which non-performing	-	-	-	-	-	-	-	-	

(\*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*)							Total
	(2)							(1)+(2)
	Credit derivatives			Commitments				
	Other derivatives			Public Administration	Banks	Other financial companies	Other counterparties	
Banks	Other financial companies	Other counterparties						
<b>1. Guaranteed on-balance sheet credit exposures:</b>	-	-	-	<b>2</b>	<b>188</b>	-	<b>40</b>	<b>8,658</b>
1.1 totally guaranteed	-	-	-	2	23	-	38	8,467
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	-	-	-	-	165	-	2	191
- of which non-performing	-	-	-	-	-	-	-	-
<b>2. Guaranteed off-balance sheet credit exposures:</b>	-	-	-	<b>9</b>	<b>86</b>	-	<b>28</b>	<b>7,682</b>
2.1 totally guaranteed	-	-	-	4	79	-	6	5,774
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	-	-	-	5	7	-	22	1,908
- of which non-performing	-	-	-	-	-	-	-	-

(\*) Fair value of the guarantee or, if difficult to determine, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

## A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

(millions of euro)

	Gross exposure	Net exposures	Collaterals (*) (1)				Guarantees (*) (2)	
			Property, Mortgages	Financial leases	Securities	Other assets	Credit derivatives	
							CLN	Other derivatives
<b>1. Guaranteed on-balance sheet credit exposures:</b>	<b>239,382</b>	<b>231,072</b>	<b>121,736</b>	<b>7,064</b>	<b>17,547</b>	<b>7,452</b>	-	-
1.1 totally guaranteed	197,159	190,498	120,523	7,020	17,440	5,934	-	-
- of which non-performing	12,274	6,736	4,248	1,052	18	186	-	-
1.2 partly guaranteed	42,223	40,574	1,213	44	107	1,518	-	-
- of which non-performing	2,522	1,018	528	-	30	42	-	-
<b>2. Guaranteed off-balance sheet credit exposures:</b>	<b>32,962</b>	<b>32,869</b>	<b>1,782</b>	<b>18</b>	<b>6,616</b>	<b>1,183</b>	-	-
2.1 totally guaranteed	25,996	25,930	1,401	10	6,116	892	-	-
- of which non-performing	366	334	73	-	4	4	-	-
2.2. partly guaranteed	6,966	6,939	381	8	500	291	-	-
- of which non-performing	202	188	26	-	-	15	-	-

(\*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							Total (1)+(2)
	Credit derivatives			Commitments				
	Other derivatives			Public administration	Banks	Other financial companies	Other counterparties	
	Banks	Other financial companies	Other counterparties					
<b>1. Guaranteed on-balance sheet credit exposures</b>	<b>45</b>	-	-	<b>36,466</b>	<b>269</b>	<b>1,452</b>	<b>22,932</b>	<b>214,963</b>
1.1 totally guaranteed	-	-	-	18,837	215	1,069	18,914	189,952
- of which non-performing	-	-	-	138	7	126	915	6,690
1.2 partly guaranteed	45	-	-	17,629	54	383	4,018	25,011
- of which non-performing	-	-	-	56	-	17	138	811
<b>2. Guaranteed off-balance sheet credit exposures:</b>	-	-	-	<b>823</b>	<b>239</b>	<b>1,095</b>	<b>18,276</b>	<b>30,032</b>
2.1 totally guaranteed	-	-	-	480	136	935	15,901	25,871
- of which non-performing	-	-	-	1	-	15	233	330
2.2. partly guaranteed	-	-	-	343	103	160	2,375	4,161
- of which non-performing	-	-	-	-	-	3	35	79

(\*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

**A.4 Financial assets and non-financial assets resulting from the enforcement of guarantees**

	Derecognised credit exposure	Gross amount	Total adjustments	Book value	(millions of euro) of which obtained during the year
<b>A. Property and equipment</b>	<b>75</b>	<b>79</b>	<b>-8</b>	<b>71</b>	<b>2</b>
A.1 Used in operations	-	-	-	-	-
A.2. Investment	5	7	-1	6	1
A.3 Inventories	70	72	-7	65	1
<b>B. Equities and debt securities</b>	<b>381</b>	<b>381</b>	<b>-139</b>	<b>242</b>	<b>43</b>
<b>C. Other assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>D. Non-current assets held for sale and discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
D.1 Property and equipment	-	-	-	-	-
D.2. Other assets	-	-	-	-	-
<b>Total 31.12.2020</b>	<b>456</b>	<b>460</b>	<b>-147</b>	<b>313</b>	<b>45</b>
<b>Total 31.12.2019</b>	<b>427</b>	<b>430</b>	<b>-101</b>	<b>329</b>	<b>30</b>

As at 31 December 2020, there were financial assets and non-financial assets resulting from the enforcement of guarantees.

The Property and equipment related to assets acquired upon closure of impaired credit exposures on finance lease contracts due to failure to repurchase the asset or early termination of the contract. Specifically, the book value of the assets collected consisted of 6 million euro in investment properties (5 million euro in buildings and 1 million euro in land) and 65 million euro in real estate stock (buildings only).

The equities and debt securities, with a book value of 242 million euro (64 million euro as "Equity investments" of which 60 million euro relating to the investment in Risanamento, 108 million euro as "Financial assets mandatorily measured at fair value" and 70 million euro as "Financial assets measured at fair value through other comprehensive income") represent financial assets not previously provided by the borrower as security for pre-existing loans, but acquired under bilateral agreements with the borrower, following which the Bank derecognised the related credit exposure.

## B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

### B.1 Breakdown of on- and off-balance sheet credit exposures to customers by sector

Exposures/Counterparts	(millions of euro)					
	Public administration		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
<b>A. On-balance sheet exposures</b>						
A.1 Bad loans	143	-112	65	-206	-	-
- of which: forborne exposures	-	-	17	-98	-	-
A.2 Unlikely to pay	51	-29	207	-167	-	-
- of which: forborne exposures	15	-22	31	-70	-	-
A.3 Non-performing past due exposures	2	-	33	-5	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	85,810	-60	61,100	-164	983	-
- of which: forborne exposures	46	-	207	-5	-	-
<b>Total (A)</b>	<b>86,006</b>	<b>-201</b>	<b>61,405</b>	<b>-542</b>	<b>983</b>	<b>-</b>
<b>B. Off-balance sheet exposures</b>						
B.1 Non-performing exposures	2	-	24	-2	-	-
B.2 Performing exposures	35,349	-4	85,281	-45	7,757	-
<b>Total (B)</b>	<b>35,351</b>	<b>-4</b>	<b>85,305</b>	<b>-47</b>	<b>7,757</b>	<b>0</b>
<b>Total (A+B)</b>	<b>31.12.2020</b>	<b>121,357</b>	<b>-205</b>	<b>146,710</b>	<b>-589</b>	<b>8,740</b>
<b>Total (A+B)</b>	<b>31.12.2019</b>	<b>57,113</b>	<b>-215</b>	<b>112,352</b>	<b>-455</b>	<b>5,352</b>

Exposures/Counterparts	(millions of euro)			
	Non-financial companies		Households	
	Net exposure	Total adjustments	Net exposure	Total adjustments
<b>A. On-balance sheet exposures</b>				
A.1 Bad loans	2,597	-4,970	905	-1,649
- of which: forborne exposures	492	-632	157	-122
A.2 Unlikely to pay	4,130	-3,474	1,447	-519
- of which: forborne exposures	1,965	-1,070	639	-123
A.3 Non-performing past due exposures	68	-11	282	-43
- of which: forborne exposures	9	-1	18	-3
A.4 Performing exposures	161,902	-1,222	117,546	-560
- of which: forborne exposures	3,070	-193	855	-30
<b>Total (A)</b>	<b>168,697</b>	<b>-9,677</b>	<b>120,180</b>	<b>-2,771</b>
<b>B. Off-balance sheet exposures</b>				
B.1 Non-performing exposures	1,866	-184	36	-6
B.2 Performing exposures	165,645	-139	6,209	-17
<b>Total (B)</b>	<b>167,511</b>	<b>-323</b>	<b>6,245</b>	<b>-23</b>
<b>Total (A+B)</b>	<b>31.12.2020</b>	<b>336,208</b>	<b>-10,000</b>	<b>126,425</b>
<b>Total (A+B)</b>	<b>31.12.2019</b>	<b>286,040</b>	<b>-12,805</b>	<b>122,802</b>

**B.2. Breakdown of on- and off-balance sheet credit exposures to customers by geographical area**

(millions of euro)

Exposure/Geographical areas	Italy		Other european countries		
	Net exposures	Total adjustments	Net exposures	Total adjustments	
<b>A. On-balance sheet exposures</b>					
A.1 Non-performing loans	3,700	-6,796	7	-64	
A.2 Unlikely to pay	5,679	-4,080	73	-10	
A.3 Non-performing past due exposures	377	-58	6	-1	
A.4 Performing exposures	330,818	-1,742	62,426	-167	
<b>Total (A)</b>	<b>340,574</b>	<b>-12,676</b>	<b>62,512</b>	<b>-242</b>	
<b>B. Off-balance sheet exposure</b>					
B.1 Non-performing exposures	1,918	-191	9	-1	
B.2 Performing exposures	142,012	-134	81,746	-48	
<b>Total (B)</b>	<b>143,930</b>	<b>-325</b>	<b>81,755</b>	<b>-49</b>	
<b>Total (A+B)</b>	<b>31.12.2020</b>	<b>484,504</b>	<b>-13,001</b>	<b>144,267</b>	<b>-291</b>
<b>Total (A+B)</b>	<b>31.12.2019</b>	<b>410,593</b>	<b>-16,309</b>	<b>78,703</b>	<b>-181</b>

(millions of euro)

Exposure/Geographical areas	America		Asia		Rest of the world		
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments	
<b>A. On-balance sheet exposures</b>							
A.1 Non-performing loans	-	-48	3	-29	-	-	
A.2 Unlikely to pay	33	-80	50	-19	-	-	
A.3 Non-performing past due exposures	2	-	-	-	-	-	
A.4 Performing exposures	18,777	-70	11,825	-19	2,512	-8	
<b>Total (A)</b>	<b>18,812</b>	<b>-198</b>	<b>11,878</b>	<b>-67</b>	<b>2,512</b>	<b>-8</b>	
<b>B. Off-balance sheet credit exposures</b>							
B.1 Non-performing exposures	-	-	1	-	-	-	
B.2 Performing exposures	59,210	-19	7,876	-4	1,640	-	
<b>Total (B)</b>	<b>59,210</b>	<b>-19</b>	<b>7,877</b>	<b>-4</b>	<b>1,640</b>	<b>-</b>	
<b>Total (A+B)</b>	<b>31.12.2020</b>	<b>78,022</b>	<b>-217</b>	<b>19,755</b>	<b>-71</b>	<b>4,152</b>	<b>-8</b>
<b>Total (A+B)</b>	<b>31.12.2019</b>	<b>72,147</b>	<b>-188</b>	<b>13,901</b>	<b>-25</b>	<b>2,963</b>	<b>-6</b>

**B.2 bis Breakdown of relations with customers resident in Italy by geographical area**

Exposure/Geographical areas	(millions of euro)							
	North West		North East		Centre		South and islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
<b>A. On-balance sheet exposures</b>								
A.1 Bad loans	1,147	-2,010	702	-1,372	886	-1,624	965	-1,790
A.2 Unlikely to pay	2,170	-1,769	1,105	-712	1,333	-998	1,071	-601
A.3 Non-performing past due exposures	113	-17	48	-7	103	-16	113	-18
A.4 Performing exposures	108,616	-661	63,597	-321	110,801	-384	47,804	-376
<b>Total A</b>	<b>112,046</b>	<b>-4,457</b>	<b>65,452</b>	<b>-2,412</b>	<b>113,123</b>	<b>-3,022</b>	<b>49,953</b>	<b>-2,785</b>
<b>B. Off-balance sheet exposures</b>								
B.1 Non-performing exposures	499	-54	492	-58	793	-67	134	-12
B.2 Performing exposures	60,561	-62	25,650	-24	46,611	-30	9,190	-18
<b>Total B</b>	<b>61,060</b>	<b>-116</b>	<b>26,142</b>	<b>-82</b>	<b>47,404</b>	<b>-97</b>	<b>9,324</b>	<b>-30</b>
<b>Total (A+B) 31.12.2020</b>	<b>173,106</b>	<b>-4,573</b>	<b>91,594</b>	<b>-2,494</b>	<b>160,527</b>	<b>-3,119</b>	<b>59,277</b>	<b>-2,815</b>
<b>Total (A+B) 31.12.2019</b>	<b>149,545</b>	<b>-5,256</b>	<b>88,677</b>	<b>-3,504</b>	<b>117,714</b>	<b>-4,060</b>	<b>54,657</b>	<b>-3,489</b>

**B.3. Breakdown of on- and off-balance sheet credit exposures to banks by geographical area**

Exposures / Geographical Area	(millions of euro)			
	Italy		Other european countries	
	Net exposures	Total adjustments	Net exposures	Total adjustments
<b>A. On-balance sheet exposures</b>				
A.1 Bad loans	-	-	-	-1
A.2 Unlikely to pay	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-
A.4 Performing exposures	63,500	-10	26,957	-13
<b>Total (A)</b>	<b>63,500</b>	<b>-10</b>	<b>26,957</b>	<b>-14</b>
<b>B. Off-balance sheet exposures</b>				
B.1 Non-performing exposures	-	-	-	-
B.2 Performing exposures	33,756	-	87,907	-6
<b>Total (B)</b>	<b>33,756</b>	<b>-</b>	<b>87,907</b>	<b>-6</b>
<b>Total (A+B) 31.12.2020</b>	<b>97,256</b>	<b>-10</b>	<b>114,864</b>	<b>-20</b>
<b>Total (A+B) 31.12.2019</b>	<b>115,651</b>	<b>-50</b>	<b>82,799</b>	<b>-19</b>



(millions of euro)

Exposures / Geographical Area	America		Asia		Rest of the world	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
<b>A. On-balance sheet exposures</b>						
A.1 Bad loans	-	-	-	-3	-	-
A.2 Unlikely to pay	64	-14	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-
A.4 Performing exposures	2,168	-2	1,902	-4	910	-4
<b>Total (A)</b>	<b>2,232</b>	<b>-16</b>	<b>1,902</b>	<b>-7</b>	<b>910</b>	<b>-4</b>
<b>B. Off-balance sheet exposures</b>						
B.1 Non-performing exposures	8	-	-	-	-	-
B.2 Performing exposures	5,568	-	9,280	-	2,044	-1
<b>Total (B)</b>	<b>5,576</b>	<b>-</b>	<b>9,280</b>	<b>-</b>	<b>2,044</b>	<b>-1</b>
<b>Total (A+B)</b>	<b>7,808</b>	<b>-16</b>	<b>11,182</b>	<b>-7</b>	<b>2,954</b>	<b>-5</b>
<b>Total (A+B)</b>	<b>8,152</b>	<b>-18</b>	<b>12,280</b>	<b>-6</b>	<b>3,139</b>	<b>-4</b>

**B.3. bis. Breakdown of relations with banks resident in Italy by geographical area**

(millions of euro)

Exposure/Geographical areas	NORTH WEST		NORTH EAST		CENTRE		SOUTH AND ISLANDS	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
<b>A. On-balance sheet exposures</b>								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	8,558	-6	187	-	54,750	-4	5	-
<b>TOTAL A</b>	<b>8,558</b>	<b>-6</b>	<b>187</b>	<b>-</b>	<b>54,750</b>	<b>-4</b>	<b>5</b>	<b>-</b>
<b>B. Off-balance sheet exposures</b>								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	29,922	-	915	-	2,703	-	216	-
<b>TOTAL B</b>	<b>29,922</b>	<b>-</b>	<b>915</b>	<b>-</b>	<b>2,703</b>	<b>-</b>	<b>216</b>	<b>-</b>
<b>TOTAL (A+B)</b>	<b>38,480</b>	<b>-6</b>	<b>1,102</b>	<b>-</b>	<b>57,453</b>	<b>-4</b>	<b>221</b>	<b>-</b>
<b>TOTAL (A+B)</b>	<b>103,357</b>	<b>-49</b>	<b>339</b>	<b>-</b>	<b>11,919</b>	<b>-1</b>	<b>36</b>	<b>-</b>

**B.4 Large exposures**

Large exposures	
a) Book value (millions of euro)	292,600
b) Weighted value (millions of euro)	15,727
c) Number	7

Based on regulatory provisions, the number of large exposures presented in the table was determined by the reference to unweighted "exposures" in excess of 10% of eligible capital as defined by Regulation (EU) 575/2013 (CRR). The "exposures" are defined as the sum of on-balance sheet assets at risk and off-balance sheet transactions (excluding those deducted from eligible capital) with a customer or a group of related customers, without applying weighting factors.

Such presentation criteria result in the inclusion in the financial statement table for large exposures of entities that - even with a weighting of 0% - present an unweighted exposure in excess of 10% of the entity's eligible capital. In that regard, it is noted that the table above includes exposures to Intesa Sanpaolo Group companies, whose book value amounted to 114,639 million euro which, in line with prudential regulations, have a weighted value of zero.

For completeness, it is noted that the table above also includes exposures to the Italian Treasury for a book value of 87,133 million euro and a weighted value of 1.096 million euro, and exposures to the Bank of Italy for 54,300 million euro and a weighted value of 1.752 million euro.

Lastly, it should be noted that in accordance with the provisions of the EBA document "Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) 575/2013", the supervisory reports have standard methods of presentation of groups of connected clients that (in the case of silos) require exposures to the central governments to be repeated within each corresponding economic group directly controlled by a Central Government or connected to it by economic dependence. However, the amounts shown in points a) and b) and the number shown in point c) in the table above include the exposure to the various central governments, to which the Intesa Sanpaolo Group is exposed, only once.

## C. SECURITISATIONS

This section does not include securitisations where the originator is the Bank and all the liabilities (e.g. ABS securities, loans at the warehousing stage) issued by the vehicle companies are subscribed at the time of issue by the Bank. For a description of these types of transactions, see the section on liquidity risk in Part E of the Notes to the Parent Company's financial statements.

### Qualitative information

The qualitative information is contained in Part E of the Notes to the consolidated financial statements.

### Quantitative information

#### ***C.1 Breakdown of exposures deriving from the main "originated" securitisations by type of securitised asset and by type of exposure***

*On-balance sheet*

Type of securitised asset/ Exposure	(millions of euro)					
	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
<b>A. Fully derecognised</b>	<b>2,437</b>	<b>-10</b>	<b>232</b>	<b>-</b>	<b>186</b>	<b>-127</b>
- Loans to businesses (including SMEs) (a)	2,436	-10	232	-	185	-127
- Consumer credit	1	-	-	-	1	-
<b>B. Partly derecognised</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>C. Not derecognised</b>	<b>18,217</b>	<b>-34</b>	<b>204</b>	<b>-10</b>	<b>348</b>	<b>-5</b>
- Loans to businesses (including SMEs) (b) (c)	16,238	-32	31	-7	130	-1
- Leases (c)	1,247	-1	-	-	6	-
- Residential mortgage loans (c)	732	-1	173	-3	212	-4
<b>TOTAL</b>	<b>20,654</b>	<b>-44</b>	<b>436</b>	<b>-10</b>	<b>534</b>	<b>-132</b>

(a) The entire amount refers to non-performing financial assets relating to the Kerma, Penelope and Yoda securitisations. These vehicle companies were set up pursuant to Law 130/99 on the occasion of the sale by the Bank of UTP loans (Kerma - UTP Partnership Project) and bad loans (Penelope - Savoy Project and Yoda-Rey Project).

(b) The exposures include non-performing financial assets amounting to 37 million euro in senior exposures, 30 million euro in mezzanine exposures and 18 million euro in junior exposures.

(c) The items also include amounts relating to the GARC synthetic securitisations referring to performing exposures.

*Off-balance sheet*

This type of exposure did not exist as at 31 December 2020.

## C.2 Breakdown of exposures deriving from main “third party” securitisations by type of securitised asset and by type of exposure

### On-balance sheet

(millions of euro)

Type of underlying assets/Exposures	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Loans to businesses (including SMEs) (a)	962	-1	275	-	6	-1
Residential mortgage loans	645	-2	101	-	-	-
Trade receivables	522	4	14	-	1	-
Consumer credit	246	-	65	-3	-	-
Securitisations	154	-7	-	-	-	-
Commercial mortgage loans	113	-5	20	-4	-	-
Covered bonds	47	-	16	-	-	-
Leases	-	-	11	-	2	-
Other assets (b)	5,990	5	-	-	-	-
<b>TOTAL</b>	<b>8,679</b>	<b>-6</b>	<b>502</b>	<b>-7</b>	<b>9</b>	<b>-1</b>

(a) The exposures include non-performing financial assets amounting to 41 million euro in mezzanine exposures and 1 million euro in junior exposures, net of adjustments. The aggregate also includes debt securities issued by the securitisation vehicle set up as part of the sale of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato to Crédit Agricole by the National Interbank Deposit Guarantee Fund - Voluntary Scheme, which the Bank participates in. The related mezzanine notes amount to 3 million euro, while the junior notes have been fully written off.

(b) The amount also includes the Romulus securities for 4,097 million, held by Intesa Sanpaolo, generally represented among third-party securitisations, as well as loans to the vehicle Duomo Funding Plc for 1,384 million as a result of the use of credit lines. For more information regarding the type of underlying assets, see Section 4 – Risks of other companies, of Part E of the Notes to the consolidated financial statements.

### Off-balance sheet

(millions of euro)

Type of underlying assets/Exposures	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
Duomo ABCP Conduit transactions (a)	-	-	-	-	-	-	(a)	(a)	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(a) With regard to the Duomo Funding Plc transaction financed by ABCPs, the Bank has granted liquidity facilities (amounting to 4,392 million euro of net exposure and 3 million euro of adjustments) to secure assets already included in "Other assets" in Table C.2 on-balance sheet.

### C.3 Securitisation vehicles

(millions of euro)

	REGISTERED OFFICE	CONSOLIDATION (a)	ASSETS (f)			LIABILITIES (f)		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l. (d)	Conegliano (TV)	Not consolidated (b)	2,411	-	130	1,062	-	1,351
Apulia Finance 4 S.r.l. (d)	Conegliano (TV)	Not consolidated (b)	62	-	12	-	-	59
Augusto S.r.l. (e)	Milano	Not consolidated (b)	-	-	2	13	-	-
Berica ABS 3 S.r.l.	Vicenza	Not consolidated (b)	279	-	13	11	94	115
Berica ABS 4 S.r.l.	Vicenza	Not consolidated	320	-	13	45	123	95
Brera Sec S.r.l. (d)	Conegliano (TV)	Not consolidated (b)	13,967	-	804	10,946	-	3,457
Clara Sec S.r.l. (d)	Conegliano (TV)	Not consolidated (b)	6,573	-	1,220	6,350	-	824
Diocleziano S.r.l. (e)	Milano	Not consolidated (b)	1	-	1	49	-	-
Giada Sec S.r.l. (d)	Conegliano (TV)	Not consolidated (b)	9,613	-	587	6,610	-	3,485
ISP CB Ipotecario S.r.l. (c)	Milano	Consolidated	16,401	-	4,454	-	19,896	-
ISP OBG S.r.l. (c)	Milano	Consolidated	46,391	-	8,461	-	54,756	-
ISP CB Pubblico S.r.l. (c)	Milano	Consolidated	2,275	1,563	1,308	-	4,968	-

(a) Consolidation method relating to the "prudential" scope applied in the Group's financial statements.

(b) Not consolidated line-by-line but using the equity method.

(c) Vehicles used for the covered bond issue. For more information, see Section "E.4 Covered bond transactions" in Part E of these Notes to the financial statements

(d) Self-securitisation vehicle described in Section 4 - Liquidity Risk, Quantitative Information, paragraph 2.

(e) The amounts shown under assets and liabilities refer to the latest financial statement data available (31 December 2019).

(f) The amounts shown under assets and liabilities refer to the total values reported in the financial statements of the special purpose vehicles.

### C.4 Unconsolidated securitisation vehicles

The information set out in this section is not provided by the banks that draw up consolidated financial statements pursuant to Bank of Italy Circular 262.

### C.5. Servicer activities – originated securitisations: collection of securitised loans and repayment of securities issued by the securitisation vehicle

The Bank does not perform servicer activities in originated securitisations where the assets sold have been derecognised in accordance with IFRS 9. Therefore, the related disclosure is omitted. For more information, reference should be made to the relevant section of the Notes to the consolidated financial statements.

## D. INFORMATION ON STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (OTHER THAN SECURITISATION VEHICLES)

The qualitative and quantitative information set out in this section is not provided by the banks that draw up consolidated financial statements pursuant to Bank of Italy Circular 262.

## E. SALES

### A. Financial assets sold not fully derecognised

#### Qualitative information

For a description of the operations shown in tables E.1, E.2 and E.3, reference is made to the information shown below the relevant tables.

For operations in debt securities against medium/long-term repurchase agreements, reference is made to the information in Part B of the Notes to the consolidated financial statements.

#### Quantitative information

##### E.1 Financial assets sold fully recognised and related financial liabilities: book values

	Financial assets sold fully recognised				Related financial liabilities			(millions of euro)
	Book value	of which: securitisations	of which: subject to sales contracts with repurchase clauses	of which: non-performing	Book value	of which: securitisations	of which: subject to sales contracts with repurchase clauses	
<b>A. Financial assets held for trading</b>	<b>740</b>	-	740	X	<b>699</b>	-	699	
1. Debt securities	552	-	552	X	506	-	506	
2. Equities	188	-	188	X	193	-	193	
3. Loans	-	-	-	X	-	-	-	
4. Derivatives	-	-	-	X	-	-	-	
<b>B. Other financial assets mandatorily measured at fair value</b>	-	-	-	-	-	-	-	
1. Debt securities	-	-	-	-	-	-	-	
2. Equities	-	-	-	X	-	-	-	
3. Loans	-	-	-	-	-	-	-	
<b>C. Financial assets designated at fair value</b>	-	-	-	-	-	-	-	
1. Debt securities	-	-	-	-	-	-	-	
2. Loans	-	-	-	-	-	-	-	
<b>D. Financial assets measured at fair value through other comprehensive income</b>	<b>4,374</b>	-	4,374	-	<b>4,312</b>	-	4,312	
1. Debt securities	4,374	-	4,374	-	4,312	-	4,312	
2. Equities	-	-	-	X	-	-	-	
3. Loans	-	-	-	-	-	-	-	
<b>E. Financial assets measured at amortised cost</b>	<b>2,849</b>	137	2,712	18	<b>2,839</b>	97	2,742	
1. Debt securities	2,712	-	2,712	-	2,742	-	2,742	
2. Loans	137	137	-	18	97	97	-	
<b>TOTAL 31.12.2020</b>	<b>7,963</b>	137	7,826	18	<b>7,850</b>	97	7,753	
<b>TOTAL 31.12.2019</b>	<b>14,986</b>	510	14,476	53	<b>14,977</b>	397	14,580	

The table above does not include covered bond transactions in which the Bank is both the originator and lender for the vehicle issuing the debt securities.

The aggregates of the sales contracts with repurchase clauses relate to repurchase agreements entered into the by Bank for assets sold and not derecognised. However, repurchase agreements relating to securities received under reverse repurchase agreements are not included in the related financial liabilities.

The aggregates of the securitisations refer to related assets and liabilities recognised for the Berica securitisations and those relating to the K-Equity programme.

*E.2 Financial assets sold partly recognised and related financial liabilities: book values*

These are not present in Intesa Sanpaolo.

*E.3 Sales with liabilities having recourse exclusively on the assets sold and not fully derecognised: fair value*

	(millions of euro)			
	Fully recognised	Partly recognised	31.12.2020	31.12.2019
<b>A. Financial assets held for trading</b>	<b>740</b>	-	<b>740</b>	<b>49</b>
1. Debt securities	552	-	552	49
2. Equities	188	-	188	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
<b>B. Other financial assets mandatorily measured at fair value</b>	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
<b>C. Financial assets designated at fair value</b>	-	-	-	-
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
<b>D. Financial assets measured at fair value through other comprehensive income</b>	<b>4,374</b>	-	<b>4,374</b>	<b>14,341</b>
1. Debt securities	4,374	-	4,374	14,341
2. Equities	-	-	-	-
3. Loans	-	-	-	-
<b>E. Financial assets measured at amortised cost (fair value)</b>	<b>2,837</b>	-	<b>2,837</b>	<b>591</b>
1. Debt securities	2,700	-	2,700	86
2. Loans	137	-	137	505
<b>Total financial assets</b>	<b>7,951</b>	-	<b>7,951</b>	<b>14,981</b>
<b>Total related financial liabilities</b>	<b>7,851</b>	-	<b>7,851</b>	<b>14,978</b>
<b>Net value</b>	<b>100</b>	-	<b>100</b>	<b>X</b>
<b>Net value</b>	<b>3</b>	-	<b>X</b>	<b>3</b>

The table above does not include covered bond transactions in which the Bank is both the originator and lender for the vehicle issuing the debt securities.



## B. Financial assets sold fully derecognised with recognition of continuing involvement

These are not present in Intesa Sanpaolo.

## C. Financial assets sold and fully derecognised

### Qualitative information

*Multioriginator sale transactions involving loan portfolios – classified as unlikely to pay in particular – attributable to the sale of loans to a mutual investment fund with the assignment of the units in the fund to the selling intermediaries*

As at 31 December 2020, Intesa Sanpaolo held units of mutual funds acquired in multioriginator sales of loan portfolios.

In accordance with the provisions of the Communication of the Bank of Italy of 23 December 2019, disclosures regarding “Multioriginator sale transactions involving loan portfolios – classified as unlikely to pay in particular – attributable to the sale of loans to a mutual fund with the assignment of the units in the fund to the selling intermediaries” are provided below.

#### Back2Bonis Fund

In implementation of the derisking envisaged in the 2018-2021 Business Plan, in the third quarter of 2020 the Intesa Sanpaolo Group began the deconsolidation of a portfolio of credit exposures classified as unlikely to pay with underlying real estate, contracts and assets deriving from positions classified as unlikely to pay held by the parent company ISP and UBI Banca, accompanied by their conversion into units of the securities fund called Back2Bonis.

The transaction, the closing of which took place at the end of 2020, took the form for Intesa Sanpaolo of the sale of a portfolio of loans, short-term legal relationships and legal relationships and assets from lease receivables for a total gross amount of 166 million euro and net exposure of 70 million euro, accompanied by the subscription of the units of the Back2Bonis Fund for an amount of 70.6 million euro, substantially in line with the NBV of the loans and receivables sold.

The transaction was completed through: (i) the sale to the securitisation vehicle Ampre S.r.l. of the bank receivables and the lease receivables; (ii) the sale to Ampre LeaseCo S.r.l. of the legal relationships and assets arising from the leases; (iii) the sale of the short-term revolving contracts and the related legal relationships and receivables of ISP, together with the medium/long-term contracts with residual disbursements and the related legal relationships, other than the lease relationships and assets through the fronting bank provided by Banca Finanziaria Internazionale S.p.A.; (iv) the subscription by the Back2Bonis Fund of all the securities issued by the securitisation vehicle; and (v) the acquisition by Intesa Sanpaolo of the units of the Fund in exchange for the loans and receivables sold.

The Back2Bonis fund, established in the form of a closed-end mutual fund whose units can only be subscribed by professional investors, is a multi-originator platform for the management of Real Estate Small & Medium Size loans classified as unlikely to pay, deriving from loans and credit lines granted to companies operating in the real estate sector or to real estate funds (including those not fully disbursed/drawn down at the time of sale).

Following the completion of the transfer of the loans and receivables to the platform, Intesa Sanpaolo deconsolidated the loans and receivables and recognised the Fund's units in place of those loans and receivables.

At 31 December 2020, the Parent Company held a 17% stake in the Back2Bonis Fund, classified among investments subject to significant influence, for a book value of 70.6 million euro.

The Back2Bonis Fund has been valued by an independent third party, which assigned it a fair value in line with its carrying amount as at 31 December 2020.

#### FI.NAV. Fund

In pursuit of the de-risking activities provided for in the 2018-2021 Business Plan, in the fourth quarter of 2018 the Intesa Sanpaolo Group launched the contribution to the FI.NAV. Fund (a closed-end Italian securities umbrella fund) of a portfolio of non-performing secured and unsecured loans attributable to the shipping sector.

The Fund, reserved for institutional investors, is managed by the asset management company Davy Investment Fund Service Limited, not a member of the Intesa Sanpaolo Group, based in Ireland, and is divided into two autonomous sub-funds: FI.NAV. Sub-fund A – Loans in which the loans transferred by the Intesa Sanpaolo Group, Unicredit were included and FI.NAV. Sub-fund B - New Finance, in which the capital of third-party investors will be included to relaunch the “repossessed” ships.

The transaction, formulated in 2018, was closed in 2019 through a sale of receivables without recourse for total gross consideration of 155 million euro and a net exposure of 102 million euro, equal to the sale price, set off against the price of subscription of the Fund units and, therefore, without any effects on the income statement for 2019.

In the first quarter of 2020, a further tranche was sold without recourse for a gross amount of 37 million euro and a net value of 34 million euro, in line with the sale price and, therefore, with no impact on the income statement for the year.

Pursuant to IFRS 9, for the Intesa Sanpaolo Group the transaction entailed the derecognition of the loans sold since the Fund has become solely responsible for managing them following the sale; the Intesa Sanpaolo Group therefore derecognised the loans concerned, while recognising the corresponding fair value of the units of the Fund assigned.

The Group companies involved in the transaction were the Parent Company Intesa Sanpaolo (including the units of the former subsidiaries Cassa di Risparmio in Bologna and Mediocredito acquired through the mergers in 2019) and Banca IMI, absorbed on 20 July 2020.

The FI.NAV. Fund, recognised at a value of 138.6 million euro, has been valued by an independent third party, which assigned it a fair value of 135.2 million euro. As a consequence, the value of the fund has been adjusted, resulting in a decrease of 3.4 million euro.

At 31 December 2020, the Parent Company ISP held a 43.5% stake in the FI.NAV. Fund, classified among investments subject to significant influence, for a book value of 135.2 million euro.

#### RSCT Fund – Loans Sub-Fund

As part of the derisking envisaged in the 2018-2021 Business Plan, the Intesa Sanpaolo Group identified the opportunity to transfer assets (loans and securities) relating to non-performing positions to the closed-end RSCT FUND, in exchange for units of the fund. The project was managed by Pillarstone, which selected a portfolio of industrial and commercial companies with the objective of helping each of them to identify a strategy for maximising the potential for debt recovery, also through injections of new finance.

The transaction took place in May 2020 with the transfer of a portfolio of loans with 18 companies originated by the ISP Group (ISP and Banca IMI, subsequently merged into ISP on 20 July 2020), Unicredit, BPER Banca and Crédit Agricole to the newly established closed-end alternative investment RSCT Fund, managed by Davy Investment Fund Services, an alternative fund manager authorised by the Central Bank of Ireland.

The RSCT Fund is made up of two separate sub-funds: sub-fund A for the management of loans acquired from the selling banks and sub-fund B for the management of the new finance.

The sale involved a portfolio of loans, Sirti notes and PS Reti equity instruments for a gross amount of 339 million euro (ISP and Banca IMI) at a net value of 255 million euro, substantially in line with the sale price.

In July, a further sale was completed of a loan position for a gross amount of 6.3 million euro at a value of 4.5 million euro, with the sale price offset against the subscription price of the Fund's units.

The RSCT Fund, recognised at a value of 259.3 million euro, has been valued by an independent third party, which assigned it a fair value of 257.3 million euro. As a consequence, the value of the fund was adjusted, resulting in a decrease of 2 million euro.

At 31 December 2020, the Parent Company held a 71.97% stake in the RSCT Fund, classified among investments subject to significant influence, for a book value of 257.3 million euro.

#### IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-fund

In 2018, the Intesa Sanpaolo Group (specifically Intesa Sanpaolo and the banks subsequently merged into Intesa Sanpaolo: Cassa di Risparmio del Veneto, Cassa di Risparmio di Firenze, Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio in Bologna, and Mediocredito) participated in the closed-end Italian fund IDEA, managed by Dea Capital Alternative Funds S.G.R. Spa and dedicated to the recovery of mid-size Italian companies in situations of financial tension but with solid industrial fundamentals. The transaction, which was completed in 2018, was undertaken by contributing non-performing loans with a nominal value of 59 million euro and a net exposure to the sale price of 39.2 million euro, with the price of sale offset against the subscription price, of equal amount, of the units of the IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-Fund.

As at 31 December 2020, Intesa Sanpaolo held a 8.38% stake in the IDEA Fund, classified among Financial assets mandatorily measured at fair value, for a book value of 29.9 million euro.

The IDEA CCR Corporate Credit Recovery II Fund has been valued by an independent third party, which has assigned it a fair value in line with its carrying amount as at 31 December 2020.

#### E.4. Covered bond transactions

Covered bond transactions where the selling bank and the lending bank are the same must be reported under this section. Intesa Sanpaolo uses covered bonds mainly as a type of funding through securities guaranteed by assets originated by Intesa Sanpaolo or by other companies of the Group.

Intesa Sanpaolo has arranged three programmes for the issue of Covered Bonds (CB).

The first Programme, launched in 2009, has a maximum amount of 20 billion euro (the original maximum amount was 10 billion euro). The guarantor of the Covered Bonds is the vehicle ISP CB Pubblico, to which a portfolio of performing loans and securities to the public sector, originated by the former subsidiary Banca Infrastrutture Innovazione e Sviluppo, now Intesa Sanpaolo, was transferred. The Bank gradually sold the vehicle assets with a total original nominal value of 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro). The last sale (amounting to around 1 billion euro) took place in April 2013. In September 2020, the retrocession of a customer was carried out for an amount of 132 million euro.

As at 31 December 2020, loans and securities sold to the vehicle had a book value of 3.8 billion euro.

Against these sales, Covered Bonds were issued over time for a total nominal value of 24.2 billion euro (of which 17.3 billion euro relating to issues acquired in full by the Bank and subject to early redemption or matured and 3.5 billion euro relating to an exchange offer to investors during 2012, of which 2 billion euro that matured in the second quarter of 2017).

In 2020, the tenth series of Covered Bonds was partially redeemed in advance for a total nominal amount of 0.85 billion euro.

Therefore, as at 31 December 2020, a total nominal amount of 4.1 billion euro of issues made as part of the Covered Bond programme of the vehicle ISP CB Pubblico was outstanding, of which 4 billion subscribed by the Bank and 0.1 billion placed with third party investors.

All the securities issued under the programme are listed on the Luxembourg Stock Exchange and have a Moody's A2 rating.

In the second Programme, launched in 2010, amounting to a maximum of 25 billion euro (the original maximum amount was 20 billion euro), the guarantor of the covered bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans and, initially bonds issued by Adriano Finance S.r.l., originated by Intesa Sanpaolo, were transferred. The Bank gradually sold the vehicle mortgage loans with an original total nominal value of 33.8 billion euro (net of retrocessions). As at 31 December 2020, the loans sold to the vehicle had a book value of 16.4 billion euro.

Over time, against the sale of these assets, Intesa Sanpaolo has carried out issues of Covered Bonds for a total nominal value of approximately 33.2 billion euro (of which a total of 15.3 billion euro subject to early redemption or matured at December 2019).

No new sales were made under the programme in 2020. In addition:

- in January, the twenty-seventh series of Covered Bonds was issued in the form of a floating-rate bond for a nominal value of 0.75 billion euro, with an 11-year maturity, listed on the Luxembourg Stock Exchange and with a Moody's Aa3 rating. The bond was fully subscribed by the Bank;

- during the year, the twentieth series was redeemed in advance in two tranches, the first in July for an amount of 0.7 billion euro and the second in August for the remaining amount of 0.55 billion euro;
- the twenty-sixth series of Covered Bonds was partially redeemed in advance during the year, for a total nominal amount of 0.5 billion euro.

All the securities issued under the programme are listed on the Luxembourg Stock Exchange and have a Moody's Aa3 rating. As at 31 December 2020, a total nominal amount of 16.9 billion euro of issues made as part of the covered bond programme of the vehicle ISP CB Ipotecario was outstanding, of which 12 billion placed with third party investors and 4.9 billion subscribed by Intesa Sanpaolo. Part of the latter was subsequently used in repurchase agreements for an amount of 1.8 billion euro.

The third multi-originator Covered Bond issue Programme, launched in 2012, has the vehicle ISP OBG S.r.l. as the guarantor of its securities. This programme is secured by mortgages for a maximum amount of 50 billion euro (the original maximum amount was 30 billion euro) and is aimed at realising the retained issues.

The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli, Cassa di Risparmio del Veneto, Cassa di Risparmio in Bologna and Banca CR Firenze (merged by incorporation into Intesa Sanpaolo between July 2018 and February 2019). Over time, the Bank has sold mortgages to the vehicle for an original total nominal value of 62.4 billion euro (net of exclusions).

The following sales were carried out in 2020:

- in March 2020, for a total of 6 billion euro;
- in June 2020, for a total of 5.1 billion euro;
- in November 2020, for a total of 1.6 billion euro.

In May 2020, Intesa Sanpaolo also closed retrocessions of non-performing loans with a nominal value of 65 million euro.

As at 31 December 2020, the loans sold to the vehicle by Intesa Sanpaolo had a book value of 46.4 billion euro.

Over time, against the sales of these assets, the Bank has carried out issues of Covered Bonds for a total nominal value of 70.75 billion euro (of which 33.95 billion euro subject to early redemption and reimbursed).

During 2020:

- in February, the securities of the sixth, fifteenth and sixteenth series were redeemed in advance for a total of 3.5 billion euro;
- in February, the thirty-eighth and thirty-ninth series of Covered Bonds were issued, each amounting to 1.75 billion euro, at floating rate and with maturities of 13 and 14 years, respectively;
- in March, the fortieth series of Covered Bonds was issued with a nominal value of 1.8 billion euro. This is a 14-year, floating-rate bond.
- in April, securities were issued for the forty-first and forty-second series, each amounting to 2.4 billion euro, at floating rate and with maturities of 15 years;
- in June, the forty-third and forty-fourth series of Covered Bonds were issued, each amounting to 1.35 billion euro, at floating rate and with maturities of 8 and 16 years, respectively;
- in December, the seventeenth series was partially redeemed for a total of 0.2 billion euro.

All the securities issued under the programme are listed on the Luxembourg Stock Exchange and have a DBRS A (High) rating. The characteristics of the issues make them eligible for Eurosystem refinancing operations. As at 31 December 2020, the issues made under the programme guaranteed by the vehicle ISP OBG had a total nominal amount of 45.90 billion euro, fully subscribed by Intesa Sanpaolo and subsequently used in repurchase agreements for 50 million euro.

The main features of the issues are shown in the table below.

(millions of euro)											
VEHICLE	NAME	TYPE OF UNDERLYING ASSET	ISSUE	MATURITY	RATING	VEHICLE DATA		SUBORDINATED FINANCING (1)		COVERED BOND ISSUED	
						Total assets	Cumulated write-downs to the securitised portfolio	amount	nominal amount (2)	book value (2)	IAS classification
ISP CB PUBBLICO						5,146	7	4,968	146	153	
	Intesa Sanpaolo 18/25 1.125%	Bonds and loans to the public sector	27/01/2011	27/01/2021	A2				146	153	Securities issued Amortised cost
ISP CB IPOTECARIO						20,856	62	19,896	13,763	14,450 (3)	
	Intesa Sanpaolo 11/26 5.25%	Mortgage loans	17/02/2011	17/02/2026	Aa3				100	125	Securities issued Amortised cost
	Intesa Sanpaolo 11/31 5.375%	Mortgage loans	17/02/2011	17/02/2031	Aa3				300	429	Securities issued Amortised cost
	Intesa Sanpaolo 11/27 5.25%	Mortgage loans	16/09/2011	16/09/2027	Aa3				210	256	Securities issued Amortised cost
	Intesa Sanpaolo 12/21 5%	Mortgage loans	16/07/2012	27/01/2021	Aa3				1,353	1,419	Securities issued Amortised cost
	Intesa Sanpaolo 12/22 3.625%	Mortgage loans	03/12/2012	05/12/2022	Aa3				1,250	1,287	Securities issued Amortised cost
	Intesa Sanpaolo 13/25 3.375%	Mortgage loans	24/01/2013	24/01/2025	Aa3				1,000	1,096	Securities issued Amortised cost
	Intesa Sanpaolo 14/26 3.25%	Mortgage loans	10/02/2014	10/02/2026	Aa3				1,250	1,435	Securities issued Amortised cost
	Intesa Sanpaolo 15/22 0.625%	Mortgage loans	23/01/2015	20/01/2022	Aa3				1,000	1,007	Securities issued Amortised cost
	Intesa Sanpaolo 15/25 1.375%	Mortgage loans	18/12/2015	18/12/2025	Aa3				1,250	1,276	Securities issued Amortised cost
	Intesa Sanpaolo 16/23 0.625%	Mortgage loans	23/03/2016	23/03/2023	Aa3				1,250	1,253	Securities issued Amortised cost
	Intesa Sanpaolo 16/23 1.125%	Mortgage loans	16/06/2017	16/06/2027	Aa3				1,000	1,022	Securities issued Amortised cost
	Intesa Sanpaolo 07/25 1.125%	Mortgage loans	13/07/2018	14/07/2025	Aa3				1,000	1,044	Securities issued Amortised cost
	Intesa Sanpaolo 03/24 0.5%	Mortgage loans	05/03/2019	05/03/2024	Aa3				1,000	1,004	Securities issued Amortised cost
	Intesa Sanpaolo 10/24 FRN	Mortgage loans	16/11/2016	12/10/2024	Aa3				600	599	Securities issued Amortised cost
	Intesa Sanpaolo 04/30 FRN	Mortgage loans	16/02/2018	12/04/2030	Aa3				1,200	1,198	Securities issued Amortised cost
ISP OBG						54,852	233	54,756	50	50	
	Intesa Sanpaolo 08/26 FRN	Mortgage loans	22/11/2018	20/08/2026	A (High)				50	50	Securities issued Amortised cost

(1) This caption includes the subordinated loan granted by Intesa Sanpaolo to the vehicles for the purchase of the portfolio lodged as collateral for the CB. This loan is derecognised in the IAS-compliant separate financial statements. The amount of the loan refers to the issue already executed as part of an issue programme with a higher maximum amount.

(2) The nominal amount and the book value are to be considered net of securities repurchased.

(3) The covered bonds (CB) issued by Intesa Sanpaolo were placed on the market with professional investors for almost the entire amount issued.

The additional information required by IFRS 12 is not provided by banks that draw up consolidated financial statements pursuant to Bank of Italy Circular 262.

## F. MODELS FOR THE MEASUREMENT OF CREDIT RISK

At year-end, the expected loss amounted to 0.40% of disbursed loans. The indicator is essentially in line with the figure at the end of 2019 (0.40%), mainly due to the exit of higher risk operations which offset the slight increase in risk observed on counterparties across the two periods.

For the companies included in the roll out plan, the LGD and EAD internal rating models are subject to a second level of control by the Validation function and a third level of control by the Internal Auditing Department. The control functions produce an annual report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also includes a verification on the deviations of the ex-ante estimates and the effective ex post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms compliance with the regulatory requirements.

## SECTION 2 – MARKET RISKS

### REGULATORY TRADING BOOK

#### 2.1 INTEREST RATE RISK AND PRICE RISK

##### Qualitative information

Qualitative information on the measurement of financial risks of Intesa Sanpaolo's regulatory trading book is contained in Part E of the Notes to the consolidated financial statements.

##### Quantitative information

Operational quantitative information on Intesa Sanpaolo's market risks is contained in Part E of the Notes to the consolidated financial statements.

### BANKING BOOK

#### 2.2 INTEREST RATE RISK AND PRICE RISK

##### Qualitative information

Qualitative information on the measurement of financial risks in Intesa Sanpaolo's banking book is contained in Part E of the Notes to the consolidated financial statements.

##### Quantitative information

##### **Banking book - internal models and other sensitivity analysis methodologies**

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 1,070 million euro, -800 million euro and 2,141 million euro, respectively, at the end of 2020. This latter figure was up compared to the end of 2019, when it was 1,622 million euro.

The above potential impact would be reflected, in the case of invariance of the other income components, also in the Bank's year-end profit and loss net of tax.

Interest rate risk, generated by Intesa Sanpaolo's banking book, measured through value shift sensitivity (sensitivity of portfolio value to a parallel and uniform shift in the yield curve of +100 basis points), recorded an average of 44 million euro during 2020 and amounted to -485 million euro at year-end. The deviations in the values were mainly due to significant volatility recorded during 2020.

Interest rate risk, measured in terms of VaR (99% confidence level, 10-day holding period), amounted to an average of 436 million euro during 2020, with a maximum value of 840 million euro and a minimum value of 106 million euro. The 2020 year-end figure was 480 million euro.

Price risk generated by minority stakes in listed companies, mostly held in the HTCS category and measured in terms of VaR, recorded an average level during 2020 of 255 million euro, with maximum and minimum values of 419 million euro and 45 million euro, respectively, amounting to 304 million euro at the end of 2020 (43 million euro at the end of 2019). The deviations in the values were mainly due to significant volatility recorded during 2020.

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock for the abovementioned quoted assets recorded in the HTCS portfolio.

## Price risk: impact on Shareholders' Equity

		I Quarter 2020 Impact on shareholders' equity at 31.03.2020	II Quarter 2020 Impact on shareholders' equity at 30.06.2020	III Quarter 2020 Impact on shareholders' equity at 30.09.2020	IV Quarter 2020 Impact on shareholders' equity at 31.12.2020	(millions of euro) Impact on shareholders' equity at 31.12.2019
Price shock	0%	49	141	152	147	50
Price shock	0%	-49	-141	-152	-147	-50

## 2.3. FOREIGN EXCHANGE RISK

Qualitative information

Qualitative information, including hedging activities of foreign exchange risk, is contained in Part E of the Notes to the consolidated financial statements.

Quantitative information

## 1. Breakdown by currency of assets and liabilities and of derivatives

	(millions of euro)					
	CURRENCIES					
	US dollar	GB pound	Yen	Swiss franc	Australian dollar	Other currencies
<b>A. FINANCIAL ASSETS</b>	<b>28,184</b>	<b>2,822</b>	<b>3,340</b>	<b>696</b>	<b>1,221</b>	<b>2,745</b>
A.1 Debt securities	10,028	614	2,431	1	526	203
A.2 Equities	367	3	-	8	-	318
A.3 Loans to banks	5,760	117	113	603	26	431
A.4 Loans to customers	12,029	2,088	796	84	669	1,793
A.5 Other financial assets	-	-	-	-	-	-
<b>B. OTHER ASSETS</b>	<b>2,851</b>	<b>79</b>	<b>71</b>	<b>25</b>	<b>5</b>	<b>59</b>
<b>C. FINANCIAL LIABILITIES</b>	<b>30,716</b>	<b>1,727</b>	<b>716</b>	<b>328</b>	<b>721</b>	<b>1,323</b>
C.1 Due to banks	11,611	251	58	270	558	817
C.2 Due to customers	7,325	365	118	58	57	440
C.3 Debt securities	11,780	1,111	540	-	106	66
C.4 Other financial liabilities	-	-	-	-	-	-
<b>D. OTHER LIABILITIES</b>	<b>265</b>	<b>12</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>15</b>
<b>E. FINANCIAL DERIVATIVES</b>						
- Options						
<i>long positions</i>	42	-	-	-	-	1
<i>short positions</i>	39	1	-	-	-	2
- Other derivatives						
<i>long positions</i>	66,241	10,846	5,610	4,965	1,496	10,983
<i>short positions</i>	65,936	11,789	8,379	5,355	1,961	12,163
<b>TOTAL ASSETS</b>	<b>97,318</b>	<b>13,747</b>	<b>9,021</b>	<b>5,686</b>	<b>2,722</b>	<b>13,788</b>
<b>TOTAL LIABILITIES</b>	<b>96,956</b>	<b>13,529</b>	<b>9,096</b>	<b>5,684</b>	<b>2,684</b>	<b>13,503</b>
<b>DIFFERENCE (+/-)</b>	<b>362</b>	<b>218</b>	<b>-75</b>	<b>2</b>	<b>38</b>	<b>285</b>

## 2. Internal models and other sensitivity analysis methodologies

Management of foreign exchange risk relative to trading activities is included within the operating procedures and the estimation methodologies of the internal model based on VaR calculations, as described in Part E of the Notes to the consolidated financial statements.

Foreign exchange risk expressed by equity investments in foreign currency (banking book), originated a VaR (99% confidence level, 10-day holding period) amounting to 62 million euro as at 31 December 2020. This potential impact would only be reflected in the Shareholders' Equity.



## SECTION 3 – DERIVATIVES AND HEDGING POLICIES

The Bank is authorised to use EPE (Expected Positive Exposure) internal approaches to determine the capital requirement for counterparty risk.

These approaches are used for almost the entire trading book (as shown in the table below, as at 31 December 2020 approximately 99% of the total EAD of financial and credit derivatives is measured using EPE models).

Derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 31 December 2020 accounting for approximately 1% of overall EAD) and refer to residual contracts which are not simulated, in compliance with the immateriality of the EBA thresholds.

As a result of the enactment of the Basel 3 rules, the scope of counterparty risk also includes Exchange Traded Derivatives (ETD) and contracts with central counterparties (CCP).

The table below shows the overall EAD of exposures in financial and credit derivatives, broken down by measurement approach (EPE internal models or mark-to-market approach).

Transaction categories	(millions of euro)			
	Exposure at default (EAD)			
	31.12.2020		31.12.2019	
	Mark-to-market approach	EPE Internal Method	Mark-to-market approach	EPE Internal Method
Derivative contracts	177	20,069	155	8,457

Using the EPE internal model, it is possible to consider the collateral collected to mitigate credit exposure and any excess collateral paid in the simulation. The value of guarantees received and included in the calculation of the EAD amounted to around 7 billion euro for Intesa Sanpaolo, while the collateral paid amounted to approximately 22 billion euro.

### 3.1 Trading derivatives

The changes in the notional amounts and fair values of the financial and credit derivatives with respect to the comparison period, as shown in the tables of this subsection, were mainly attributable to the merger of the subsidiary Banca IMI into Intesa Sanpaolo, which was completed in 2020.

## A. FINANCIAL DERIVATIVES

### A.1 Financial trading derivatives: period-end notional amounts

Underlying asset/Type of derivatives	(millions of euro)							
	31.12.2020				31.12.2019			
	Over the counter			Organised markets	Over the counter			Organized markets
	Central Counterparties	Without central counterparties			Central Counterparts	without central counterparties		
With netting agreements		Without netting agreements	With netting agreements	Without netting agreements				
<b>1. Debt securities and interest rate</b>	<b>1,885,799</b>	<b>363,611</b>	<b>70,434</b>	<b>161,456</b>	-	<b>347,213</b>	<b>44,727</b>	-
a) Options	-	75,849	6,112	54,326	-	7,034	2,553	-
b) Swaps	1,885,799	287,762	60,904	-	-	340,179	39,190	-
c) Forwards	-	-	2,487	-	-	-	14	-
d) Futures	-	-	931	107,130	-	-	2,970	-
e) Other	-	-	-	-	-	-	-	-
<b>2. Equities and stock indices</b>	-	<b>6,359</b>	<b>30,249</b>	<b>1,889</b>	-	<b>841</b>	<b>1,372</b>	<b>1</b>
a) Options	-	6,359	30,236	400	-	828	1,359	1
b) Swaps	-	-	13	-	-	13	13	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	1,489	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
<b>3. Foreign exchange rates and gold</b>	-	<b>157,437</b>	<b>14,663</b>	<b>359</b>	-	<b>148,195</b>	<b>12,485</b>	-
a) Options	-	17,118	780	117	-	4,340	862	-
b) Swaps	-	50,083	3,826	-	-	31,550	3,433	-
c) Forwards	-	89,984	9,478	-	-	110,871	7,769	-
d) Futures	-	-	-	242	-	-	-	-
e) Other	-	252	579	-	-	1,434	421	-
<b>4. Commodities</b>	-	<b>3,002</b>	<b>695</b>	<b>1,685</b>	-	<b>3,081</b>	<b>625</b>	-
<b>5. Other underlying assets</b>	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,885,799</b>	<b>530,409</b>	<b>116,041</b>	<b>165,389</b>	-	<b>499,330</b>	<b>59,209</b>	<b>1</b>

The notional amounts shown as at 31 December 2020 in the column “Over the counter” with central counterparties relate to interest rate derivatives settled through legal clearing for a total of 1,886 billion euro. As at 31 December 2019, no amounts were shown because the access to clearing houses for derivatives transactions took place through the subsidiary Banca IMI, which was subsequently absorbed in 2020.

## A.2 Financial trading derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	31.12.2020				31.12.2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements	With netting agreements		Without netting agreements		
<b>1. Positive fair value</b>								
a) Options	-	2,418	683	45	-	259	70	-
b) Interest rate swaps	52,352	16,825	7,134	-	-	9,106	2,854	-
c) Cross currency swaps	-	1,246	348	-	-	1,621	261	-
d) Equity swaps	-	-	6	-	-	1	4	-
e) Forwards	-	1,257	136	-	-	855	65	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	175	58	-	-	178	51	-
<b>Total</b>	<b>52,352</b>	<b>21,921</b>	<b>8,365</b>	<b>45</b>	<b>-</b>	<b>12,020</b>	<b>3,305</b>	<b>-</b>
<b>2. Negative fair value</b>								
a) Options	-	2,431	6,339	18	-	270	79	-
b) Interest rate swaps	53,475	21,051	1,238	-	-	11,502	797	-
c) Cross currency swaps	-	1,595	758	-	-	1,055	748	-
d) Equity swaps	-	-	-	-	-	4	1	-
e) Forwards	-	1,110	210	-	-	832	62	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	173	60	-	-	201	27	-
<b>Total</b>	<b>53,475</b>	<b>26,360</b>	<b>8,605</b>	<b>18</b>	<b>-</b>	<b>13,864</b>	<b>1,714</b>	<b>-</b>

This table shows the fair value of all the unmargined contracts, both on regulated markets and with central counterparties.

The amounts shown in the column “Over the counter” with central counterparties relate to the gross fair value of the OTC derivatives settled through legal clearing, including LCH Ltd. As at 31 December 2019, no amounts were shown because the access to clearing houses for derivatives transactions took place through the subsidiary Banca IMI, which was subsequently absorbed in 2020.

The fair value of the OTC trading derivatives held with the legal clearing agent LCH Ltd, considered to have met the requirements of IAS 32, paragraph 42, was offset in the financial statements with a total positive difference of 333 million euro (positive fair value of 52,208 million euro and negative fair value of 51,875 million euro). The difference relates to transactions originated by customers and Group companies for a negative clearing amount of 2,168 million euro, shown under financial liabilities held for trading, and to transactions on own account for a positive clearing amount of 2,501 million euro, shown in liabilities under hedging derivatives, together with the clearing amount from the hedging derivative contracts.

### A.3 Over the counter financial trading derivatives: notional amounts, gross positive and negative fair value by counterparty

Underlying asset	(millions of euro)			
	Central Counterparties	Banks	Other financial companies	Other counterparties
<b>Contracts not included under netting agreements</b>				
<b>1) Debt securities and interest rates</b>				
- notional amount	X	11,362	12,556	46,516
- positive fair value	X	1,233	232	5,760
- negative fair value	X	-885	-228	-253
<b>2) Equities and stock indices</b>				
- notional amount	X	15,715	8,958	5,576
- positive fair value	X	549	47	9
- negative fair value	X	-1,470	-145	-4,688
<b>3) Foreign exchange rates and gold</b>				
- notional amount	X	1,514	3,850	9,299
- positive fair value	X	6	95	399
- negative fair value	X	-650	-20	-208
<b>4) Commodities</b>				
- notional amount	X	-	49	646
- positive fair value	X	-	-	35
- negative fair value	X	-	-4	-54
<b>5) Other</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<b>Contracts included under netting agreements</b>				
<b>1) Debt securities and interest rates</b>				
- notional amount	1,885,799	294,076	53,161	16,374
- positive fair value	52,352	14,687	2,333	1,854
- negative fair value	-53,475	-19,048	-3,491	-426
<b>2) Equities and stock indices</b>				
- notional amount	-	2,477	3,859	23
- positive fair value	-	72	35	1
- negative fair value	-	-145	-86	-
<b>3) Foreign exchange rates and gold</b>				
- notional amount	-	115,659	30,187	11,591
- positive fair value	-	1,817	479	478
- negative fair value	-	-1,861	-639	-469
<b>4) Commodities</b>				
- notional amount	-	710	984	1,308
- positive fair value	-	18	74	73
- negative fair value	-	-18	-71	-106
<b>5) Other</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

**A.4 Residual maturity of over the counter financial derivatives: notional amounts**

Underlying/Residual maturity				(millions of euro)
	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	625,223	910,358	784,263	2,319,844
A.2 Financial derivatives on equities and stock indices	9,504	25,258	1,846	36,608
A.3 Financial derivatives on foreign exchange rates and gold	117,224	37,509	17,367	172,100
A.4 Financial derivatives on commodities	2,292	1,405	-	3,697
A.5 Other financial derivatives	-	-	-	-
<b>Total 31.12.2020</b>	<b>754,243</b>	<b>974,530</b>	<b>803,476</b>	<b>2,532,249</b>
<b>Total 31.12.2019</b>	<b>234,332</b>	<b>163,750</b>	<b>160,457</b>	<b>558,539</b>

**B. CREDIT DERIVATIVES****B.1 Credit trading derivatives: period-end notional amounts**

Categories of transactions			(millions of euro)
	Trading derivatives		
	single counterparty	more counterparties (basket)	
<b>1. Protection purchases</b>			
a) Credit default products	7,072	58,756	
b) Credit spread products	-	-	
c) Total rate of return swap	-	-	
d) Other	-	-	
<b>Total 31.12.2020</b>	<b>7,072</b>	<b>58,756</b>	
<b>Total 31.12.2019</b>	<b>1,368</b>	<b>12,571</b>	
<b>2. Protection sales</b>			
a) Credit default products	7,453	51,887	
b) Credit spread products	-	-	
c) Total rate of return swap	-	-	
d) Other	-	-	
<b>Total 31.12.2020</b>	<b>7,453</b>	<b>51,887</b>	
<b>Total 31.12.2019</b>	<b>260</b>	<b>13,199</b>	

As at 31 December 2020, none of the contracts shown in the table above were included within the structured credit products reported in the chapter on market risks in the Notes to the consolidated financial statements.

**B.2 Credit trading derivatives: gross positive and negative fair value – breakdown by product**

Type of derivative	(millions of euro)	
	Total 31.12.2020	Total 31.12.2019
<b>1. Positive fair value</b>		
a) Credit default products	1,643	403
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
<b>Total</b>	<b>1,643</b>	<b>403</b>
<b>2. Negative fair value</b>		
a) Credit default products	1,758	435
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
<b>Total</b>	<b>1,758</b>	<b>435</b>

As at 31 December 2020, none of the contracts shown in the table above were included within the structured credit products reported in the chapter on market risks in the Notes to the consolidated financial statements.

**B.3 Over the counter credit trading derivatives: notional amounts, gross positive and negative fair value by counterparty**

	(millions of euro)			
	Central counterparties	Banks	Other financial companies	Other counterparties
<b>Contracts not included under netting agreements</b>				
<b>1) Protection purchases</b>				
- notional amount	X	-	-	218
- positive fair value	X	-	-	40
- negative fair value	X	-	-	-
<b>2) Protection sales</b>				
- notional amount	X	-	35	13
- positive fair value	X	-	-	-
- negative fair value	X	-	-1	-15
<b>Contracts included under netting agreements</b>				
<b>1) Protection purchases</b>				
- notional amount	40,650	14,151	10,809	-
- positive fair value	1	61	35	-
- negative fair value	-1,113	-233	-258	-
<b>2) Protection sales</b>				
- notional amount	37,301	12,425	9,566	-
- positive fair value	1,003	238	265	-
- negative fair value	-1	-42	-95	-

As at 31 December 2020, none of the contracts shown in the table above were included within the structured credit products reported in the chapter on market risks in the Notes to the consolidated financial statements.

**B.4 Residual maturity of over the counter credit trading derivatives: notional amounts**

Underlying/Residual maturity	(millions of euro)			Total
	Up to 1 year	Between 1 and 5 years	Over 5 years	
1. Protection sales	4,508	53,979	853	59,340
2. Protection purchases	4,842	60,194	792	65,828
<b>Total 31.12.2020</b>	<b>9,350</b>	<b>114,173</b>	<b>1,645</b>	<b>125,168</b>
<b>Total 31.12.2019</b>	<b>330</b>	<b>26,600</b>	<b>468</b>	<b>27,398</b>

**B.5 Credit derivatives associated with the fair value option: annual changes**

Intesa Sanpaolo does not hold credit derivatives associated with the fair value option.

**3.2 – Accounting hedges****Qualitative information**

On first-time adoption of IFRS 9, the Intesa Sanpaolo Group exercised its option under the standard to continue to fully apply the rules of IAS 39 for all types of hedges (micro and macro hedges). As a result, the provisions of IFRS 9 on hedging do not apply.

**A. Fair value hedging**

The hedging carried out by the Bank is aimed at protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve (interest rate risk).

The Bank uses both micro fair value hedges and macro fair value hedges.

The micro fair value hedges mainly hedge bonds issued, securities under assets and loans to customers.

The macro fair value hedges are used for:

- core deposits, based on the applicable standards in the carved-out version of IAS 39 in accordance with the option provided by IFRS 9 to make use of the possibility of fully applying the provisions of IAS 39 on hedges;
- the already fixed portion of floating-rate loans, in which the macro fair value hedge is used to hedge the interest rate risk inherent in the floating-rate coupons of the loans granted, when the coupon rate is set;
- a portion of the fixed-rate loans; for this type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.

The main types of derivative contracts used are plain and structured interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties.

The derivatives are not listed on regulated markets but are traded in OTC circuits. The OTC contracts also include those carried out with clearing houses.

**B. Cash flow hedging**

The hedging carried out by the Bank is aimed at protecting it from the exposure to changes in future cash flows attributable to movements in the interest rate curve, associated with a particular asset/liability, such as variable future interest payments on a debt/loan or a highly probable expected future transaction.

The Bank uses both micro cash flow hedges and macro cash flow hedges. The micro cash flow hedges mainly hedge bonds issued.

The macro cash flow hedges are used for:

- floating-rate funding when it is used to finance fixed-rate loans;
- floating-rate loans to hedge the fixed-rate funding.

The derivatives used are interest rate swaps (IRS) with third parties.

The derivatives are not listed on regulated markets but are traded in OTC circuits. The OTC contracts also include contracts brokered through clearing houses.

## C. Hedging of foreign investments

In 2020, foreign exchange hedges were taken out against the foreign exchange risk on the cost of funding in foreign currency and on foreign currency gains generated by the Parent Company's international branches. These are operational hedges, which are therefore not recognised as accounting hedges covered by this section.

## D. Hedging instruments

The main causes of ineffectiveness of the model adopted by the Bank for verifying the effectiveness of the hedges are attributable to the following:

- misalignment between the notional value of the derivative and the hedged underlying recognised at the time of initial designation or generated subsequently, such as in the case of partial repayments of loans or the repurchase of bonds;
- application of different curves on the hedging derivative and hedged item for the purpose of carrying out the effectiveness test on fair value hedges. The derivatives, which are normally collateralised or intermediated through clearing houses, are discounted on the Eonia/€STR curve, while the hedged items are discounted on the indexing curve of the hedging instrument;
- inclusion in the effectiveness test of the value of the variable leg of the hedging derivative, in the case of fair value hedges.

The ineffectiveness of the hedge is promptly recognised for the purposes of:

- the determination of the effect on the income statement;
- the assessment of the possibility of continuing to apply the hedge accounting rules.

The Bank does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

## E. Hedged items

The main types of hedged items are:

- debt securities under assets;
- debt securities issued and non-securities funding;
- fixed-rate loans;
- floating-rate loans;
- optional embedded component of floating-rate mortgages;
- already fixed coupon of floating rate-loans;
- modelled on demand deposits.

### E.1 Debt securities under assets

These are hedged by micro fair value hedges, using IRS, OIS and CCS as hedging instruments.

The interest rate risk is hedged for the entire duration of the obligation.

The Dollar Offset Method is used to verify the hedge effectiveness. This method is based on the ratio between the cumulative changes (from the inception of the hedge) in the fair value of the hedging instrument, attributable to the hedged risk, and past changes in the fair value of the hedged item (fair value change), net of accrued interest.

Micro fair value hedges also include forward sales on securities in the HTCS portfolio, carried out to hedge fair value risks from movements in credit spreads and interest rate curves. With regard to the forward sale contract, which is a derivative because it is a non-regular way transaction, the spot component is separated from the interest component by designating only the spot component as the hedging instrument in a fair value hedging relationship.

### E.2 Debt securities issued and non-securities funding

The Bank currently has micro fair value hedges in place on fixed- or structured-rate funding and micro cash flow hedges or macro cash flow hedges on floating-rate funding, using IRS, OIS and CCS as hedging instruments.

The interest rate risk is hedged for the entire duration of the obligation.

For the micro hedges, the hedge effectiveness is verified using the Dollar Offset Method. This method is based on the ratio between the cumulative changes (from the inception of the hedge) in the fair value or the cash flows of the hedging instrument, attributable to the hedged risk, and past changes in the fair value or the cash flows of the hedged item (fair value change), net of accrued interest.

For the macro hedges, the hedge effectiveness is verified by means of a capacity test. This test involves a comparison of the consistency between the hedged items, referring to existing and expected floating-rate funding (so-called highly probable future transactions), and the hedging instruments, which must always be confirmed throughout the life of the hedging relationship and for each time band. In this case, the hedged item is represented by the expected cash flows from funding that will arise over the life of the issues.

### E.3 Fixed-rate loans

The Bank has designated micro fair value hedges for fixed-rate loans and macro fair value hedges for mortgage loans in the retail segment of the Parent Company and the Network Banks, mainly using IRS as hedging instruments.

The interest rate risk is hedged throughout the life of the underlying.

For the micro hedges, the hedge effectiveness is verified using the Dollar Offset Method.

For the macro hedges, the loan portfolio hedged is open, i.e. it is dynamically composed of fixed-rate instruments managed at aggregate level through hedging derivatives entered into over time.

The effectiveness of the macro hedges on fixed-rate loans is periodically verified through specific prospective and retrospective tests aimed at demonstrating that the hedged portfolio contains an amount of assets whose sensitivity profile and changes in fair value due to interest rate risk reflect those of the derivatives used for the hedge.



#### E.4 Floating-rate loans

The Bank currently has macro cash flow hedges in place on floating-rate loans, mainly using IRS as hedging instruments. The hedge effectiveness is verified by means of a capacity test. This test involves a comparison of the consistency between the hedged items, referring to the floating-rate loans outstanding, and the hedging instruments, which must always be confirmed throughout the life of the hedging relationship and for each time band. In this case, the hedged item is represented by the expected cash flows originating from the loans that will arise over the life of the assets.

#### E.5 Optional embedded component of floating-rate mortgages

The optional embedded components (interest rate options) of floating-rate mortgages are hedged by micro fair value hedges, using options (cap, floor, collar) as hedging instruments.

The underlying assets may be partially or totally hedged, over time and in terms of amount.

The Dollar Offset Method is used to verify the hedge effectiveness.

#### E.6 Already fixed coupon of floating-rate loans

This is hedged by macro fair value hedges, using OIS as hedging instruments.

The purpose of this type of hedge is to neutralise the interest rate risk generated by the coupons already set for floating-rate loans.

The Dollar Offset Method is used to verify the hedge effectiveness, while the actual consistency of the hedged items is verified by a capacity test.

#### E.7 Modelled on demand deposits.

Modelled on demand deposits are hedged by macro fair value hedges, as required by the “carve out” of IAS 39, using IRS and OIS as hedging instruments.

The purpose of this type of hedge is to protect the net interest income from possible falls in interest rates that reduce the spread generated by the Bank's core deposits.

The model is subject to continuous monitoring and verification by the Financial and Market Risks Head Office Department, in order to promptly incorporate changes in the main characteristics (volumes, stability, reactivity) and make the necessary adjustments where necessary.

The Dollar Offset Method is used to verify the hedge effectiveness.

### Quantitative information

#### A. Financial hedging derivatives

##### A.1 Financial hedging derivatives: period-end notional amounts

Underlying asset/Type of derivative	31.12.2020							31.12.2019			
	Over the counter				Organised markets	Over the counter				Organized markets	
	Central Counterparties	Without central counterparties		Central Counterparts		Without central counterparties					
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreement				
<b>1. Debt securities and interest rates</b>	<b>190,108</b>	<b>11,137</b>	<b>2,947</b>	-	-	<b>166,189</b>	-	-	-	-	
a) Options	-	2,229	-	-	-	2,627	-	-	-	-	
b) Swaps	190,108	8,908	1,502	-	-	163,562	-	-	-	-	
c) Forwards	-	-	1,445	-	-	-	-	-	-	-	
d) Futures	-	-	-	-	-	-	-	-	-	-	
e) Other	-	-	-	-	-	-	-	-	-	-	
<b>2. Equities and stock indices</b>	-	-	-	-	-	-	-	-	-	-	
a) Options	-	-	-	-	-	-	-	-	-	-	
b) Swaps	-	-	-	-	-	-	-	-	-	-	
c) Forwards	-	-	-	-	-	-	-	-	-	-	
d) Futures	-	-	-	-	-	-	-	-	-	-	
e) Other	-	-	-	-	-	-	-	-	-	-	
<b>3. Foreign exchange rates and gold</b>	-	<b>7,277</b>	-	-	-	<b>6,242</b>	-	-	-	-	
a) Options	-	-	-	-	-	-	-	-	-	-	
b) Swaps	-	7,277	-	-	-	6,242	-	-	-	-	
c) Forwards	-	-	-	-	-	-	-	-	-	-	
d) Futures	-	-	-	-	-	-	-	-	-	-	
e) Other	-	-	-	-	-	-	-	-	-	-	
<b>4. Commodities</b>	-	-	-	-	-	-	-	-	-	-	
<b>5. Other</b>	-	-	-	-	-	-	-	-	-	-	
<b>TOTAL</b>	<b>190,108</b>	<b>18,414</b>	<b>2,947</b>	-	-	<b>172,431</b>	-	-	-	-	

The average notional amount in the year of the financial hedging derivatives was 184,802 million euro.

The notional amounts shown as at 31 December 2020 in the column “Over the counter” with central counterparties relate to notional amounts of the interest rate derivatives settled through legal clearing for a total of 190 billion euro. As at

31 December 2019, no amounts were shown because the access to clearing houses for derivatives transactions took place through the subsidiary Banca IMI, which was subsequently absorbed in 2020.

#### A.2 Financial hedging derivatives: gross positive and negative fair value – breakdown by product

Type of derivative	Positive and negative fair value								Change in value used to calculate hedge effectiveness	
	Total 31.12.2020				Total 31.12.2019				Total 31.12.2020	Total 31.12.2019
	Over the counter			Organized markets	Over the counter			Organized markets		
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
	With netting agreements	Without netting agreements		With netting agreements	Without netting agreements					
<b>Positive fair value</b>										
a) Options	-	10	-	-	-	17	-	-	-155	-183
b) Interest rate swap	2,437	716	1	-	-	2,434	-	-	2,682	2,127
c) Cross currency swap	-	287	-	-	-	379	-	-	103	116
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	1	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2,437</b>	<b>1,013</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2,830</b>	<b>-</b>	<b>-</b>	<b>2,630</b>	<b>2,060</b>
<b>Negative fair value</b>										
a) Options	-	3	-	-	-	4	-	-	3	1
b) Interest rate swap	8,349	1,533	40	-	-	6,958	-	-	8,871	6,242
c) Cross currency swap	-	388	-	-	-	361	-	-	204	356
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	12	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>8,349</b>	<b>1,924</b>	<b>52</b>	<b>-</b>	<b>-</b>	<b>7,323</b>	<b>-</b>	<b>-</b>	<b>9,078</b>	<b>6,599</b>

The amounts shown as at 31 December 2020 in the column “Over the counter” with central counterparties relate to the gross fair value of the OTC derivatives settled through legal clearing, including LCH Ltd. As at 31 December 2019, no amounts were shown because the access to clearing houses for derivatives transactions took place through the subsidiary Banca IMI, which was subsequently absorbed in 2020.

The fair value of the OTC trading derivatives held with the legal clearing agent LCH Ltd, considered to have met the requirements of IAS 32, paragraph 42, was offset in the financial statements with a total negative difference of 5,912 million euro (positive fair value of 2,437 million euro and negative fair value of 8,349 million euro). This difference, which relates to trading on own account, is shown in liabilities under hedging derivatives.

## A.3 Over the counter financial hedging derivatives: notional values, gross positive and negative fair values by counterparty

Underlying asset	(millions of euro)			
	Central counterparties	Banks	Other financial companies	Other counterparties
<b>Contracts not included under netting agreements</b>				
<b>1) Debt securities and interest rates</b>				
- notional amount	X	839	2,108	-
- positive fair value	X	-	2	-
- negative fair value	X	-8	-44	-
<b>2) Equities and stock indices</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<b>3) Foreign exchange rates and gold</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<b>4) Commodities</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<b>5) Other</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<b>Contracts included under netting agreements</b>				
<b>1) Debt securities and interest rates</b>				
- notional amount	190,108	9,526	1,611	-
- positive fair value	2,437	662	64	-
- negative fair value	-8,349	-760	-776	-
<b>2) Equities and stock indices</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
<b>3) Foreign exchange rates and gold</b>				
- notional amount	-	6,442	835	-
- positive fair value	-	282	5	-
- negative fair value	-	-219	-169	-
<b>4) Commodities</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
<b>5) Other</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

*A.4 Residual maturity of over the counter financial hedging derivatives: notional amounts*

Underlying/Residual maturity	(millions of euro)			
	Up to 1 year	Between 1 and 5 years	Over 5 year	Total
A.1 Financial derivatives on debt securities and interest rates	51,218	72,765	80,209	204,192
A.2 Financial derivatives on equities and stock indices	-	-	-	-
A.3 Financial derivatives on foreign exchange rates and gold	1,208	3,257	2,812	7,277
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
<b>Total 31.12.2020</b>	<b>52,426</b>	<b>76,022</b>	<b>83,021</b>	<b>211,469</b>
<b>Total 31.12.2019</b>	<b>65,121</b>	<b>51,165</b>	<b>56,145</b>	<b>172,431</b>

**B. Credit hedging derivatives***B.1 Credit hedging derivatives: period-end notional amounts**B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by product**B.3 Over the counter credit hedging derivatives: notional values, gross positive and negative fair values by counterparty**B.4 Residual maturity of over the counter credit hedging derivatives: notional amounts*

Intesa Sanpaolo does not hold credit derivatives classified as hedges in its portfolio

**C. Non-derivative hedging instruments***C.1 Non-derivative hedging instruments: breakdown by accounting portfolio and type of hedge*

Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges). For this reason, the Bank does not hold financial instruments to be shown in table "C.1 Non-derivative hedging instruments: breakdown by accounting portfolio and type of hedge".

**INFORMATION ON THE UNCERTAINTY DERIVING FROM HEDGING DERIVATIVE BENCHMARK INDICES**

As illustrated in Part A – Accounting policies, Intesa Sanpaolo, from the 2019 Financial Statements, has applied the Regulation (EU) 34/2020 of 15 January 2020, which adopted the document issued by the IASB in September 2019 on "Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)". This regulation introduced several amendments regarding hedges (hedge accounting) designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform resulting in the discontinuation of existing hedges and difficulties in designating new hedging relationships. Therefore, the analysis of hedge effectiveness was carried out considering the flows and timing of outstanding hedging derivatives, assuming that the interest rate benchmarks used to set existing interest rates will not be changed as a result of the Interest Rate Benchmark Reform (IBOR Reform).

The disclosure required by IFRS 7, paragraph 24H, on the uncertainty arising from interest rate benchmark reform on hedging relationships and the nominal amount of hedging instruments potentially impacted by the benchmark rate reform is provided below. Reference should also be made to that set out in the Notes to the consolidated financial statements, in the Introduction of Part E – Information on risks and relative hedging policies, for an illustration of how the Group is managing the process to transition to alternative benchmark rates.

*Fair value hedge derivatives*

Fair value hedge derivatives of the Bank are mainly index-linked to the Euribor, whose calculation method was revised during 2019 to be able to continue using that parameter also after 1 January 2022, both for outstanding contracts and new contracts. To make the Euribor compliant with the EU Benchmarks Regulation (BMR - Regulation 2016/1011/EU) the EMMI - European Money Markets Institute - implemented the change to a new "hybrid" calculation method. The current calculation system – which was completed at the end of November 2019 – does not change the economic variable that the benchmark measures: the Euribor expresses the actual cost of funding for contributing European banks, and is always available and consultable. Therefore, the Bank does not deem that there is uncertainty on the timing or cash flows of the Euribor, and does not consider the fair value hedges linked to the Euribor to be impacted by the reform as at 31 December 2020, in line with the approach already adopted for the Financial Statements as at 31 December 2019.

The fair value hedges also include derivatives index-linked to benchmarks impacted by the reform, specifically to the EONIA and the LIBOR, for the various currencies, which will be replaced in the future with new risk-free interest rates. Specifically, in Europe, the EONIA fixing, calculated starting from October 2019 based on the new risk-free rate €STR, will be published until the end of 2021 and then permanently replaced by €STR. The publication of the LIBOR is also expected to be discontinued at the end of 2021 and there are already alternative risk-free rates available in the individual nations, which will gradually replace the LIBOR.

Specifically, as at 31 December 2020, there were fair value hedges index-linked to the EONIA for a notional amount of 30,393 million euro (59,019 million euro as at 31 December 2019), of which 17,772 million euro maturing after 31 December 2021 (16,112 million euro as at 31 December 2019), to the LIBOR USD for a notional amount of 14,236 million euro (10,492 million euro as at 31 December 2019), of which 14,046 million euro maturing after 31 December 2021 (10,492 million euro as at 31 December 2019), and to other interest rates impacted by the reform, such as the LIBOR of other currencies, for a notional amount of 31 million euro (78 million euro as at 31 December 2019), of which 25 million euro maturing after 31 December 2021 (53 million euro as at 31 December 2019). These amounts represent 22% of the total of fair value hedge derivatives of the Bank (42% as at 31 December 2019) and 21% considering only derivatives maturing after 31 December 2021 (16% as at 31 December 2019). In 2020, there was also a progressive increase in the use of derivatives indexed to the €STR in the hedging subject to hedge accounting.

#### Cash flow hedge derivatives

Cash flow hedge derivatives are index-linked to the Euribor. As illustrated for fair value hedges, the Bank does not deem that there is uncertainty on the timing or cash flows of the Euribor, and, therefore does not consider the cash flow hedges linked to the Euribor to be impacted by the reform as at 31 December 2020.

## D. Hedged items

Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

### D.1 Fair value hedges

							(millions of euro)
		Micro-hedges: book value	Micro-hedges – net positions: book value of assets and liabilities (prior to netting)	Cumulative fair value changes (hedged instrument)	Termination of hedging: residual cumulative fair value changes	Changes in value used to assess hedge ineffectiveness	Macro- hedges: book value
<b>A. Assets</b>							
<b>1. Financial assets designated at fair value through other comprehensive income – hedging of:</b>							
		29,359	-	1,251	601	1,265	-
1.1	Debt securities and interest rates	27,415	-	1,263	601	1,232	x
1.2	Equities and stock indices	-	-	-	-	-	x
1.3	Foreign exchange rates and gold	-	-	-	-	-	x
1.4	Loans	-	-	-	-	-	x
1.5	Other	1,944	-	-12	-	33	x
<b>2. Financial assets measured at amortised cost - hedging of:</b>							
		30,626	-	3,877	27	3,981	70,647
1.1	Debt securities and interest rates	30,091	-	3,561	27	3,665	x
1.2	Equities and stock indices	-	-	-	-	-	x
1.3	Foreign exchange rates and gold	-	-	-	-	-	x
1.4	Loans	-	-	-	-	-	x
1.5	Other	535	-	316	-	316	x
	<b>Total 31.12.2020</b>	<b>59,985</b>	<b>-</b>	<b>5,128</b>	<b>628</b>	<b>5,246</b>	<b>70,647</b>
	<b>Total 31.12.2019</b>	<b>35,650</b>	<b>-</b>	<b>3,084</b>	<b>107</b>	<b>3,207</b>	<b>64,794</b>
<b>B. Liabilities</b>							
<b>1. Financial liabilities measured at amortised cost - hedging of:</b>							
		41,396	-	1,819	-5	2,084	30,082
1.1	Debt securities and interest rates	36,022	-	1,581	-5	1,827	x
1.2	Foreign exchange rates and gold	-	-	-	-	-	x
1.3	Other	5,374	-	238	-	257	x
	<b>Total 31.12.2020</b>	<b>41,396</b>	<b>-</b>	<b>1,819</b>	<b>-5</b>	<b>2,084</b>	<b>30,082</b>
	<b>Total 31.12.2019</b>	<b>34,074</b>	<b>-</b>	<b>1,332</b>	<b>264</b>	<b>1,641</b>	<b>19,413</b>

## D.2 Cash flow hedges and hedges of foreign investments

	Change in value used to assess hedge ineffectiveness	Hedging reserves	(millions of euro) Termination of hedging: residual cumulative value of the hedging reserves
<b>A. Cash flow hedge</b>			
<b>1. Assets</b>	<b>37</b>	<b>30</b>	<b>-</b>
1.1 Debt securities and interest rates	37	30	-
1.2 Equities and stock indices	-	-	-
1.3 Foreign exchange rates and gold	-	-	-
1.4 Loans	-	-	-
1.5 Other	-	-	-
<b>2. Liabilities</b>	<b>-1,075</b>	<b>-819</b>	<b>-</b>
1.1 Debt securities and interest rates	-1,075	-819	-
1.2 Foreign exchange rates and gold	-	-	-
1.3 Other	-	-	-
<b>Total (A) 31.12.2020</b>	<b>-1,038</b>	<b>-789</b>	<b>-</b>
<b>Total (A) 31.12.2019</b>	<b>-1,216</b>	<b>-1,262</b>	<b>-</b>
<b>B. Hedges of foreign investments</b>	<b>X</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) 31.12.2020</b>	<b>-1,038</b>	<b>-789</b>	<b>-</b>
<b>Total (A+B) 31.12.2019</b>	<b>-1,216</b>	<b>-1,262</b>	<b>-</b>

## E. Effects of hedging on shareholders' equity

## E.1 Reconciliation of components of shareholders' equity

	Cash flow hedging reserve					Reserve for hedging of foreign investments				
	Debt securities and interest rates	Equities and stock indices	Foreign exchange rates and gold	Loans	Other	Debt securities and interest rates	Equities and stock indices	Foreign exchange rates and gold	Loans	Other
<b>Initial amount</b>	<b>-1,262</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fair value changes (effective portion)	473	-	-	-	-	-	-	-	-	-
Reclassification to the income statement	-	-	-	-	-	-	-	-	-	-
<i>of which: future transactions no longer expected</i>	-	-	-	-	-	X	X	X	X	X
Other changes	-	-	-	-	-	-	-	-	-	-
<i>of which: transfer to the initial book value of the hedged instruments</i>	-	-	-	-	-	X	X	X	X	X
<b>Final amount</b>	<b>-789</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The category "Hedging instruments (non-designated items)" is not present, because Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

### 3.3 Other information on derivative instruments (trading and hedging)

#### A. Credit and financial derivatives

##### A.1 Over the counter credit and financial derivatives: net fair values by counterparty

	Central counterparties	Banks	Other financial companies	(millions of euro) Other counterparties
<b>A. Financial derivatives</b>				
<b>1) Debt securities and interest rates</b>				
- notional amount	2,042,697	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-5,579	-	-	-
<b>2) Equities and stock indices</b>				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
<b>3) Foreign exchange rates and gold</b>				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
<b>4) Commodities</b>				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
<b>5) Other</b>				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
<b>B. Credit derivatives</b>				
<b>1) Protection purchases</b>				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
<b>2) Protection sales</b>				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-

The table shows the values resulting from the offsetting in the balance sheet for the derivatives whose netting agreements meet the criteria set out in IAS 32 paragraph 42.

In particular, the above refers to OTC trading and hedging financial and credit in place with the legal clearing agent LCH Ltd, for which the fair values attributable to transactions on own account and transactions on behalf of customers and Group companies have been offset separately in the financial statements.

The overall negative result of 5,579 million euro (negative fair value of 60,224 million euro and positive fair value of 54,645 million euro) is reported in Part B of the Notes to the financial statements under financial liabilities held for trading at 2,168 million euro for the first transaction type and under hedging derivatives liabilities at 3,411 million euro for the second transaction types.



## SECTION 4 - LIQUIDITY RISK

### QUALITATIVE INFORMATION

The qualitative information is contained in Part E of the Notes to the consolidated financial statements.

### QUANTITATIVE INFORMATION

#### 1. Breakdown by contractual residual maturity of financial assets and liabilities

The breakdown by maturity of financial assets and liabilities is shown in the tables below according to the rules set forth in the financial statement regulations (Bank of Italy Circular 262 and related clarifications issued by the Supervisory Authority), using accounting information organised by contractual residual maturity.

Therefore, no operational data was used that would require, for example, the modelling of core deposits and the representation of on-balance sheet items according to their level of liquidity.

*Currency of denomination: Euro*

Type/Residual maturity	(millions of euro)									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
<b>A. Cash assets</b>	<b>49,157</b>	<b>13,026</b>	<b>6,111</b>	<b>8,573</b>	<b>18,215</b>	<b>17,739</b>	<b>29,674</b>	<b>151,637</b>	<b>146,988</b>	<b>52,634</b>
A.1 Government bonds	27	10	153	414	1,362	1,907	2,020	12,583	33,388	-
A.2 Other debt securities	154	314	705	3,121	150	252	586	6,150	14,589	-
A.3 Quotas of UCI	1,588	-	-	-	-	-	-	-	-	-
A.4 Loans	47,388	12,702	5,253	5,038	16,703	15,580	27,068	132,904	99,011	52,634
- Banks	15,452	4,660	719	109	1,108	772	3,636	2,767	435	52,546
- Customers	31,936	8,042	4,534	4,929	15,595	14,808	23,432	130,137	98,576	88
<b>B. Cash liabilities</b>	<b>302,412</b>	<b>4,151</b>	<b>1,596</b>	<b>3,005</b>	<b>10,157</b>	<b>6,217</b>	<b>8,711</b>	<b>118,019</b>	<b>26,461</b>	<b>-</b>
B.1 Deposits and current accounts	274,415	2,274	1,520	1,240	8,426	4,179	5,600	8,512	514	-
- Banks	7,847	1,683	1,212	1,071	7,187	1,576	4,413	7,740	449	-
- Customers	266,568	591	308	169	1,239	2,603	1,187	772	65	-
B.2 Debt securities	10	76	1	1,758	1,304	1,477	2,513	35,515	22,647	-
B.3 Other liabilities	27,987	1,801	75	7	427	561	598	73,992	3,300	-
<b>C. Off-balance sheet transactions</b>										
C.1 Financial derivatives with exchange of capital										
- Long positions	2,019	13,659	5,581	6,615	24,020	10,455	9,343	17,480	9,056	-
- Short positions	3,729	12,975	5,249	6,400	20,553	7,485	6,772	17,080	12,222	-
C.2 Financial derivatives without exchange of capital										
- Long positions	25,179	50	2	63	182	249	496	-	-	-
- Short positions	31,880	44	12	102	214	366	581	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	64,045	-	-	-	-	-	-	-	-	-
- Short positions	-	64,029	17	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	20,559	51	58	100	274	634	11,204	829	-
- Short positions	33,709	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	52	-	-	-	-	-	32	17	33	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	17	53	475	1,092	-
- Short positions	-	-	-	-	-	17	53	475	1,092	-
C.8 Credit derivatives without exchange of capital										
- Long positions	1,193	-	-	-	-	-	-	-	-	-
- Short positions	1,245	-	-	-	-	-	-	-	-	-

## Currency of denomination: Other currencies

Type/Residual maturity	(millions of euro)									Unspecified maturity
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	
<b>A. Cash assets</b>	<b>3,574</b>	<b>1,096</b>	<b>1,629</b>	<b>1,871</b>	<b>2,767</b>	<b>2,016</b>	<b>3,745</b>	<b>12,192</b>	<b>8,978</b>	<b>23</b>
A.1 Government bonds	2	26	2	29	42	248	357	2,350	5,687	-
A.2 Other debt securities	35	20	16	99	98	87	141	1,999	1,786	-
A.3 Quotas of UCI	239	-	-	-	-	-	-	-	-	-
A.4 Loans	3,298	1,050	1,611	1,743	2,627	1,681	3,247	7,843	1,505	23
- Banks	1,379	625	438	664	964	223	1,915	807	61	8
- Customers	1,919	425	1,173	1,079	1,663	1,458	1,332	7,036	1,444	15
<b>B. Cash liabilities</b>	<b>6,402</b>	<b>3,202</b>	<b>2,727</b>	<b>3,039</b>	<b>5,305</b>	<b>549</b>	<b>858</b>	<b>7,260</b>	<b>5,854</b>	-
B.1 Deposits and current accounts	4,855	1,195	625	1,674	1,015	265	527	609	190	-
- Banks	860	605	284	883	482	39	160	601	190	-
- Customers	3,995	590	341	791	533	226	367	8	-	-
B.2 Debt securities	10	410	107	92	1,294	165	327	6,139	4,717	-
B.3 Other liabilities	1,537	1,597	1,995	1,273	2,996	119	4	512	947	-
<b>C. Off-balance sheet transactions</b>										
C.1 Financial derivatives with exchange of capital										
- Long positions	812	14,829	7,047	9,424	18,867	9,758	10,511	18,851	11,423	-
- Short positions	666	15,486	7,680	9,689	20,599	12,181	13,669	19,330	8,087	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,794	1	127	25	50	125	311	-	-	-
- Short positions	1,938	-	62	15	26	72	168	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	1,208	-	-	-	-	-	-	-	-	-
- Short positions	-	22	621	-	7	530	-	29	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	55	-	62	410	339	1,167	8,634	410	-
- Short positions	10,943	135	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	1	-	13	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	37	-	-
- Short positions	-	-	-	-	-	-	-	37	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	414	-	-	-	-	-	-	-	-	-
- Short positions	432	-	-	-	-	-	-	-	-	-

## 2. Self-securitisations

A brief illustration of the securitisations originated by Intesa Sanpaolo outstanding as at 31 December 2020 is shown below, in which the Bank subscribed all the securities issued by the related vehicle (self-securitisations), and which need not be shown in the tables of Part E, section C "Securitisations" of the Notes to the financial statements.

### Adriano Lease SEC S.r.l.

This is a securitisation that was carried out in December 2017, which took the form of the sale by Mediocredito Italiano S.p.A. of a loan portfolio selected on the basis of pre-defined criteria and arising from performing property, equipment and car lease contracts to Adriano Lease Sec S.r.l. for a total amount of approximately 4.2 billion euro. The purpose of the transaction is to expand the liquidity reserve that can be used by the Bank for refinancing operations on the Eurosystem.

The vehicle Adriano Lease Sec S.r.l. originally issued two series of notes:

- a senior tranche (Class A), with a nominal amount of 2.9 billion euro, listed and assigned an A1 rating by Moody's and an A rating by DBRS Morningstar;
- a junior tranche (Class B), with a nominal amount of 1.4 billion euro, unlisted and unrated.

Following the merger by incorporation, the securities originally purchased by Mediocredito Italiano S.p.A. were included in Intesa Sanpaolo. As at 31 December 2020, the senior securities amounted to 1,062 million euro and junior securities 1,351 million euro.

The senior securities are eligible for use in the Eurosystem.

*Apulia Finance 4 S.r.l.*

In May 2008, Banca Apulia S.p.A. (now merged into Intesa Sanpaolo), completed a securitisation of residential and commercial mortgages, sold to the vehicle company Apulia Finance 4 S.r.l.

With respect to the portfolio sold, in July 2008, Apulia Finance 2008 S.r.l., the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 378.4 million euro, broken down as follows:

- a class A senior tranche for 319.8 million euro, placed on the market and with a AAA rating assigned to the issue by Moody's. The security was fully redeemed in December 2020;
- a junior tranche (class B) for 58.6 billion euro, retained and unrated.

The class A senior securities, denominated in euro, paid a floating-rate six-monthly coupon indexed to the 6-month Euribor plus a spread of 0.70% and were listed on the Luxembourg Stock Exchange.

The junior securities, also denominated in euro, were fully subscribed by Banca Apulia S.p.A. (now merged into Intesa Sanpaolo). The redemption of the nominal amount is subject to the full redemption of the higher-class securities.

As at 31 December 2020, the value of the outstanding subscribed securities was 59 million euro consisting solely of junior securities.

*Brera Sec S.r.l.*

In October 2017, a self-securitisation was structured, carried out through the sale of five loan portfolios to the vehicle company Brera Sec S.r.l. and originated by the Parent Company and by four of the Group's banks subsequently incorporated into Intesa Sanpaolo (Banco di Napoli, Cassa di Risparmio di Forlì e della Romagna and Cassa di Risparmio del Friuli Venezia Giulia, incorporated in the second half of 2018 and Cassa di Risparmio in Bologna, incorporated in the first half of 2019). The underlying consisted of residential mortgage loans held by households and/or family businesses. This transaction was the Group's first Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation.

The transaction involved the issuance by the vehicle company of two tranches of securities:

- a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility;
- and an unlisted junior tranche without rating.

Both the senior and junior securities were subscribed pro rata by each individual selling bank based on the sale price of each portfolio.

The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.

Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with a corporate entity outside the Group (Dutch-registered foundation known as a Stichting). Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.

The total sale consideration was 7.1 billion euro. The sale price of each portfolio sold was settled through the issuance of securities on 11 December 2017 for a total of 7.1 billion euro.

The senior securities, which are listed with an Aa3 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and have been subscribed by Intesa Sanpaolo.

As at 31 December 2020, the value of the outstanding subscribed securities was 4,081 million euro for the senior securities and 1,067 million euro for the junior securities.

*Brera Sec S.r.l. (SME)*

In October 2018, a self-securitisation was structured, implemented through the sale of three loan portfolios to the vehicle company Brera Sec. S.r.l. and originated by the Parent Company and three of the Group banks subsequently incorporated by Intesa Sanpaolo (Banco di Napoli, incorporated in the second half of 2018 and Cassa di Risparmio di Bologna and Cassa di Risparmio di Firenze, incorporated in the first half of 2019). The underlying is made up of mortgage loans and other loans to small and medium enterprises and corporates (the latter only if the group turnover is less than 100 million euro).

This is the Group's second multi-Originator Asset Backed Security ("ABS") securitisation and the first with an underlying of SME loans. The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating. Both the senior and junior securities were subscribed pro rata by each individual selling bank based on the sale price of each portfolio.

The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.

On origination, the total sale consideration was 5.3 billion euro. The sale price of each portfolio was settled through the issuance of securities on 14 December 2018 for a total of 5.3 billion euro.

The senior securities, which are listed with an A1 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and were subscribed by Intesa Sanpaolo.

As at 31 December 2020, the value of the outstanding securities was 1,031 million euro for the senior securities and 1,530 million euro for the junior securities.

*Brera Sec S.r.l. (SEC 2)*

In September 2019, a self-securitisation was structured, implemented through the sale of a loan portfolio originated by Intesa Sanpaolo to the vehicle company Brera Sec S.r.l. This transaction is the Group's third Residential Mortgage Backed Security ("RMBS") securitisation.

The transaction involved the issuance by the vehicle company of two tranches of securities on 27 November 2019: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating.

Both the senior and junior securities were subscribed by Intesa Sanpaolo.

The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.

The total sale consideration was 7.5 billion euro. The sale price of the portfolio was settled through the issuance of securities on 27 November 2019 for a total of 7.5 billion euro.

The senior securities, which are listed with an A1 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and have been fully subscribed by Intesa Sanpaolo.

As at 31 December 2020, the value of the outstanding securities was 5,834 million euro for the senior securities and 860 million euro for the junior securities.

#### *Clara Sec S.r.l.*

In 2020, a new revolving self-securitisation was structured involving receivables arising from performing personal loans within the consumer credit area and disbursed to consumer households, a transaction subject to periodic repurchase of the loans. The transaction took place with the sale, in two tranches (April and May), of the portfolio of loans originated by Intesa Sanpaolo to the vehicle company Clara Sec S.r.l. and is the Group's fourth Asset Backed Security ("ABS") securitisation. Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with an entity from outside the Group (Dutch-registered foundation known as a Stichting). Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.

The transaction involved the issuance by the vehicle company of two tranches of securities on 23 June 2020: a listed senior tranche with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without a rating.

Both the senior and junior securities were subscribed by Intesa Sanpaolo.

The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.

The total sale consideration was 7.6 billion euro. As part of that transaction, securities were issued on 23 June 2020 for 7.2 billion euro.

The senior securities, which are listed with an A1 Moody's and an A (High) DBRS rating, are eligible for the Eurosystem.

As at 31 December 2020, the value of the outstanding securities remained unchanged at 6,350 million euro for the senior securities and 824 million euro for the junior securities.

#### *Giada Sec S.r.l.*

In November 2020, a new self-securitisation was structured, implemented through the sale of a portfolio of loans, disbursed to companies belonging to the small business, SME and Corporate segment and originated by Intesa Sanpaolo, to the vehicle company Giada Sec S.r.l.. This is the Group's fifth Asset Backed Security ("ABS") securitisation and the second with an underlying of SME loans.

Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with a corporate entity outside the Group (Dutch-registered foundation known as a Stichting).

The securitisation is a revolving transaction and ISP will have the option to sell the vehicle further portfolios of loans with similar characteristics and quality, which the Vehicle will purchase by drawing on the receipts generated by the portfolio segregated over time.

The total sale consideration was 10.1 billion euro. The sale price of the portfolio was settled through the issuance of securities on 21 December 2020 for the same amount.

The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating.

Both the senior and junior securities were subscribed by Intesa Sanpaolo.

The listed senior security issued through the transaction, with a Moody's A1 and a DBRS Morningstar A rating, was used as collateral for refinancing operations in the Eurosystem.

As at 31 December 2020, the value of the outstanding securities remained unchanged at 6,610 million euro for the senior securities and 3,485 million euro for the junior securities.

				(millions of euro)	
Vehicle		Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2020
<b>ADRIANO LEASE SEC SRL</b>					
<i>of which issued in euro</i>					
					<b>2,413</b>
	Class A	Senior	Receivables from lease payments	Moody's A1 / DBRS A	1,062
	Class B	Junior	Receivables from lease payments	no rating	1,351
<b>APULIA FINANCE 4 SRL</b>					
<i>of which issued in euro</i>					
					<b>59</b>
	Class A	Senior	Residential mortgage loans	no rating	-
	Class B	Junior	Residential mortgage loans	no rating	59
<b>BRERA SEC SRL</b>					
<i>of which issued in euro</i>					
					<b>5,148</b>
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa3 / DBRS AH	4,081
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	1,067
<b>BRERA SEC SRL (SME)</b>					
<i>of which issued in euro</i>					
					<b>2,561</b>
	Class A RMBS F/R Notes	Senior	Receivables from SME and large corporate customers	Moody's A1 / DBRS AH	1,031
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Receivables from SME and large corporate customers	no rating	1,530
<b>BRERA SEC SRL (SEC 2)</b>					
<i>of which issued in euro</i>					
					<b>6,694</b>
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's A1 / DBRS AH	5,834
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	860
<b>CLARA SEC SRL</b>					
<i>of which issued in euro</i>					
					<b>7,174</b>
	Class A RMBS F/R Notes	Senior	Mortgages	Moody's A1 / DBRS AH	6,350
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Mortgages	no rating	824
<b>GIADA SEC SRL</b>					
<i>of which issued in euro</i>					
					<b>10,095</b>
	Class A RMBS F/R Notes	Senior	Receivables from Small business, SME and Corporate customers	Moody's A1 / DBRS A	6,610
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Receivables from Small business, SME and Corporate customers	no rating	3,485
<b>TOTAL</b>					<b>34,144</b>

The following self-securitisations were terminated in 2020: Claris RMBS 2014, Claris RMBS 2016 and Berica ABS5.

## **SECTION 5 – OPERATIONAL RISK**

### **QUALITATIVE INFORMATION**

The qualitative information, including legal risk and the tax litigation, is contained in Part E of the Notes to the consolidated financial statements.

### **QUANTITATIVE INFORMATION**

From 31 December 2010, Intesa Sanpaolo has been using the AMA Method to determine its capital requirements, and the resulting capital absorption amounted to 1,333 million euro.

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# Part F – Information on capital

## SECTION 1 – PARENT COMPANY’S SHAREHOLDERS’ EQUITY

### A. Qualitative information

Qualitative information on capital and capital management policies is contained in Part F of the Notes to the consolidated financial statements.

Own funds, risk-weighted assets (RWA) and the capital ratios at 31 December 2020 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, amended by Regulation (EU) 2019/876 of 20 May 2019, also known as “CRR II”, in force since 30 June 2019, and in part already applicable, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circular 285.

The transition phase for the introduction of the “Basel 3” regulatory framework was completed in 2017. It provided for the partial inclusion within or deduction from the Own Funds of certain items in accordance with the provisions of CRD IV and the CRR; in addition, the period of exemption from the amendments to be applied to IAS 19 with a filter on retained earnings reserves and actuarial losses ended in 2018.

The transitional period (2018-2022), aimed at mitigating the capital impacts linked to the introduction of the new financial reporting standard IFRS 9, started from 1 January 2018. Intesa Sanpaolo has exercised the option provided in EU Regulation 2395/2017 to adopt the “static” approach that allows the neutralisation of a progressively decreasing amount of the impact of IFRS 9 in its CET 1 relating solely to the FTA component of the impairment. In particular, the result from the comparison between the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018 – relating to performing loans and securities (stage 1 and 2) and adjustments to NPLs (stage 3), net of tax and having eliminated any existing shortfall – is re-included in the capital according to phase-in percentages of 70% in 2020, 50% in 2021 and 25% in 2022.

Within the framework of the COVID-19 pandemic scenario, Regulation (EU) 2020/873 of 24 June 2020, amending Regulations (EU) 575/2013 (CRR) and Regulation (EU) 2019/876 (CRR 2) containing temporary support provisions in terms of capital and liquidity, was published with an accelerated approval procedure (the “quick fix”).

Among the provisions set out in Regulation (EU) 2020/873 relating to the calculation of own funds, Intesa Sanpaolo opted not to use, at 31 December 2020, either the changes to the transitional regime for the application of IFRS 9 (art. 473 bis of the CRR) or the temporary reintroduction of the prudential filter aimed at excluding unrealised gains and losses measured at fair value through other comprehensive income (FVTOCI) on exposures to central governments and public sector entities (art. 468 CRR).

With effect from 30 September 2019, following permission from the ECB, Intesa Sanpaolo calculates capital ratios applying the so-called Danish Compromise - under which insurance investments are risk weighted instead of being deducted from capital.

For the purposes of calculating capital ratios at 31 December 2020, Intesa Sanpaolo applied Commission Delegated Regulation (EU) 2020/2176, published on 22 December 2020, which amends Commission Delegated Regulation (EU) 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items. The above Regulation, which is intended to support the transition to a more digitalised banking sector, introduces the concept of prudential amortisation applied to all software assets over a three-year period, regardless of their estimated useful lives for accounting purposes.



**B. Quantitative information****B.1 Parent Company's shareholders' equity: breakdown**

Captions/Amounts	(millions of euro)	
	31.12.2020	31.12.2019
1. Share capital	10,084	9,086
2. Share premium reserve	27,603	25,233
3. Reserves	7,609	3,399
retained earnings:	6,620	2,620
a) legal reserve	1,545	1,545
b) statutory reserve	-	-
c) treasury shares	-	-
d) other	5,075	1,075
other	989	779
4. Equity instruments	7,053	4,103
5. (Treasury shares)	-90	-61
6. Valuation reserves	1,176	1,375
- Equity instruments measured at fair value through other comprehensive income	-157	114
- Hedges of equity instruments measured at fair value through other comprehensive income	-	-
- Financial assets (other than equities) measured at fair value through other comprehensive income	81	-21
- Property and equipment	1,503	1,496
- Intangible assets	-	-
- Hedges of foreign investments	-	-
- Cash flow hedges	-789	-847
- Hedging instruments (not designated elements)	-	-
- Foreign exchange differences	-	-
- Non-current assets held for sale and discontinued operations	-	-
- Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-99	-
- Actuarial gains (losses) on defined benefit plans	-359	-363
- Share of valuation reserves connected with investments carried at equity	-	-
- Legally-required revaluations	996	996
7. Net income (loss)	679	2,137
<b>Total</b>	<b>54,114</b>	<b>45,272</b>

**B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown**

Assets/values	(millions of euro)			
	Total 31.12.2020		Total 31.12.2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	235	-154	28	-50
2. Equity securities	155	-312	247	-133
3. Loans	3	-3	1	-
<b>Total</b>	<b>393</b>	<b>-469</b>	<b>276</b>	<b>-183</b>

*B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: annual changes*

	(millions of euro)		
	Debt securities	Equity securities	Loans
<b>1. Opening balance</b>	<b>-22</b>	<b>114</b>	<b>1</b>
<b>2. Positive changes</b>	<b>391</b>	<b>72</b>	<b>6</b>
2.1. Fair value increases	328	69	-
2.2. Value adjustments for credit risk	8	-	3
2.3. Transfer to the income statement of negative reserves to be realized	42	-	-
2.4. Transfers to other equity (capital securities)	-	-	-
2.5. Other changes	13	3	3
<b>3. Negative changes</b>	<b>-288</b>	<b>-343</b>	<b>-7</b>
3.1. Fair value reductions	-52	-276	-7
3.2. Write-backs for credit risk	-7	-	-
3.3. Reclassification through profit or loss of positive reserves: following disposal	-229	-	-
3.4. Transfers to other equity (capital securities)	-	-33	-
3.5. Other changes	-	-34	-
<b>4. Closing balance</b>	<b>81</b>	<b>-157</b>	<b>-</b>

*B.4 Valuation reserves relating to the defined benefit plans: annual changes*

During the year, the reserves in question recorded a positive change in items taken to the statement of comprehensive income of 6 million euro (of which a 7 million euro decrease referring to pension funds and a 13 million euro increase to employee termination indemnities). As at 31 December 2020 there was an overall negative reserve equal to 359 million euro for defined benefit plans.

**SECTION 2 – OWN FUNDS AND CAPITAL RATIOS**

Reference is made to the Intesa Sanpaolo Group's "Basel 3 Pillar 3" public disclosure as at 31 December 2020 for the disclosure on own funds and capital adequacy.

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## Part G – Business combinations

### SECTION 1 – TRANSACTIONS CARRIED OUT IN THE YEAR

During the year, no business combinations were undertaken, pursuant to IFRS 3, involving the acquisition of control over businesses or legal entities.

Conversely, several extraordinary intragroup transactions were carried out, which are not included in the scope of IFRS 3 and had no effects on the Consolidated financial statements. They consisted in transfers of business lines or legal entities between Intesa Sanpaolo Group companies or business combinations (under common control).

Since the transfers were carried out for reorganisation purposes only, in accordance with the Group's accounting policy, these transactions were simply recorded applying book value accounting in the individual statements of the companies involved.

The main intragroup transaction closed during the year was the merger by incorporation of Banca IMI into Intesa Sanpaolo.

#### *Annual changes in goodwill*

	(millions of euro)
	31.12.2020
<b>Initial goodwill</b>	<b>1,242</b>
<b>Increases</b>	<b>-</b>
- Goodwill recorded in the year	-
- Intragroup transactions	-
- Other changes	-
<b>Decreases</b>	<b>-1,175</b>
- Impairment recorded in the year	-1,155
- Disinvestments	-
- Intragroup transactions	-
- Other changes	-20
<b>Final goodwill</b>	<b>67</b>

The amount presented in the caption "Impairment recorded in the year" refers to the full impairment of the goodwill allocated to the Banca dei Territori CGU on the basis of the results of the impairment test.

The other decreases refer to the amount attributable to the going concern consisting of Intesa Sanpaolo branches to be transferred to BPER in 2021, reclassified among discontinued operations in the 2020 financial statements.

### SECTION 2 – TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR

No business combinations within the scope of IFRS 3 have been undertaken since the end of 2020.

### SECTION 3 – RETROSPECTIVE ADJUSTMENTS

No adjustments are recognised in the current year that relate to business combinations that occurred in previous reporting periods.

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# Part H – Information on compensation and transactions with related parties

## A) TRANSACTIONS WITH RELATED PARTIES

### 1. Procedural features

The Board of Directors of Intesa Sanpaolo S.p.A. adopted, in compliance with the procedures set out by regulations, the Group Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking.

These Procedures take into account both the rules issued by Consob, pursuant to Article 2391-bis of the Italian Civil Code, and the supervisory provisions introduced by the Bank of Italy on 12 December 2011 in terms of risk and conflicts of interest by banks and banking groups with respect to "Associated Entities", issued in accordance with Article 53, paragraphs 4 et seq. of the Consolidated Law on Banking and CICR (Interdepartmental Committee for Credit and Savings) Resolution 277 of 29 July 2008, as well as the rules established by Article 136 of the Consolidated Law on Banking.

The Procedures apply to the entire Intesa Sanpaolo Group with respect to the following aspects:

- the criteria for identifying Related Parties and Associated Entities;
- the process of analysis, decision-making and information for corporate bodies in connection with transactions with Related Parties and Associated Entities;
- market disclosure for transactions with Related Parties;
- the prudential limits and obligations for periodic reporting to the Bank of Italy for activities at risk in relation to Associated Entities;
- the rules governing organisational controls and safeguards;
- the general rules for disclosure and abstention about the management of the personal interests by board members and general managers, employees and company staff, including other than Associated Entities.

Pursuant to the Procedures, the following are considered Related Parties of Intesa Sanpaolo: parties that exercise significant control or influence, subsidiaries and associates, joint ventures, pension funds of the Group, Board Directors and General Managers and Key Managers of Intesa Sanpaolo and their close family members and significant shareholdings.

The set of Associated Entities of the Group consists of the Associated Entities of each bank of the Group (including the Parent Company) and each monitored significant intermediary with own funds greater than 2% of the total of consolidated own funds. The following are considered to be Associated Entities for each monitored significant bank or intermediary of the Group: i) shareholders that exercise control, significant influence or that are required to request authorisation pursuant to Article 19 of the Consolidated Law on Banking or that may appoint a member of the management or strategic supervisory body and the relative corporate groups; ii) subsidiaries, associated companies under joint control and associated companies, as well as the companies controlled by the latter, also jointly with others; iii) board members and general managers and their relative close family members up to the second degree and significant subsidiary entities.

As a form of self-regulation, the Bank has extended the regulations on transactions with Related Parties, as well as those on risk assets and conflicts of interest with respect to Associated Entities, to: i) the shareholders of Intesa Sanpaolo and to the relative corporate groups with an equity investment in the Bank's voting capital greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management, as well as the companies jointly controlled by them; ii) the companies in which close family members of board members and general managers of the banks and the monitored significant intermediaries of the Group hold executive offices; iii) the companies which the Group has notable investments in and financial links with, because they meet the conditions of at least two of the following indicators:

- the counterparty holds a stake in Intesa Sanpaolo's capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies;
- an entity of the Intesa Sanpaolo Group holds a stake in the counterparty exceeding 10% of the voting rights;
- significant credit exposure of the Group to the counterparty.

This approach allows closer monitoring of transactions with the main entities in potential conflict of interest risk - by subjecting them to the same requirements for analysis, decision-making process and subsequent disclosure to the Corporate Bodies and the market as transactions with Related Parties and Associated Entities - and keeps the risk activities carried out by the Group with said parties within the prudential limits set by the Bank of Italy.

The Procedures set forth the assessment process that must be followed by the Parent Company and subsidiary companies when carrying out transactions with Related Parties of Intesa Sanpaolo, Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, to ensure appropriateness of the transactions. The Procedures also require detailed examination of the reasons and interests behind the transactions, their effects on the Bank's financials and the terms of the transaction.

In line with the regulations implemented by Consob and by the Bank of Italy, a regime of full or partial exemptions from the application of the regulations is also envisaged.

With regard to the decision-making for transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, the procedure distinguishes between:

- transactions involving smaller amounts: with a value of less than or equal to 250,000 euro for individuals and 1 million euro for persons other than natural persons (excluded from application of the regulations);
- less significant transactions: with a value higher than the small-amount thresholds (250,000 euro for individuals and 1 million euro for persons other than natural persons) but lower than or equal to the most significant thresholds indicated below;
- most significant transactions: with a value higher than the threshold of 5% of the indicators defined by Consob and by the Bank of Italy (approximately 3.4 billion euro for the Intesa Sanpaolo Group);
- transactions attributed to the shareholders' meeting, in accordance with the law or with the Articles of Association.

In the process of approval of transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, an important role is reserved for the Committee for Transactions with Related Parties of Intesa Sanpaolo S.p.A. and Associated Entities of the Group (hereafter Committee for Transactions with Related Parties), which meets the independence requirements laid down in the Corporate Governance Code for Listed Companies and Art. 148 of the Consolidated Law on Finance. The Committee for Transactions with Related Parties can make use of independent experts, where considered appropriate, according to the degree of importance of the transaction, its specific economic or structural characteristics and the nature of the related party or associated entity.

For most significant transactions, the Committee must be promptly involved in the analysis and negotiation phases, receiving a complete and timely flow of information, with the right of the Committee to request additional information and make observations.

All transactions – that are not exempt based on the Procedures – undertaken by the Parent Company with one of its related parties or associated entities are subject to approval by the Board, upon recommendation by the Committee for Transactions with Related Parties.

The Procedures set out specific controls in the event that a less significant or most significant transaction is approved in spite of a negative opinion of the independent Committee.

Transactions undertaken by subsidiaries with Related Parties of Intesa Sanpaolo and Associated Entities of the Group must be approved by the Board of Directors of the subsidiaries concerned, subject to prior authorisation from the Parent Company released in accordance with the procedure described above.

The Procedures also define the general criteria for the information to be provided, at least quarterly – also pursuant to Article 150 of the Consolidated Law on Finance – to the directors and the control body regarding transactions with Related Parties and Associated Entities completed in the reference period by the Parent Company or by its subsidiaries. All of the above is aimed at providing a complete overview of the transactions of greater importance, as well as the volumes and the main features of all those delegated. Reports must include all transactions, even if exempt from the decision-making procedure, for amounts greater than the small-amount thresholds. Transactions of less significant importance and intragroup loans and bank funding are excluded from this requirement (provided they do not regard a subsidiary with significant interests of another Related Party or Associated Entity and are not carried out at market or standard conditions). For ordinary intragroup less significant transactions carried out at market conditions, reporting is on an aggregate annual basis.

Transactions undertaken by Italian subsidiary banks with Related Parties and Associated Entities of the Group that have not been considered exempt must, subject to authorisation by the Parent Company, be approved by the relative Board of Directors, upon obtaining the opinion of a Committee of independent directors set up within the Board of Directors of the bank itself. Furthermore, specific reporting rules apply to transactions by the Bank's Bodies.

The Procedures also apply to transactions with Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, which must be applied by all the Italian banks of the Intesa Sanpaolo Group, including the Parent Company. This provision requires the adoption of a more thorough decision-making procedure (unanimous decision by the management body, excluding the vote of the interested member, and favourable vote of members of the control body) in order to allow the bank officers to contract obligations, directly or indirectly, with the bank of which they act as officers.

Furthermore, the requirements envisaged by the Italian Civil Code (Article 2391) and Article 53 of the Consolidated Law on Banking governing directors' personal interests are confirmed.

In particular, Article 2391 of the Italian Civil Code requires each Board Member to report every interest held, in his/her own name or on behalf of third parties, that may be significant in carrying out his/her management function, with reference to a specific transaction. In accordance with the abovementioned provision, the Board has jurisdiction over decisions regarding transactions – including those with Related Parties – in which the Managing Director possesses an interest on his/her own account or through a third party and must therefore abstain from the decision, entrusting the Board as per Article 2391 of the Italian Civil Code.

In addition, Article 53 of the Consolidated Law on Banking requires banks' directors to abstain from voting on resolutions where they have a conflict of interest on their own behalf or on behalf of third parties.

## 2. Information on balances with related parties

Receivable and payable balances with related parties as at 31 December 2020 – other than those intragroup – amount to a total that is insignificant compared to the size of the Bank's capital base. Likewise, the weight of income and charges with related parties on the Parent Company's operating margin is insignificant.

	31.12.2020	
	Amount (millions of euro)	Impact (%)
Total financial assets <sup>(1)</sup>	53,667	9.1
Total other assets <sup>(2)</sup>	478	5.3
Total financial liabilities <sup>(3)</sup>	45,261	8.2
Total other liabilities <sup>(4)</sup>	1,279	5.9

(1) Including captions 20, 30, 40 and 70 of the Balance sheet assets.

(2) Including captions 50, 60, 110 and 120 of the Balance sheet assets.

(3) Including captions 10, 20, and 30 of the Balance sheet liabilities.

(4) Including captions 40, 50, 70, 80, 90 and 100 of the Balance sheet liabilities.

	31.12.2020	
	Amount (millions of euro)	Impact (%)
Total interest income	145	2.0
Total interest expense	-111	5.4
Total fee and commission income	1,949	37.2
Total fee and commission expense	-165	19.5
Total operating costs <sup>(1)</sup>	-149	1.7

(1) Including caption 160 of the Income statement.

In relation to associates, in the year a total of around 20 million euro of net adjustments to loans were recorded, partially offset by releases of allowances for commitments and guarantees given of around 16 million euro.

The table below reports the main terms of reference of transactions with each category of related party, as classified by IAS 24 (referring to the subsequent paragraph for information relating to compensation to the members of the management and control bodies), with the category of Significant Shareholders of Intesa Sanpaolo and their corporate groups (subsidiaries also controlled jointly with others, parent companies and companies subject to joint control) with an equity investment with voting rights in the Bank greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management, as well as with the additional subjects included in the scope set as a form of self-regulation.

With regard to Equity Investments, please see the tables in the Notes to the Parent Company's financial statements – Part B – Information on the Parent Company's balance sheet – Assets – Section 7.

The table below does not show the impact of related-party transactions on Group's cash flows, as this was not significant.

For greater clarity and in line with the reports sent to the Supervisory Authorities, note that the off-balance sheet items were detailed on two separate columns by grouping on one side the guarantees/commitments given and on the other the guarantees/commitments received. The first category also includes the revocable commitments issued totalling 79 billion euro, of which 77 billion euro to subsidiaries.

	SUBSIDIARIES				Companies subject to joint control and their subsidiaries	Associates and their subsidiaries	Board Members and General Managers, Key Managers and their related parties	Pension funds	TOTAL	(millions of euro)	
	100%-owned subsidiaries belonging to the banking group	subsidiaries not 100%-owned and belonging to the banking group	subsidiaries not belonging to the banking group	TOTAL						Shareholders (*)	Companies which the Group has notable investments in and financial links with (**)
Financial assets measured at fair value through profit or loss	3,063	155	479	3,697	-	17	-	-	3,714	791	1,292
a) financial assets held for trading	3,063	155	453	3,671	-	1	-	-	3,672	781	1,292
b) financial assets designated at fair value	-	-	-	-	-	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	-	26	26	-	16	-	-	42	10	-
Financial assets measured at fair value through other comprehensive income	367	-	-	367	-	-	-	-	367	-	-
Financial assets measured at amortised cost	10,817	325	6,209	17,351	49	347	9	-	17,756	3,286	1,793
a) due from banks	8,831	324	-	9,155	-	-	-	-	9,155	3,205	11
b) loans to customers	1,986	1	6,209	8,196	49	347	9	-	8,601	81	1,782
Other assets	186	21	67	274	-	8	-	1	283	188	7
Investments in associates and companies subject to joint control	18,250	1,365 (a)	4,048	23,663	9	996	-	-	24,668	-	-
Financial liabilities measured at amortised cost	35,797	297	871	36,965	2	567	17	54	37,605	1,131	353
a) due to banks	35,301	273	1	35,575	-	3	-	-	35,578	827	15
b) due to customers	496	24	870	1,390	2	564	17	54	2,027	304	338
Financial liabilities held for trading	1,024	144	112	1,280	-	-	-	-	1,280	3,563	1,328
Financial liabilities designated at fair value	1	-	-	1	-	-	-	-	1	-	-
Other financial liabilities	60	8	134	202	-	37	-	1	240	120	919
Guarantees and commitments given	109,467	2,057	5,818	117,342	25	490	-	1	117,858	939	1,268
Guarantees and commitments received	414	171	8	593	17	31	3	-	644	17	722

(\*) Shareholders and their groups that hold a stake in the share capital that exceeds the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies, calculated considering only shares owned or under management, as well as entities jointly controlled by them.

(\*\*) Companies that meet the conditions of at least two of these indicators: i) the counterparty holds a stake in Intesa Sanpaolo's capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies; ii) an entity of the ISP Group holds a stake in the counterparty exceeding 10% of the voting rights; iii) significant credit exposure of the Group to the counterparty. The amounts mostly refer to Goldman Sachs International, The Goldman Sachs Group Inc. and Nexi Payments S.p.A.

(a) The item includes the subsidiary Private Equity International S.A.; the Bank holds 94.39% of share capital and 100% of voting rights in the shareholders' meeting.

For the illustration of the associated companies and companies under joint control - and the companies controlled by them - that are most significant at Group level, see the description in the corresponding paragraph of the Notes to the consolidated financial statements.

### 3. Information on transactions with related parties

#### Most significant transactions

During the year, the Parent Company did not carry out any transactions that qualified as non-ordinary "most significant transactions" and/or at non-market or non-standard conditions subject – in accordance with the Group Procedures regulating the conduct of Transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking – to the obligation to publish a market disclosure document.

The transactions exempt from said obligation, based on the category of related party, include the following self-securitisations aimed at expanding the portfolio of securities of Intesa Sanpaolo S.p.A. eligible for Eurosystem refinancing operations:

- sale of performing loans arising from personal loans paid in instalments to the vehicle company Clara Sec S.r.l., for an amount of around 7.6 billion euro;
- sale of performing loans, granted to small and medium-sized enterprises (including sole proprietorships and loans granted to corporate customers not belonging to the "large corporate" segment), to the vehicle company Giada Sec S.r.l., for a total amount of around 10.1 billion euro.



Please note that the most significant transactions in the period are those that exceed the threshold of 5% of Own Funds at consolidated level (approximately 3.4 billion) or of the other indicators defined by the Consob regulation.

#### *Most significant intragroup transactions*

With regard to most significant intragroup transactions – exempt, pursuant to the aforementioned internal Regulations, from the special decision-making procedure and from the obligation to publish a market disclosure document, unless other related parties hold significant interests in the subsidiary – the sales of mortgage portfolios to the vehicle company ISP OBG S.r.l., controlled by Intesa Sanpaolo, took place during the year, for a total amount of around 12.7 billion euro, under the covered bond issuance programme, settled through the disbursement of a subordinated loan by the Parent Company.

In addition to the sales mentioned above, the vehicle ISP OBG S.r.l. was also involved in a repurchase of loans for a value of around 65 million euro.

Intesa Sanpaolo S.p.A. also granted a guarantee to UBI Banca S.p.A. to cover outstanding transactions with shared customers for an amount of 22 billion euro.

#### *Other significant transactions*

The transactions entered into with related parties fall within the scope of Intesa Sanpaolo’s ordinary activities and are usually performed at market or standard conditions, based on valuations of mutual economic convenience, in line with the internal procedures mentioned above.

Relations between Intesa Sanpaolo and board members and general managers, as well as Key Managers, refer to the Group’s normal business activities and are defined applying, where conditions recur, the terms reserved to all employees, in full respect and transparency of terms applied.

With respect to transactions with Shareholders – which hold equity investments with voting rights greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management – and with entities with significant shareholding or financial relationships (to which the provisions governing transactions with related parties has been extended as a form of self-regulation, subjecting them to the same assessment, approval and disclosure procedure as applied to transactions with related parties), mainly ordinary lending transactions and transactions in financial instruments were undertaken at market conditions.

In particular, the transactions in OTC financial instruments carried out by Intesa Sanpaolo S.p.A. in the course of continuing operations included those with JP Morgan Securities PLC, Goldman Sachs Bank Europe SE, BlackRock Fund Managers Ltd, JP Morgan AG, Goldman Sachs International, Quaestio Capital SGR S.p.A., Fondazione Cassa di Risparmio di Firenze, Goldman Sachs Asset Management International and JP Morgan Asset Management UK.

The transactions in financial instruments also included Intesa Sanpaolo’s investment in the BlackRock European Middle Market Private Debt Fund II, a Luxembourg-registered fund managed by BlackRock Investment Management (UK) Limited. The transaction is for an amount of 30 million euro.

Lending transactions included ordinary credit facilities assigned at market conditions to funds managed by Redo SGR, an entity under Fondazione Cariplo.

Lastly, there was an advisory agreement in place with JP Morgan Securities PLC as financial advisor, for the public exchange offer on UBI Banca shares promoted by Intesa Sanpaolo S.p.A., and a supply contract with Blackrock Financial Management Inc. for the purchase of an IT platform to support the Wealth and Asset Management operations and Risk Management compliance activities.

The transactions with jointly-controlled subsidiaries and associates, as well as with their subsidiaries, included the following:

- ordinary credit facilities at market conditions granted to Intrum Italy S.p.A., Autostrade Bergamasche S.p.A., Euromilano S.p.A., Camfin S.p.A., Sisal Pay Servizi S.p.A., Italconsum S.p.A., Trasporti Romagna and the RCN Finanziaria S.p.A. group;
- Intesa Sanpaolo S.p.A.’s participation in the capital increase of Bancomat S.p.A. for a total of 25 million euro, subscribing the relevant share for a maximum value of 7.6 million euro, of which 4.9 million euro paid in March 2020;
- amendment to the service contract with Intrum Italy S.p.A. to allow for in-house management by Intesa Sanpaolo S.p.A. of loans that will be repurchased;
- the commitment from Intesa Sanpaolo S.p.A. for the subscription of new equity instruments issued by Euromilano S.p.A. for a total amount of 45 million euro, of which an initial tranche of 25 million euro was subscribed and paid for in June 2020;
- the early termination of the securitisation transaction with the vehicle Apulia Finance n. 4 S.r.l., which entails annual savings in terms of costs and more efficient management of the transactions deriving from the acquisition of the former Venetian banks;
- the request to extend by one year the unsecured commitments in place between Intesa Sanpaolo S.p.A. and Alitalia Società Aerea Italiana in A.S., needed for the regular operation of business and, specifically, the continuation of lease agreements on airplanes;
- transactions in OTC financial instruments carried out by Intesa Sanpaolo S.p.A. with Cassa di Risparmio di Fermo, as part of its continuing operations.

With regard to transactions involving non-performing positions, Intesa Sanpaolo S.p.A. transferred several outstanding exposures for around 6 million euro, with a transfer value of 4.5 million euro, to the RSCT Fund managed by Davy Investment Fund Services (advisor Pillarstone).

Concerning the transactions with subsidiaries carried out in 2020, please note that these are normal internal business activities of a multifunctional banking group. They are usually regulated at the conditions at which the Parent Company accesses the reference markets, which are not necessarily the same conditions that would be applicable if the Group's counterparties operated independently. These conditions are, in any case, applied in compliance with the reputation and fairness criteria and with the aim of creating value for the Group.

Intragroup transactions mainly concerned:

- the support given by Parent Company to the financial needs of the other Group companies by providing risk capital and loans and by subscribing securities issued by the subsidiaries;
- the channelling of foreign funding by specialist Group companies in favour of the Parent Company and, in part, of other subsidiaries;
- the Parent Company's investment of subsidiaries' liquidity;
- the structured finance transactions carried out within the Group;
- outsourcing arrangements, which govern services of an auxiliary nature rendered by the Parent Company to other Group companies;
- the agreements with Group companies on distribution of products and/or services (certain agreements are extended to some associates/joint ventures) or, more generally, intragroup support and consultancy;
- the "national fiscal consolidation" scheme, governed by Articles 117 to 129 of the Combined Tax Regulations, as well as the financial settlements provided for by agreements entered into with Group companies taking part in that scheme;
- the "VAT Group" scheme, governed by Articles 70-bis to 70-duodecies of Presidential Decree no. 633/72.

Also with regard to intragroup transactions, in 2020 the activities aimed at implementing the strategic options set out in the Business Plan and at rationalising the Group structure continued.

The 2018-2021 Business Plan envisages a major simplification of the Group's corporate structure. The activities identified include the achievement of a gradual and significant reduction in the number of legal entities and, to this end, the merger by incorporation of Banca IMI S.p.A. into Intesa Sanpaolo S.p.A. was carried out, in addition to the merger of the securitisation vehicle Intesa Sanpaolo Sec SA into Intesa Sanpaolo S.p.A..

The extraordinary transactions carried out by the international subsidiaries included the merger of PBZ Nekretnine D.O.O. into PBZCard D.O.O., the liquidation of Morval Vonwiller Asset Management and the merger of Morval SIM into Intesa Sanpaolo Private Banking, as part of the reorganisation of the Swiss Private Banking hub. The other transactions involving the international subsidiaries included the capitalisation of i) Eurizon Capital (HK) Limited by Eurizon Capital SGR by around 2.1 million euro and ii) VUB Leasing by VUB Banka by 30 million euro.

The other extraordinary corporate transactions carried out during the reporting period included the sale of individual assets, mainly consisting of shared Group IT applications, from Intesa Sanpaolo S.p.A. to Intesa Sanpaolo International Value Services. The transaction, with a total value of 24 million euro, will enable the expansion of the operations of Intesa Sanpaolo International Value Services through a process of convergence of activities, aimed at establishing a shared technological framework for the international subsidiary banks, in line with the 2018-2021 Business Plan. On 1 August 2020, a part of the Group's shared IT applications was sold for around 5 million euro.

The financial transactions included the early termination of the securitisation with Claris Finance 2005 S.r.l. for an amount of 35 million euro. This termination entails annual savings in terms of costs and more efficient management of the securitisations included within the Parent Company's scope of operations following the acquisition of the former Venetian banks.

With regard to capital transactions, the following capitalisations were authorised in 2020:

- in favour of Intesa Sanpaolo Casa S.p.A. for a total of 12 million euro, to be disbursed in several tranches based on the financing requirements and aimed at supporting the activities for the launch of the new Business Model and the new 2020-2024 Business Plan. The payment of the first tranche – amounting to 4.5 million euro – was made on 30 June 2020;
- in favour of Intesa Sanpaolo Forvalue S.p.A. for a total of 4.8 million euro following its acquisition of 60% of Euroconsult Rental Division S.p.A.

In addition, a capital increase of 40 million euro was authorised in favour of Intesa Sanpaolo Provis S.p.A., with a further payment of 115 million euro, aimed at enabling the subsidiary to meet the minimum capital requirements set by the supervisory authorities and carrying out the preparations for the implementation, in 2021, of a more extensive project for the disposal of a portfolio of non-performing lease receivables with a value of around 190 million euro.

As part of the project for the launch of a venture capital fund specialising in fintech, through an asset management company controlled by the Group, the following transactions were carried out in partnership with Compagnia di Sanpaolo (which has made a commitment of 10 million euro to the Fund):

- the recapitalisation of Intesa Sanpaolo Innovation Center S.p.A. by Intesa Sanpaolo S.p.A. This transaction provided the subsidiary with the resources necessary to purchase 100% of NEVA SGR. The value of the transaction is around 4 million euro;
- the sale by Neva Finventures S.p.A. to Intesa Sanpaolo S.p.A. of two assets of interest to the Group (Backtowork 24 S.r.l. and Ovalmoney LTD), for a total value of around 6 million euro.

In the urban redevelopment sector, Intesa Sanpaolo S.p.A. acquired an equity interest in Redo SGR S.p.A., a company that manages social housing funds and new urban generation and development projects in Lombardy. The acquisition took place through the subscription of a reserved capital increase and the purchase from Fondazione Cariplo and InvestiRE SGR

(already shareholders of Redo SGR) of a further equity interest, with a total outlay of around 2 million for a 10% stake in REDO.

Additional information on the Intesa Sanpaolo Group's reorganisation operations is provided in Part G of the Notes to the consolidated financial statements and of the Notes to the Parent Company's financial statements. For more information on investments in associates, reference should be made to Part H of the Consolidated Financial Statements, while for details on the changes in the Parent Company's equity investment portfolio, reference should be made to Section 7 of the Notes to the Parent Company's financial statements – Part B – Information on the Parent Company's balance sheet – Assets.

For information on the operations with the Special Purpose Entities over which the Group exercises control even in the absence of a stake, consolidated in accordance with IFRS 10, see the Notes to the consolidated financial statements - Part E – Information on risks and the relative hedging policies.

#### *Other significant information*

With regard to the investments in associates or companies subject to joint control, value adjustments/impairment losses were recognised for a total of 56 million euro, mainly attributable to AM Investco Italy (later sold) for 45 million euro, FI.NAV. Comparto A – Crediti for 3 million euro, Rainbow for 3 million euro, RSCT – Comparto Crediti for 2 million euro and other minor investments for 3 million euro.

For Pension Funds in which Intesa Sanpaolo is co-obliged by virtue of guarantees given, during the year provisions were made for the settlement of the technical imbalance of said Funds, as indicated in the Notes to the financial statements – Part B – Information on the Balance Sheet – Liabilities, Post employment defined benefit plans, to which reference is made.

#### *Other significant subsequent events*

The Governing Bodies of the Parent Company have approved the plan for the merger by incorporation of UBI Banca S.p.A. into Intesa Sanpaolo S.p.A. The transaction will be completed by the end of the first half of 2021 and will create a new entity capable of strengthening the Italian financial system and playing a leading role in the European banking landscape.

## B) INFORMATION REGARDING COMPENSATION OF THE MEMBERS OF MANAGEMENT AND CONTROL BODIES AND KEY MANAGERS

Pursuant to IAS 24, “key managers” are considered to be the members of the Board of Directors (including members of the Management Control Committee, the Managing Director and CEO), the Manager responsible for preparing the Company's financial reports, the Heads of Business Units and the Heads of Head Office Departments that report directly to the Managing Director and CEO or to the Chairman of the Board of Directors, as well as the Chief Operating Officer and the Heads of the Governance Areas, the Chief Financial Officer, the Chief Risk Officer, the Chief Lending Officer, the Chief Innovation Officer and the Chief Governance Officer.

The following table shows the amounts of the main benefits paid in 2020 to members of the Management and Control Bodies, as well as to other Key Managers who fall within the notion of “related party”. This also includes the maximum amounts of the variable portion of remuneration which shall be paid in cash and/or shares of the Parent Company, based on the Group's remuneration and incentive policy, subject to the verification of achievement of the assigned targets and the decisions of the competent bodies of the Parent Company.

	MANAGEMENT BODIES/ CONTROL BODIES <sup>(1)</sup>		OTHER MANAGERS <sup>(2)</sup>		TOTAL as at 31.12.2020	
	Amount due	Amount paid	Amount due	Amount paid	Amount due	Amount paid
Short-term benefits <sup>(3)</sup>	7	7	24	21	31	28
Post-employment benefits <sup>(4)</sup>	-	-	2	2	2	2
Other long-term benefits <sup>(5)</sup>	-	-	2	-	2	-
Termination benefits <sup>(6)</sup>	-	-	-	-	-	-
Share-based payments <sup>(7)</sup>	-	-	12	-	12	-
<b>Total</b>	<b>7</b>	<b>7</b>	<b>40</b>	<b>23</b>	<b>47</b>	<b>30</b>

(1) Includes 19 members.

(2) Includes 19 members.

(3) Includes fixed and variable remuneration of Directors that may be treated as equivalent to labour cost and social security charges paid by the company for its employees.

(4) Includes company contribution to pension funds and provisions for employee termination indemnities pursuant to law and company regulations.

(5) Includes an estimate of provisions for employee seniority bonuses.

(6) Includes benefits due under the employment contract for termination of employment and non-competition agreements.

(7) Includes the cost referring to the variable portion of short-/long-term remuneration to be paid in Intesa Sanpaolo shares/through POP Plan.

As previously noted in Part H of the Notes to the consolidated financial statements, detailed information on remuneration policies, pursuant to Art. 123 ter of the Consolidated Law on Finance, is published annually in the “Report on the remuneration policy and compensation paid”, which includes:

- the details of the remuneration paid to members of management and control bodies, to General Managers, and to other Key Managers;
- the details and the progress of the stock option plans for the members of the Management Body, General Managers and other Key Managers;
- the details and the progress of the incentive plans based on financial instruments other than stock options, in favour of the Managing Director and CEO and other Key Managers;
- the details of the monetary incentive plans in favour of the Managing Director and CEO and other Key Managers;
- the shares of the Parent Company and subsidiaries held by the members of the Management and Control bodies, Key Managers and other associated entities.

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# Part I – Share-based payments

## A. QUALITATIVE INFORMATION

### Description of share-based payments

#### *Annual incentive plan based on financial instruments*

The Supervisory Provisions regarding remuneration and incentive policies and practices in banks and in banking groups, issued on 30 March 2011 (now integrated in Circular 285 of the Bank of Italy) required, *inter alia*, that a portion of annual incentives paid to “Risk Takers” be granted through the assignment of financial instruments, over a multi-year time horizon. As a result, the Intesa Sanpaolo Group sets up annual incentive plans linked to performance. In fulfilment of these plans:

- with regard to the results for 2015, and in implementation of the Shareholders' Meeting resolution of 27 April 2016, on 16 November 2016 the Group totally purchased - through Banca IMI, in charge of the programme execution - 8,440,911 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.149 euro per share, for a total value of 18,139,446 euro;
- with regard to the results for 2016, and in implementation of the Shareholders' Meeting resolution of 27 April 2017, on 18 September 2017 the Group totally purchased - through Banca IMI, in charge of the programme execution - 8,091,160 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.937 euro per share, for a total value of 23,762,245 euro;
- with regard to the results for 2017, and in implementation of the Shareholders' Meeting resolution of 27 April 2018, on 12 September 2018 the Group purchased - through Banca IMI, in charge of the programme execution - 12,686,321 Intesa Sanpaolo ordinary shares (representing approximately 0.07% of the ordinary share capital) at an average purchase price of 2.291 euro per share, for a total value of 29,061,008 euro;
- with regard to the results for 2018, and in implementation of the Shareholders' Meeting resolution of 30 April 2019, on 17 and 18 September 2019 the Group totally purchased - through Banca IMI, in charge of the programme execution - 17,137,954 Intesa Sanpaolo ordinary shares (representing approximately 0.10% of the ordinary share capital) at an average purchase price of 2.129 euro per share, for a total value of 36,481,543 euro. In addition, the purchase programme has been implemented in order to grant severance payments to Risk Takers upon early termination of employment, as envisaged by the Supervisory Provisions;
- with regard to the results for 2019, and in implementation of the Shareholders' Meeting resolution of 27 April 2020, on 16, 17 and 18 November 2020 the Group totally purchased - through its IMI Corporate & Investment Banking Division, in charge of the programme execution - 25,400,000 Intesa Sanpaolo ordinary shares (representing approximately 0.13% of the share capital of the Parent Company) at an average purchase price of 1.852 euro per share, for a total value of 47,046,279 euro. In addition, the purchase programme has been implemented in service of the 2018-2021 Incentive Plan for financial advisors of the Fideuram – Intesa Sanpaolo Private Banking and Sanpaolo Invest networks and to grant severance payments to Risk Takers upon early termination of employment, as envisaged by the Supervisory Provisions.

The above Shareholders' Meetings also authorised the sale on the regulated market of any shares exceeding requirements, or their retention for any future incentive plans.

The above shares shall be assigned to the beneficiaries in compliance with the implementing regulations set forth in the above incentive systems. Generally, according to these regulations, the beneficiaries must remain in service up to the time the shares are actually delivered to them, and the deferred portion (either in cash or in financial instruments) of the incentive is subject to an ex post correction mechanism – the “malus condition” – according to which the relative amount paid and the number of shares assigned, if any, may be reduced by the level of achievement, in the year to which the deferred portion refers, of specific income statement-balance sheet targets which measure the sustainability of the results achieved over time.

#### *Long-Term Incentive Plans 2018-2021: POP and LECOIP 2.0 Plans*

At the time of launching the 2018-2021 Business Plan, two new long-term incentive plans were launched targeting different clusters of employees:

- The Performance-based Option Plan (POP) targeted at the Top Management, Risk Takers and Key Managers;
- The LECOIP 2.0 Plan targeted at Managers and the remaining personnel.

With reference to the Top Management, Risk Takers and Key Managers, which have a direct impact on the Group's results, it was considered necessary to adopt an instrument specifically linked to the achievement of the Business Plan targets and with an adequate risk/return profile in respect of the role held and the levels of ambition and challenge of the new Business Plan.

The POP is based on financial instruments linked to shares (Call Options) and subject to the achievement of the key performance conditions of the Business Plan as well as subordinated to gateway conditions and individual access (compliance breach).

The entire amount accrued will be paid in shares over a 3/5-year time horizon (depending on the sub-cluster of the beneficiary and subject to verification of the malus conditions, defined in a mirrored manner to the gateway conditions, in those years when they are envisaged).

Furthermore, in June 2018 the Group signed a novation agreement (*accollo liberatorio*) with JP Morgan. Under the terms of this agreement, Intesa Sanpaolo transferred to JP Morgan the obligation to deliver to the Intesa Sanpaolo Group employees

any ordinary shares that may be due when the POP Options expire, and JP Morgan thereby took on all the volatility risks associated with the Plan.

Instead, with reference to the Managers and the remaining personnel, basically in line with the LECOIP 2014-2017, a LECOIP 2.0 retention plan 2018 – 2021 was introduced.

The LECOIP 2.0, aimed at enabling the sharing of the value created over time, at every level of the organization, as a result of the achievement of the objectives of the Business Plan and fostering the identification (ownership) and the spirit of belonging to Intesa Sanpaolo Group, is assigned as certificates issued by JP Morgan, i.e. share-based financial instruments. In particular, the LECOIP 2.0 includes:

- the assignment, free of charge, to employees, of new Intesa Sanpaolo ordinary shares deriving from a capital increase without payment (“Free Shares”);
- the assignment, also free of charge, to employees, of additional new Intesa Sanpaolo ordinary shares deriving from the same capital increase without payment (“Matching Shares”) and the subscription by employees to new Intesa Sanpaolo ordinary shares deriving from a capital increase with payment, reserved for employees, through the issue of shares at a discounted price (“Discounted Shares”).

The Certificates are divided into two categories, and have different characteristics according to whether they are reserved for Professionals or for Managers employed by the Group in Italy. The Certificates reflect the terms of certain options that have Intesa Sanpaolo ordinary shares as their underlying instruments, and will allow employees to receive, at maturity, in the absence of trigger events, an amount in cash (or in Intesa Sanpaolo ordinary shares) that is equal to the original market value of the Free Shares and the Matching Shares with regard to Professionals and 75% of this value with regard to Managers, plus a portion of any appreciation, compared to the original market value, related to the amount of the Free Shares, Matching Shares and Discounted Shares.

The POP and the LECOIP 2.0 plans were subject to the approval of the ordinary Shareholders’ Meeting of 27 April 2018.

With specific reference to the LECOIP 2.0, the extraordinary session of the Shareholders’ Meeting resolved on granting a power of attorney to the Board of Directors to increase the share capital pursuant to Article 2443 of the Italian Civil Code, conducive to the implementation of the LECOIP 2.0. These capital increases were carried out on 11 July 2018, at the same time as launching the long-term incentive plans 2018-2021.

Both the long-term incentive plans in question (the POP and the LECOIP 2.0) fall within the scope of IFRS 2 and qualify as equity-settled share-based payment plans.

With reference to the POP, at the assignment date, the fair value of the equity instruments that are subject to the plan was calculated (represented by the fair value of the options adjusted to consider the availability constraint the shares will be subject to following the exercise of the options) and no longer modified. The Plan envisages the presence of non-market service and performance conditions (the gateway conditions and performance conditions), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and until the expiry. The cost of the plan, so defined, is attributed to the income statement (as labour costs) pro rata temporis along the period of accrual of the benefit, as a balancing entry for a specific shareholders’ equity reserve. Upon the occurrence of the events that imply the loss of the right to the benefits of the POP (performance conditions, gateway conditions and the discontinuation of employment) for the employees, Intesa Sanpaolo recognises a financial asset through shareholders’ equity. Upon measurement, subsequent changes in fair value are taken to profit or loss. Concerning the right of novation – as this can essentially be considered as the operational method adopted by the Group to fulfil the obligation of physical delivery of the shares deriving from the Plan - the accounting representation is that of an equity instrument, with a balancing entry under shareholders’ equity.

With regard to the LECOIP 2.0 Plan, at the assignment date, the fair value of the equity instruments that are subject to the plan was calculated (equivalent to the sum of the fair value of the shares assigned free of charge and the fair value of the discount for the paid shares) and no longer modified. The Plan envisages the presence of non-market service and performance conditions (trigger events), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and until the expiry. The cost of the plan, so defined, is attributed to the income statement (as labour costs) pro rata temporis along the period of accrual of the benefit, as a balancing entry for a specific shareholders’ equity reserve.

Upon the occurrence of the events that imply the loss of the rights to the benefits of the LECOIP 2.0 Certificates (trigger events and the discontinuation of employment) for the employees, Intesa Sanpaolo recognises a financial asset as a balancing entry in Shareholders’ Equity. In particular, the Certificates entered in the Group’s financial statements, as part of IFRS 9, are classified among financial assets mandatorily measured at fair value. Upon measurement, subsequent changes in fair value are taken to profit or loss.



**B. QUANTITATIVE INFORMATION***Evolution of the annual incentive plans based on financial instruments in 2020*

	Number of shares	Average strike price (euro)	Residual life
Financial instruments outstanding as at 31 December 2019	19,223,744	-	May 2020/ May2024
Financial instruments granted during the year (a)	17,701,964	-	May 2021/ May 2025
Financial instruments no longer assignable (b)	-	-	-
Financial instruments vested during the year and assigned	5,681,732	-	-
Financial instruments outstanding as at 31 December 2020	31,243,976	-	May 2021/ May 2025
<i>of which: vested and assigned as at 31 December 2020</i>	-	-	-

(a) Including shares originating from Corporate Transactions (3,068,852 shares relating to Banca IMI, merged by incorporation during the year)

(b) Shares no longer deliverable to the beneficiaries following the related employment agreement ceasing and/or due to the application of the so-called malus conditions

In addition to the shares specified above, in accordance with the Provisions of the Bank of Italy regarding remuneration and the Remuneration and Incentive Policies of the Group, during 2020, 212,452 shares were assigned with reference to remuneration granted to Risk Takers in the event of early termination (severance). The residual life of those shares, assigned over a multi-year time horizon, ends between January 2021 and July 2025.

*Breakdown by residual life*

Residual life	Number of shares
May - November 2021	15,977,091
May - November 2022	8,054,761
May - November 2023	4,802,322
May 2024	1,613,478
May 2025	796,324



Evolution of long-term share-based instruments: LECOIP 2.0 and POP

	LECOIP PLAN 2.0												
	Free Shares at July 2018		Matching Shares at July 2018		Discounted Shares at July 2018		Sell to cover shares at July 2018 (a)		Total number of shares assigned at July 2018	Number of LECOIP Certificates at 31.12.2019	Changes in the year (c)	Number of LECOIP Certificates at 31.12.2020	Average fair value 31.12.2020
	Number of shares	Average unit fair value	Number of shares	Average unit fair value	Number of shares	Average unit fair value (b)	Number of shares	Average unit fair value (b)					
Total employees	23,018,762	2.4750	37,518,025	2.4750	423,757,509	0.3771	78,028,286	2.5416	562,322,582	58,430,510	1,697,251	60,127,761	2.3645

(a) Assigned shares allocated to cover the payment relating to the employee's tax burden.  
 (b) Fair value of the subscription discount.  
 (c) The changes relate to the certificates, which provide for Intesa Sanpaolo to takeover the rights that would have been awarded to the employees, in the event they fail to meet the condition of continuation of employment and other vesting conditions (-1,234,260 certificates) and the certificates originating from Corporate Transactions (+2,931,511 certificates relating to Banca IMI, merged by incorporation during the year).

	Performance-based Option Plan (POP)							
	POP options at July 2018 (a)		POP options at 31.12.2019		Changes in the year (b)	POP options at 31 December 2020		
	Number of POP options	Average unit fair value	Number of POP options	Average unit fair value		Number of POP options	Average unit fair value	
Total beneficiaries (Top Management, Risk Takers and Key Managers)	420,749,659	0.3098	395,720,087	0.0560	39,208,660	434,928,747	0.0004	

(a) Number of POP options and relevant average fair value assigned on 11 July 2018 to beneficiaries (Top Management, Risk Takers and Key Managers)  
 (b) The changes relate to the number of POP Options, which provide for Intesa Sanpaolo to takeover the rights that would have been awarded to the employees, in the event they fail to meet the condition of continuation of employment and other vesting conditions (-6,909,157 options) and the POP Options originating from Corporate Transactions (+46,117,817 POP Options relating to Banca IMI, merged by incorporation during the year).

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## Part L – Segment reporting

Segment reporting is provided in the consolidated financial statements.

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## Part M – Disclosure of leases

This section provides the information required by IFRS 16 that is not included in other parts of the financial statements, divided between lessee and lessor.

### SECTION 1 - LESSEE

#### QUALITATIVE INFORMATION

Intesa Sanpaolo essentially has real estate and car or other vehicle lease contracts in place. There are also other types of lease contracts, for residual amounts, mainly relating to hardware.

As at 31 December 2020, there were 4,863 lease contracts (4,924 as at 31 December 2019), 3,195 of which (3,607 as at 31 December 2019) relating to real estate leases, for a total value of rights of use of 1,023 million euro (1,058 million euro as at 31 December 2019). The decrease compared with the previous year was associated with the branch merger and space optimisation plan, which entailed the termination of a number of contracts.

Real estate lease contracts include, for the most part, properties designated for use as offices or bank branches. The contracts, within Italy, normally have a term of more than 12 months and typically have renewal and termination options that can be exercised by the lessor and the lessee in accordance with the law or specific contractual provisions. These contracts usually do not include the option to purchase at the end of the lease or significant restoration costs for the Bank. On the basis of the characteristics of the Italian lease contracts and the provisions of Law 392/1978, in the event of the signing of a new lease contract with a contractual term of six years and the option to automatically renew the contract after six years for another six years, the total term of the lease will be set at twelve years. This general rule is superseded if there are new elements or specific situations within the contract.

The contracts relating to other leases mainly involve motor vehicles and hardware. For vehicles, these are long-term rental contracts relating to the company fleet made available to employees (mixed use) or to the organisational structures of the individual companies. These contracts generally have a four-year term, with monthly payments, no renewal option and do not include the option to purchase the asset. The contract may be extended depending on the management of the car fleet and there may be a penalty in the event of early termination.

Lease contracts other than those relating to real estate and cars are immaterial.

No sale or leaseback transactions were carried out in 2020.

Sub-leasing transactions are immaterial and are connected to intra-group transactions.

Lastly, please note that the Group makes use of the exemptions allowed by IFRS 16 for short-term leases (i.e. with a term of less than or equal to 12 months) or leases of low value assets (i.e. with a value of 5,000 euro or less).

**QUANTITATIVE DISCLOSURES**

Part B - Assets in the Notes to the financial statements contains information on the rights of use acquired through leases (Table 8.1 - Property and equipment used in operations: breakdown of assets measured at cost and Table 8.4 - Investment property: breakdown of assets measured at fair value) and Part B - Liabilities contains information on the lease payables (Table 1.1 - Financial liabilities measured at amortised cost: breakdown of amounts due to banks and Table 1.2 - Financial liabilities measured at amortised cost: breakdown of amounts due to customers).

In particular, as at 31 December 2020 the rights of use acquired through leases amounted to 1,023 million euro (1,058 million euro as at 31 December 2019), of which 1,009 million euro (1,043 million euro as at 31 December 2019) relating to real estate leases. As at 31 December 2020 lease payables amounted to 1,035 million euro (1,064 million euro as at 31 December 2019). See the above sections for more details.

Part C of the Notes to the financial statements contains information on the interest expense on lease payables and other charges connected to rights of use acquired through leases, and on the income from sub-leasing transactions. See the specific sections for more details.

The table below provides a breakdown of the amortisation and depreciation charges for assets consisting of the right of use among the various categories, in line with the disclosure of property and equipment/intangible assets.

Captions	(millions of euro)	
	31.12.2020	31.12.2019
<b>Depreciation charges by asset class</b>	-	-
<b>Property and equipment used in operations</b>	<b>144</b>	<b>151</b>
a) buildings	136	144
b) furniture	-	-
c) electronic equipment	1	1
d) other	7	6
<b>Property and equipment for investment</b>	-	-
a) buildings	-	-
<b>TOTAL</b>	<b>144</b>	<b>151</b>

As at 31 December 2020, there was no property and equipment relating to commitments for leases not yet commenced.

There is no other information that needs to be reported in addition to that already contained in this section.

## SECTION 2 - LESSOR

### QUALITATIVE INFORMATION

As a result of the merger by incorporation of Mediocredito Italiano in 2019, Intesa Sanpaolo acquired specialist expertise in leasing operations, mainly with respect to finance leases of real estate, industrial and commercial assets, both already constructed and to be constructed. The Bank is also present on the market with lease products relating to capital goods, industrial vehicles, boats and pleasure craft. The risks associated with the ownership rights to the leased assets are managed through the compulsory subscription of an all-risk insurance policy, either offered through concessionary agreements or taken out directly by the customer with their insurer.

Operating leases are exclusively related to the leasing of owned real estate assets.

### QUANTITATIVE DISCLOSURES

The Notes to the financial statements report the following:

- finance leases (Part B, Assets: Table 4.1 - Financial assets measured at amortised cost: breakdown of amounts due from banks and Table 4.2 - Financial assets measured at amortised cost: breakdown of loans to customers);
- assets leased under operating leases contained in caption 80 Property and equipment and described in Part B, Assets (Table 8.4 - Investment property: breakdown of assets measured at fair value); this consists of real estate no longer used in operations by the Bank, which is leased to third parties or held for possible appreciation in value. The amounts involved are immaterial.

See the abovementioned sections for more details.

Part C of the Notes to the financial statements contains information on interest income on finance leases and other income from finance and operating leases. See the specific sections for more details.

## 2. Finance leases

### *2.1. Breakdown by time bands of payments to be received and reconciliation with finance leases recorded as assets*

This table provides the breakdown by time bands of lease payments to be received and the reconciliation between lease payments to be received and finance leases in accordance with IFRS 16, paragraph 94. In particular, the lease payments to be received, representing the sum of the minimum payments due as principal and interest, are shown net of the adjustment allowances and the unguaranteed residual value due to the lessor. The reconciliation with finance leases, shown in the financial statements under financial assets measured at amortised cost, is performed by subtracting the unearned finance income and adding the unguaranteed residual value.

	31.12.2020	31.12.2019
	(millions of euro)	
<b>Time bands</b>	<b>Payments to be received</b>	<b>Payments to be received</b>
Up to 1 year	1,845	1,879
Between 1 and 2 years	1,525	1,566
Between 2 and 3 years	1,280	1,365
Between 3 and 4 years	1,084	1,123
Between 4 and 5 years	928	958
Over 5 years	3,487	4,251
<b>Total lease payments to be received</b>	<b>10,149</b>	<b>11,142</b>
<b>Reconciliation with loans</b>	<b>-113</b>	<b>103</b>
Not accrued gains (+)	1,786	2,100
Unguaranteed residual value (-)	-1,899	-1,997
<b>Loans for leases</b>	<b>10,262</b>	<b>11,039</b>

## 2.2. Other information

## 2.2.1 Classification of finance leases by type of leased asset

The table shows the classification of finance leases by credit quality (performing and non-performing) and by type of leased asset. The amounts are shown net of adjustments.

Finance leases	(millions of euro)	
	Performing exposures	Non-performing exposures
<b>A. Real estate assets</b>	<b>7,378</b>	<b>1,155</b>
<b>B. Operating assets</b>	<b>1,277</b>	<b>41</b>
<b>C. Movable assets</b>	<b>378</b>	<b>21</b>
- Motor vehicles	220	8
- Aircraft and rolling stock	158	13
- Other	-	-
<b>D. Intangible assets</b>	<b>12</b>	<b>-</b>
- Trademarks	12	-
- Software	-	-
- Other	-	-

## 2.2.2 Classification of assets under finance leases

The table below provides a breakdown by category of leased asset (not yet transferred to property and equipment) relating to lease receivables, net of adjustments.

	(millions of euro)		
	Unexercised assets	Assets withdrawn following termination	Other assets
<b>A. Real estate assets</b>	<b>4</b>	<b>123</b>	<b>8,406</b>
<b>B. Operating assets</b>	<b>-</b>	<b>1</b>	<b>1,317</b>
<b>C. Movable assets</b>	<b>-</b>	<b>-</b>	<b>399</b>
- Motor vehicles	-	-	228
- Aircraft and rolling stock	-	-	171
- Other	-	-	-
<b>D. Intangible assets</b>	<b>-</b>	<b>-</b>	<b>12</b>
- Trademarks	-	-	12
- Software	-	-	-
- Other	-	-	-
<b>TOTAL</b>	<b>4</b>	<b>124</b>	<b>10,134</b>

Unexercised assets are assets still held by customers, for which the repurchase option has not been exercised, related to positions that do not show any deterioration in credit quality. Assets withdrawn following termination relate to terminated contracts, where the customer has not yet been released from the contractual obligations, despite having returned the asset covered by the lease contract. The category "other assets" includes the assets underlying the other lease receivables not included in the previous columns.

### 3. Operating lease

This refers to lease instalments to be received for owned real estate assets.

#### 3.1. Breakdown of payments to be received by time bands

Time bands	(millions of euro)	
	31.12.2020	31.12.2019
	Payments to be received for leases	Payments to be received for leases
Up to one year	4	4
Over one year up to 2 years	2	1
Over 2 years up to 3 years	1	2
Over 3 years up to 4 years	4	5
Over 4 years up to 5 years	4	2
For over 5 years	10	8
<b>Total</b>	<b>25</b>	<b>22</b>

#### 3.2. Other information

There is no other information that needs to be reported in addition to that already contained in this section.



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# Certification of the Parent Company's financial statements pursuant to Art. 154 bis of Legislative Decree 58/1998

1. The undersigned Carlo Messina (as Managing Director and CEO) and Fabrizio Dabbene (as Manager responsible for preparing the Company's financial reports) of Intesa Sanpaolo, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of 24 February 1998, do hereby certify to:
  - the adequacy in relation to the Company's features and
  - the actual application of the administrative and accounting procedures employed to draw up the Parent Company's financial statements during 2020.
2. Verification of the appropriateness and effective application of the administrative and accounting procedures employed to draw up the Parent Company's financial statements as at 31 December 2020 was based on methods defined by Intesa Sanpaolo consistently with the COSO and – as to the IT component – COBIT models, which are internationally accepted frameworks for internal control systems.<sup>7</sup>
3. The undersigned also certify that:
  - 3.1 The Parent Company's financial statements as at 31 December 2020:
    - have been prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of 19 July 2002;
    - correspond to the results of the books and accounts;
    - give a true and fair presentation of the assets, liabilities, profit or loss and financial position of the issuer.
  - 3.2 The report on operations includes a fair review of the development and operating margin, as well as of the position of the issuer, together with a description of the main risks and uncertainties.

23 March 2021

Carlo Messina  
Managing Director and CEO

Fabrizio Dabbene  
Manager responsible for preparing  
the Company's financial reports

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<sup>7</sup> The COSO Framework was prepared by the Committee of Sponsoring Organizations of the Treadway Commission, the U.S. organisation dedicated to improving the quality of financial reporting through ethical standards and an effective system for corporate governance and organisation. The COBIT Framework - Control Objectives for IT and related technology is a set of rules prepared by the IT Governance Institute, the U.S. organisation whose aim is to define and improve the standards of corporate IT.

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## **Independent Auditors' Report on the Parent Company's financial statements**



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(Translation from the Italian original which remains the definitive version)

## **Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014**

*To the shareholders of  
Intesa Sanpaolo S.p.A.*

### **Report on the audit of the separate financial statements**

#### *Opinion*

We have audited the separate financial statements of Intesa Sanpaolo S.p.A. (the “bank”), which comprise the balance sheet at 31 December 2020, the income statement, statements of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Intesa Sanpaolo S.p.A. as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the “*Auditors' responsibilities for the audit of the separate financial statements*” section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost*

*Notes to the Parent Company's financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost"*

*Notes to the Parent Company's financial statements "Part B - Information on the Parent Company's balance sheet - Assets": Section 4 "Financial assets measured at amortised cost"*

*Notes to the Parent Company's financial statements "Part C - Information on the Parent Company's income statement": Section 8.1 "Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown"*

*Notes to the Parent Company's financial statements "Part E – Information on risks and relative hedging policies": Section 1 "Credit risk"*

Key audit matter	Audit procedures addressing the key audit matter
<p>Lending to customers is one of the bank's core activities. Loans and receivables with customers recognised under financial assets at amortised cost, totalled €379,629 million at 31 December 2020, accounting for 60% of total assets.</p> <p>Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €3,409 million.</p> <p>For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks.</p> <p>Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, an assessment of any guarantees, the impact of macroeconomic variables, future scenarios and risks of the</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>— gaining an understanding of the bank's processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers;</li><li>— assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses;</li><li>— analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging);</li><li>— analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein, as well as the adjustments made as a result of the effects of the Covid-19 pandemic. We carried out these procedures with the assistance of experts of the KPMG network;</li><li>— selecting a sample of exposures tested collectively, checking the application of</li></ul>



Key audit matter	Audit procedures addressing the key audit matter
<p>sectors in which the bank's customers operate.</p> <p>The complexity of the directors' estimation process has increased in 2020 due to the Covid-19 emergency which has severely affected current macroeconomic conditions and potential future macroeconomic scenarios, requiring an adjustment to the valuation processes and methods.</p> <p>For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.</p>	<p>the measurement models applied and checking that the impairment rates applied complied with those provided for in such models;</p> <ul style="list-style-type: none"><li>— selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received;</li><li>— analysing the significant changes in the financial asset categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments;</li><li>— assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets at amortised cost, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.</li></ul>

*Classification and measurement of financial assets and liabilities at fair value*

*Notes to the Parent Company's financial statements "Part A – Accounting policies": paragraph A.2.1 "Financial assets measured at fair value through profit or loss", paragraph A.2.2 "Financial assets measured at fair value through other comprehensive income", paragraph A.2.4 "Hedging transactions", paragraph A.2.13 "Financial liabilities held for trading", paragraph A.2.14 "Financial liabilities designated at fair value", paragraph A.4 "Information on fair value"*

*Notes to the Parent Company's financial statements - "Part B - Information on the Parent Company's balance sheet - Assets": section 2 "Financial assets measured at fair value through profit or loss", section 3 "Financial assets measured at fair value through other comprehensive income", section 5 "Hedging derivatives"*

*Notes to the Parent Company's financial statements "Part B - Information on the Parent Company's balance sheet- Liabilities": Section 2 "Financial liabilities held for trading", Section 3 "Financial liabilities designated at fair value", Section 4 "Hedging derivatives"*

*Notes to the Parent Company's financial statements "Part C - Information on the Parent Company's income statement": Section 4 "Profits (losses) on trading", Section 5 "Fair value adjustments in hedge accounting", Section 7 "Profit (losses) on other financial assets and liabilities measured at fair value through profit or loss"*



*Notes to the Parent Company's financial statements "Part E - Information on Risks and relative hedging policies": Section 2 "Market risks", Section 3 "Derivatives and hedging policies"*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>Trading in and holding financial instruments are one of the bank's core activities. The separate financial statements at 31 December 2020 include financial assets and financial liabilities at fair value totalling €99,076 million and €69,027 million, respectively.</p> <p>A portion thereof, equal to roughly €41,909 million and €53,643 million, respectively, is made up of financial assets and liabilities at fair value without a quoted price on an active market. The bank's directors have classified them in levels 2 and 3 of the fair value hierarchy.</p> <p>Classifying and, especially, measuring financial instruments with fair value levels 2 and 3 require a high level of judgement by the directors due to the complex models and parameters used.</p> <p>This complexity has increased in 2020 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios.</p> <p>For the above reasons, we believe that the classification and measurement of financial assets and liabilities at fair value are a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>— gaining an understanding of the bank's processes and IT environment in relation to the trading, classification and measurement of financial instruments;</li><li>— assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the classification and measurement of financial instruments with fair value levels 2 and 3, also in the light of the financial effects of the Covid-19 pandemic. We carried out these procedures with the assistance of experts of the KPMG network;</li><li>— checking, on a sample basis, that the financial instruments had been correctly classified on the basis of their fair value level;</li><li>— for a sample of financial instruments with fair value levels 2 and 3, assessing the reasonableness of the main parameters used by the directors for their measurement, also in the light of the financial effects of the Covid-19 pandemic. We carried out this procedure with the assistance of experts of the KPMG network;</li><li>— analysing the changes in the composition of the financial instrument portfolios compared to the previous year end and discussing the results with the relevant internal departments;</li><li>— assessing the appropriateness of the disclosures about financial instruments and related fair value levels, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.</li></ul>



*Classification and measurement of non-performing loan portfolios held for sale*

*Notes to the Parent Company's financial statements "Part A - Accounting policies": paragraph A.2.9 "Non-current assets held for sale and discontinued operations and related liabilities"*

*Notes to the Parent Company's financial statements "Part B - Information on the Parent Company's balance sheet - Assets": Section 11 "Non-current assets held for sale and discontinued operations and related liabilities"*

*Notes to the Parent Company's financial statements "Part C - Information on the Parent Company's income statement": Section 8 "Net losses/recoveries for credit risk"*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>During 2020, the bank commenced negotiations for the sale of non-performing loan portfolios for a net €267 million (compared to a carrying amount of €2,324 million). The sales are expected to be completed during 2021.</p> <p>In these separate financial statements, the directors have:</p> <ul style="list-style-type: none"><li>— reclassified the loans to assets held for sale in accordance with IFRS 5;</li><li>— measured the non-performing loan portfolios held for sale considering their planned sale and based on their best estimate of the loans' net realisable value for the purposes of calculating the related expected credit loss in accordance with IFRS 9.</li></ul> <p>The increase in the expected credit loss has been recognised in the 2020 income statement under net impairment losses for credit risk with customers, which total €3,409 million.</p> <p>Estimating the net realisable value of non-performing loans held for sale requires a high level of judgement by the directors due to the complex valuation models used. This complexity has increased in 2020 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios.</p> <p>For the above reasons, we believe that the classification and measurement of non-performing loan portfolios held for sale are a key audit matter, considering the complexity of the estimation process and the significant effects on the separate financial statements.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>— obtaining and analysing the documentation relating to the non-performing loan portfolios held for sale to check their compliance with the classification criteria of IFRS 5;</li><li>— obtaining and analysing the report of the bank's advisors engaged to estimate the above portfolios' net realisable value. We carried out this procedure with the assistance of experts of the KPMG network;</li><li>— assessing the appropriateness of the methods used and the reasonableness of the parameters adopted by the directors to estimate the above portfolios' net realisable value. We carried out this procedure with the assistance of experts of the KPMG network;</li><li>— assessing the appropriateness of the disclosures about the classification and measurement of non-performing loan portfolios held for sale.</li></ul>





### *Responsibilities of the bank's directors and management control committee for the separate financial statements*

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist, or have no realistic alternative but to do so.

The management control committee is responsible for overseeing, within the terms established by the Italian law, the bank's financial reporting process.

### *Auditors' responsibilities for the audit of the separate financial statements*

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are



inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

#### *Other information required by article 10 of Regulation (EU) no. 537/14*

On 10 May 2011, the bank's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2012 to 31 December 2020.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the bank in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the management control committee, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

## **Report on other legal and regulatory requirements**

### *Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98*

The bank's directors are responsible for the preparation of a directors' report and a report on corporate governance and ownership structure at 31 December 2020 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the bank's separate financial statements at 31 December 2020 and their compliance with the applicable law and to state whether we have identified material misstatements.



*Intesa Sanpaolo S.p.A.  
Independent auditors' report  
31 December 2020*

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the bank's separate financial statements at 31 December 2020 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 24 March 2021

KPMG S.p.A.

(signed on the original)

Mario Corti  
Director

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# Attachments to the Parent Company's financial statements

## Intesa Sanpaolo reconciliation statements

### Reconciliation between published Intesa Sanpaolo financial statements and adjusted Intesa Sanpaolo financial statements

Reconciliation between the published Intesa Sanpaolo balance sheet as at 31 December 2019 and the adjusted Intesa Sanpaolo balance sheet as at 31 December 2019

Reconciliation between published Intesa Sanpaolo income statement for 2019 and adjusted Intesa Sanpaolo income statement for 2019

### Reconciliation between adjusted financial statements and restated financial statements

Reconciliation between adjusted Intesa Sanpaolo balance sheet as at 31 December 2019 and restated Intesa Sanpaolo balance sheet as at 31 December 2019

Reconciliation between adjusted Intesa Sanpaolo income statement for 2019 and restated Intesa Sanpaolo income statement for 2019

### Restated financial statements

Restated Intesa Sanpaolo balance sheet

Restated Intesa Sanpaolo income statement

### Reconciliation between restated Intesa Sanpaolo financial statements and reclassified Intesa Sanpaolo financial statements

Reconciliation between restated Intesa Sanpaolo balance sheet and reclassified Intesa Sanpaolo balance sheet

Reconciliation between restated Intesa Sanpaolo income statement and reclassified Intesa Sanpaolo income statement

## **Reconciliation between published Intesa Sanpaolo financial statements and adjusted Intesa Sanpaolo financial statements**

**Reconciliation between the published Intesa Sanpaolo balance sheet as at 31 December 2019 and the adjusted Intesa Sanpaolo balance sheet as at 31 December 2019**

The published Intesa Sanpaolo balance sheet as at 31 December 2019 did not require any adjustments.

**Reconciliation between published Intesa Sanpaolo income statement for 2019 and adjusted Intesa Sanpaolo income statement for 2019**

The published Intesa Sanpaolo income statement for 2019 did not require any adjustments.



## **Reconciliation between adjusted financial statements and restated financial statements**

**Reconciliation between adjusted Intesa Sanpaolo balance sheet as at 31 December 2019 and restated Intesa Sanpaolo balance sheet as at 31 December 2019**

Assets	31.12.2019 Adjusted	Changes		Change in the reference scope	Servicing UTP (a)	31.12.2019 Restated
		Merger of Banca IMI	Netting of intragroup transactions			
10. Cash and cash equivalents	6,013	-	-	-	-	6,013
20. Financial assets measured at fair value through profit or loss	22,973	57,204	-23,235	33,969	-	56,942
a) financial assets held for trading	19,872	56,414	-23,222	33,192	-	53,064
b) financial assets designated at fair value	195	-	-	-	-	195
c) other financial assets mandatorily measured at fair value	2,906	790	-13	777	-	3,683
30. Financial assets measured at fair value through other comprehensive income	33,277	25,487	-58	25,429	-	58,706
40. Financial assets measured at amortised cost	439,933	108,085	-140,973	-32,888	-	407,045
a) due from banks	122,455	63,371	-140,973	-77,602	-	44,853
b) loans to customers	317,478	44,714	-	44,714	-	362,192
50. Hedging derivatives	2,830	87	-	87	-	2,917
60. Fair value change of financial assets in hedged portfolios (+/-)	1,526	-	-	-	-	1,526
70. Equity investments	24,411	80	-2,734	-2,654	-	21,757
80. Property and equipment	6,688	22	-20	2	-	6,690
90. Intangible assets	4,552	-	-	-	-	4,552
of which:						
- goodwill	1,242	-	-	-	-	1,242
100. Tax assets	14,017	395	-	395	-	14,412
a) current	1,480	142	-	142	-	1,622
b) deferred	12,537	253	-	253	-	12,790
110. Non-current assets held for sale and discontinued operations	469	-	-	-	-	469
120. Other assets	3,740	408	47	455	-	4,195
<b>Total assets</b>	<b>560,429</b>	<b>191,768</b>	<b>-166,973</b>	<b>24,795</b>	<b>-</b>	<b>585,224</b>

(a) Effect related to the fees due to Prelios following the UTP loans servicing agreement, effective from the end of 2019.

Liabilities and Shareholders' Equity		(millions of euro)					
		31.12.2019 Adjusted	Changes		Change in the reference scope	Servicing UTP (a)	31.12.2019 Restated
			Merger of Banca IMI	Netting of intragroup transactions			
10.	Financial liabilities measured at amortised cost	476,325	128,865	-145,096	-16,231	-	460,094
	<i>a) due to banks</i>	152,979	119,334	-141,002	-21,668	-	131,311
	<i>b) due to customers</i>	247,937	4,743	-70	4,673	-	252,610
	<i>c) securities issued</i>	75,409	4,788	-4,024	764	-	76,173
20.	Financial liabilities held for trading	16,446	54,476	-16,978	37,498	-	53,944
30.	Financial liabilities designated at fair value	1,914	-	-1,909	-1,909	-	5
40.	Hedging derivatives	7,323	602	-	602	-	7,925
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	522	-	-	-	-	522
60.	Tax liabilities	929	288	-78	210	-	1,139
	<i>a) current</i>	24	208	-78	130	-	154
	<i>b) deferred</i>	905	80	-	80	-	985
70.	Liabilities associated with non-current assets held for sale and discontinued operations	41	-	-	-	-	41
80.	Other liabilities	7,500	924	7	931	66	8,497
90.	Employee termination indemnities	1,057	9	-	9	-	1,066
100.	Allowances for risks and charges	3,100	24	-	24	-	3,124
	<i>a) commitments and guarantees given</i>	385	6	-	6	-	391
	<i>b) post-employment benefits</i>	206	-	-	-	-	206
	<i>c) other allowances for risks and charges</i>	2,509	18	-	18	-	2,527
110.	Valuation reserves	1,375	14	-	14	-	1,389
120.	Redeemable shares	-	-	-	-	-	-
130.	Equity instruments	4,103	1,600	-1,637	-37	-	4,066
140.	Reserves	3,399	1,991	683	2,674	-	6,073
150.	Share premium reserve	25,233	581	-581	-	-	25,233
160.	Share capital	9,086	962	-962	-	-	9,086
170.	Treasury shares (-)	-61	-	-3	-3	-	-64
180.	Net income (loss) (+/-)	2,137	1,432	-419	1,013	-66	3,084
<b>Total liabilities and shareholders' equity</b>		<b>560,429</b>	<b>191,768</b>	<b>-166,973</b>	<b>24,795</b>	<b>-</b>	<b>585,224</b>

(a) Effect related to the fees due to Prelios following the UTP loans servicing agreement, effective from the end of 2019.

**Reconciliation between adjusted Intesa Sanpaolo income statement for 2019 and restated Intesa Sanpaolo income statement for 2019**

		(millions of euro)					
		2019	Changes		Change	2019	
		Adjusted	Merger of Banca IMI	Netting of intragroup transactions	in the reference scope	Servicing UTP (a)	Restated
10.	Interest and similar income	7,282	1,542	-849	693	-	7,975
	<i>of which: interest income calculated using the effective interest rate method</i>	7,569	1,300	-556	744	-	8,313
20.	Interest and similar expense	-2,874	-673	849	176	-	-2,698
<b>30.</b>	<b>Interest margin</b>	<b>4,408</b>	<b>869</b>	<b>-</b>	<b>869</b>	<b>-</b>	<b>5,277</b>
40.	Fee and commission income	5,098	552	-214	338	-	5,436
50.	Fee and commission expense	-610	-363	214	-149	-	-759
<b>60.</b>	<b>Net fee and commission income</b>	<b>4,488</b>	<b>189</b>	<b>-</b>	<b>189</b>	<b>-</b>	<b>4,677</b>
70.	Dividend and similar income	2,144	86	-301	-215	-	1,929
80.	Profits (Losses) on trading	39	410	-287	123	-	162
90.	Fair value adjustments in hedge accounting	-37	-12	3	-9	-	-46
100.	Profits (Losses) on disposal or repurchase of:	358	1,071	-35	1,036	-	1,394
	<i>a) financial assets measured at amortised cost</i>	-26	105	-	105	-	79
	<i>b) financial assets measured at fair value through other comprehensive income</i>	215	963	-	963	-	1,178
	<i>c) financial liabilities</i>	169	3	-35	-32	-	137
	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	18	45	93	138	-	156
	<i>a) financial assets and liabilities designated at fair value</i>	-95	-	93	93	-	-2
	<i>b) other financial assets mandatorily measured at fair value</i>	113	45	-	45	-	158
<b>120.</b>	<b>Net interest and other banking income</b>	<b>11,418</b>	<b>2,658</b>	<b>-527</b>	<b>2,131</b>	<b>-</b>	<b>13,549</b>
130.	Net losses/recoveries for credit risks associated with:	-1,966	-37	-	-37	-	-2,003
	<i>a) financial assets measured at amortised cost</i>	-1,954	-15	-	-15	-	-1,969
	<i>b) financial assets measured at fair value through other comprehensive income</i>	-12	-22	-	-22	-	-34
140.	Profits (Losses) on changes in contracts without derecognition	-5	-	-	-	-	-5
<b>150.</b>	<b>Net income from banking activities</b>	<b>9,447</b>	<b>2,621</b>	<b>-527</b>	<b>2,094</b>	<b>-</b>	<b>11,541</b>
160.	Administrative expenses:	-7,155	-510	202	-308	-98	-7,561
	<i>a) personnel expenses</i>	-4,499	-161	4	-157	-	-4,656
	<i>b) other administrative expenses</i>	-2,656	-349	198	-151	-98	-2,905
170.	Net provisions for risks and charges	-66	-1	-	-1	-	-67
	<i>a) commitments and guarantees given</i>	-1	1	-	1	-	-
	<i>b) other net provisions</i>	-65	-2	-	-2	-	-67
180.	Net adjustments to / recoveries on property and equipment	-391	-6	5	-1	-	-392
190.	Net adjustments to / recoveries on intangible assets	-537	-	-	-	-	-537
200.	Other operating expenses (income)	807	7	-201	-194	-	613
<b>210.</b>	<b>Operating expenses</b>	<b>-7,342</b>	<b>-510</b>	<b>6</b>	<b>-504</b>	<b>-98</b>	<b>-7,944</b>
220.	Profits (Losses) on equity investments	-56	2	-	2	-	-54
230.	Valuation differences on property, equipment and intangible assets measured at fair value	-10	-	-	-	-	-10
240.	Goodwill impairment	-	-	-	-	-	-
250.	Profits (Losses) on disposal of investments	-	-	-	-	-	-
<b>260.</b>	<b>Income (Loss) before tax from continuing operations</b>	<b>2,039</b>	<b>2,113</b>	<b>-521</b>	<b>1,592</b>	<b>-98</b>	<b>3,533</b>
270.	Taxes on income from continuing operations	34	-681	102	-579	32	-513
<b>280.</b>	<b>Income (Loss) after tax from continuing operations</b>	<b>2,073</b>	<b>1,432</b>	<b>-419</b>	<b>1,013</b>	<b>-66</b>	<b>3,020</b>
290.	Income (Loss) after tax from discontinued operations	64	-	-	-	-	64
<b>300.</b>	<b>Net income (loss)</b>	<b>2,137</b>	<b>1,432</b>	<b>-419</b>	<b>1,013</b>	<b>-66</b>	<b>3,084</b>

(a) Effect related to the fees due to Prelios following the UTP loans servicing agreement, effective from the end of 2019.

## Restated financial statements

## Restated Intesa Sanpaolo balance sheet

Assets	31.12.2020	31.12.2019 Restated	(millions of euro) Changes	
			amount	%
10. Cash and cash equivalents	5,402	6,013	-611	-10.2
20. Financial assets measured at fair value through profit or loss	57,073	56,942	131	0.2
<i>a) financial assets held for trading</i>	53,738	53,064	674	1.3
<i>b) financial assets designated at fair value</i>	1	195	-194	-99.5
<i>c) other financial assets mandatorily measured at fair value</i>	3,334	3,683	-349	-9.5
30. Financial assets measured at fair value through other comprehensive income	40,988	58,706	-17,718	-30.2
40. Financial assets measured at amortised cost	470,245	407,045	63,200	15.5
<i>a) due from banks</i>	90,616	44,853	45,763	
<i>b) loans to customers</i>	379,629	362,192	17,437	4.8
50. Hedging derivatives	1,015	2,917	-1,902	-65.2
60. Fair value change of financial assets in hedged portfolios (+/-)	2,333	1,526	807	52.9
70. Equity investments	24,668	21,757	2,911	13.4
80. Property and equipment	6,558	6,690	-132	-2.0
90. Intangible assets	3,574	4,552	-978	-21.5
<i>of which:</i>				
- <i>goodwill</i>	67	1,242	-1,175	-94.6
100. Tax assets	14,216	14,412	-196	-1.4
<i>a) current</i>	1,428	1,622	-194	-12.0
<i>b) deferred</i>	12,788	12,790	-2	-0.0
110. Non-current assets held for sale and discontinued operations	1,798	469	1,329	
120. Other assets	3,862	4,195	-333	-7.9
<b>Total assets</b>	<b>631,732</b>	<b>585,224</b>	<b>46,508</b>	<b>7.9</b>

Liabilities and Shareholders' Equity	31.12.2020	31.12.2019 Restated	(millions of euro) Changes	
			amount	%
10. Financial liabilities measured at amortised cost	491,393	460,094	31,299	6.8
<i>a) due to banks</i>	130,654	131,311	-657	-0.5
<i>b) due to customers</i>	288,694	252,610	36,084	14.3
<i>c) securities issued</i>	72,045	76,173	-4,128	-5.4
20. Financial liabilities held for trading	60,830	53,944	6,886	12.8
30. Financial liabilities designated at fair value	2,810	5	2,805	
40. Hedging derivatives	5,387	7,925	-2,538	-32.0
50. Fair value change of financial liabilities in hedged portfolios (+/-)	721	522	199	38.1
60. Tax liabilities	832	1,139	-307	-27.0
<i>a) current</i>	13	154	-141	-91.6
<i>b) deferred</i>	819	985	-166	-16.9
70. Liabilities associated with non-current assets held for sale and discontinued operations	2,594	41	2,553	
80. Other liabilities	8,000	8,497	-497	-5.8
90. Employee termination indemnities	927	1,066	-139	-13.0
100. Allowances for risks and charges	4,124	3,124	1,000	32.0
<i>a) commitments and guarantees given</i>	404	391	13	3.3
<i>b) post-employment benefits</i>	212	206	6	2.9
<i>c) other allowances for risks and charges</i>	3,508	2,527	981	38.8
110. Valuation reserves	1,176	1,389	-213	-15.3
120. Redeemable shares	-	-	-	
130. Equity instruments	7,053	4,066	2,987	73.5
140. Reserves	7,609	6,073	1,536	25.3
150. Share premium reserve	27,603	25,233	2,370	9.4
160. Share capital	10,084	9,086	998	11.0
170. Treasury shares (-)	-90	-64	26	40.6
180. Net income (loss) (+/-)	679	3,084	-2,405	-78.0
<b>Total liabilities and shareholders' equity</b>	<b>631,732</b>	<b>585,224</b>	<b>46,508</b>	<b>7.9</b>



## Restated Intesa Sanpaolo income statement

	2020	2019 Restated	(millions of euro) Changes	
			amount	%
10. Interest and similar income	7,265	7,975	-710	-8.9
<i>of which: interest income calculated using the effective interest rate method</i>	7,377	8,313	-936	-11.3
20. Interest and similar expense	-2,038	-2,698	-660	-24.5
<b>30. Interest margin</b>	<b>5,227</b>	<b>5,277</b>	<b>-50</b>	<b>-0.9</b>
40. Fee and commission income	5,243	5,436	-193	-3.6
50. Fee and commission expense	-847	-759	88	11.6
<b>60. Net fee and commission income</b>	<b>4,396</b>	<b>4,677</b>	<b>-281</b>	<b>-6.0</b>
70. Dividend and similar income	2,536	1,929	607	31.5
80. Profits (Losses) on trading	464	162	302	
90. Fair value adjustments in hedge accounting	36	-46	82	
100. Profits (Losses) on disposal or repurchase of:	562	1,394	-832	-59.7
<i>a) financial assets measured at amortised cost</i>	-200	79	-279	
<i>b) financial assets measured at fair value through other comprehensive income</i>	782	1,178	-396	-33.6
<i>c) financial liabilities</i>	-20	137	-157	
110. Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	-51	156	-207	
<i>a) financial assets and liabilities designated at fair value</i>	56	-2	58	
<i>b) other financial assets mandatorily measured at fair value</i>	-107	158	-265	
<b>120. Net interest and other banking income</b>	<b>13,170</b>	<b>13,549</b>	<b>-379</b>	<b>-2.8</b>
130. Net losses/recoveries for credit risks associated with:	-3,377	-2,003	1,374	68.6
<i>a) financial assets measured at amortised cost</i>	-3,369	-1,969	1,400	71.1
<i>b) financial assets measured at fair value through other comprehensive income</i>	-8	-34	-26	-76.5
140. Profits (Losses) on changes in contracts without derecognition	-7	-5	2	40.0
<b>150. Net income from banking activities</b>	<b>9,786</b>	<b>11,541</b>	<b>-1,755</b>	<b>-15.2</b>
160. Administrative expenses:	-8,573	-7,561	1,012	13.4
<i>a) personnel expenses</i>	-5,521	-4,656	865	18.6
<i>b) other administrative expenses</i>	-3,052	-2,905	147	5.1
170. Net provisions for risks and charges	-630	-67	563	
<i>a) commitments and guarantees given</i>	-15	-	15	
<i>b) other net provisions</i>	-615	-67	548	
180. Net adjustments to / recoveries on property and equipment	-381	-392	-11	-2.8
190. Net adjustments to / recoveries on intangible assets	-595	-537	58	10.8
200. Other operating expenses (income)	620	613	7	1.1
<b>210. Operating expenses</b>	<b>-9,559</b>	<b>-7,944</b>	<b>1,615</b>	<b>20.3</b>
220. Profits (Losses) on equity investments	-154	-54	100	
230. Valuation differences on property, equipment and intangible assets measured at fair value	-33	-10	23	
240. Goodwill impairment	-1,155	-	1,155	
250. Profits (Losses) on disposal of investments	29	-	29	
<b>260. Income (Loss) before tax from continuing operations</b>	<b>-1,086</b>	<b>3,533</b>	<b>-4,619</b>	
270. Taxes on income from continuing operations	639	-513	1,152	
<b>280. Income (Loss) after tax from continuing operations</b>	<b>-447</b>	<b>3,020</b>	<b>-3,467</b>	
290. Income (Loss) after tax from discontinued operations	1,126	64	1,062	
<b>300. Net income (loss)</b>	<b>679</b>	<b>3,084</b>	<b>-2,405</b>	<b>-78.0</b>

## **Reconciliation between restated Intesa Sanpaolo financial statements and reclassified Intesa Sanpaolo financial statements**

## Reconciliation between restated Intesa Sanpaolo balance sheet and reclassified Intesa Sanpaolo balance sheet

Assets		(millions of euro)	
		31.12.2020	31.12.2019 Restated
<b>Due from banks</b>		<b>89,204</b>	<b>43,450</b>
Caption 40a (partial)	Financial assets measured at amortised cost - Due from banks	89,195	43,443
Caption 20a (partial)	Financial assets held for trading - Due from banks	-	-
Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Due from banks	9	7
<b>Loans to customers</b>		<b>348,826</b>	<b>342,584</b>
<b>Loans to customers measured at amortised cost</b>		<b>347,767</b>	<b>341,048</b>
Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers	341,711	335,155
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	6,056	5,893
<b>Loans to customers at fair value through other comprehensive income and through profit or loss</b>		<b>1,059</b>	<b>1,536</b>
Caption 20a (partial)	Financial assets held for trading - Non-bank loans	22	24
Caption 20b (partial)	Financial assets designated at fair value through profit or loss - Non-bank loans	-	-
Caption 20c (partial)	Other financial assets mandatorily measured at fair value through profit or loss - Non-bank loans	765	1,155
Caption 30 (partial)	Financial assets at fair value through other comprehensive income - Non-bank loans	272	357
<b>Financial assets measured at amortised cost which do not constitute loans</b>		<b>33,283</b>	<b>22,554</b>
Caption 40a (partial)	Financial assets measured at amortised cost - Debt securities with banks	1,421	1,410
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (governments, financial and insurance)	31,862	21,144
<b>Financial assets at fair value through profit or loss</b>		<b>56,277</b>	<b>55,756</b>
Caption 20a (partial)	Financial assets held for trading	53,716	53,040
Caption 20b (partial)	Financial assets designated at fair value - Debt securities	1	195
Caption 20c (partial)	Other financial assets mandatorily measured at fair value	2,560	2,521
<b>Financial assets at fair value through other comprehensive income</b>		<b>40,716</b>	<b>58,349</b>
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income	40,716	58,349
<b>Equity investments</b>		<b>24,668</b>	<b>21,757</b>
Caption 70	Equity investments	24,668	21,757
<b>Property, equipment and intangible assets</b>		<b>10,132</b>	<b>11,242</b>
<b>Assets owned</b>		<b>9,106</b>	<b>10,184</b>
Caption 80 (partial)	Property and equipment	6,558	6,690
Caption 90	Intangible assets	3,574	4,552
- Caption 90 (partial)	Intangible assets (concession rights - intangible component)	-1,026	-1,058
<b>Rights of use acquired under leases</b>		<b>1,026</b>	<b>1,058</b>
Caption 80 (partial)	Property and equipment	1,026	1,058
<b>Tax assets</b>		<b>14,216</b>	<b>14,412</b>
Caption 100	Tax assets	14,216	14,412
<b>Non-current assets held for sale and discontinued operations</b>		<b>1,798</b>	<b>469</b>
Caption 110	Non-current assets held for sale and discontinued operations	1,798	469
<b>Other assets</b>		<b>12,612</b>	<b>14,651</b>
Caption 10	Cash and cash equivalents	5,402	6,013
Caption 50	Hedging derivatives	1,015	2,917
Caption 60	Fair value change of financial assets in hedged portfolios (+/-)	2,333	1,526
Caption 120	Other assets	3,862	4,195
<b>Total assets</b>		<b>631,732</b>	<b>585,224</b>

		(millions of euro)	
<b>Liabilities</b>		<b>31.12.2020</b>	<b>31.12.2019 Restated</b>
<b>Due to banks at amortised cost</b>		<b>130,650</b>	<b>131,292</b>
Caption 10 a)	Financial liabilities measured at amortised cost - Due to banks	130,654	131,311
- Caption 10 (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	-4	-19
<b>Due to customers at amortised cost and securities issued</b>		<b>359,708</b>	<b>327,725</b>
Caption 10 b)	Financial liabilities measured at amortised cost - Due to customers	288,694	252,610
Caption 10 c)	Financial liabilities measured at amortised cost - Securities issued	72,045	76,173
- Caption 10 (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	-1,031	-1,058
<b>Financial liabilities held for trading</b>		<b>60,830</b>	<b>53,944</b>
Caption 20	Financial liabilities held for trading	60,830	53,944
<b>Financial liabilities designated at fair value</b>		<b>2,810</b>	<b>5</b>
Caption 30	Financial liabilities designated at fair value	2,810	5
<b>Tax liabilities</b>		<b>832</b>	<b>1,139</b>
Caption 60	Tax liabilities	832	1,139
<b>Liabilities associated with non-current assets held for sale and discontinued operations</b>		<b>2,594</b>	<b>41</b>
Caption 70	Liabilities associated with non-current assets held for sale and discontinued operations	2,594	41
<b>Other liabilities</b>		<b>15,143</b>	<b>18,021</b>
Caption 40	Hedging derivatives	5,387	7,925
Caption 50	Fair value change of financial liabilities in hedged portfolios (+/-)	721	522
Caption 80	Other liabilities	8,000	8,497
Caption 10 a) (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	4	19
Caption 10 b) (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	1,031	1,058
<b>Allowances for risks and charges</b>		<b>5,051</b>	<b>4,190</b>
Caption 90	Employee termination indemnities	927	1,066
Caption 100 a)	Allowances for risks and charges - Loan commitments and guarantees given	404	391
Caption 100 b)	Allowances for risks and charges - Post-employment benefits	212	206
Caption 100 c)	Allowances for risks and charges - Other allowances	3,508	2,527
<b>Share capital</b>		<b>10,084</b>	<b>9,086</b>
Caption 160	Share capital	10,084	9,086
<b>Reserves</b>		<b>35,122</b>	<b>31,242</b>
Caption 140	Reserves	7,609	6,073
Caption 150	Share premium reserve	27,603	25,233
Caption 170	Own shares	-90	-64
<b>Valuation reserves</b>		<b>1,176</b>	<b>1,389</b>
Caption 110	Valuation reserves	1,176	1,389
<b>Equity instruments</b>		<b>7,053</b>	<b>4,066</b>
Caption 130	Equity instruments	7,053	4,066
<b>Net income (loss)</b>		<b>679</b>	<b>3,084</b>
Caption 180	Net income (loss) (+/-)	679	3,084
<b>Total Liabilities and Shareholders' Equity</b>		<b>631,732</b>	<b>585,224</b>

## Reconciliation between restated Intesa Sanpaolo income statement and reclassified Intesa Sanpaolo income statement

Captions	(millions of euro)	
	2020	2019 Restated
<b>Net interest income</b>	<b>5,232</b>	<b>5,283</b>
Caption 30 Interest margin	5,227	5,277
- Caption 30 (partial) Interest margin (Effect of purchase price allocation)	69	100
+ Caption 70 (partial) Interest margin (Dividends received and paid within securities lending operations)	4	3
+ Caption 80 (partial) Interest margin (Components of profits (losses) on trading relating to net interest)	-61	-78
+ Caption 160 a) (partial) Personnel expenses (Time value employee termination indemnities and other)	-7	-17
+ Caption 170 b) (partial) Net provisions for risks and charges (Time value allowances for risks and charges)	-	-2
<b>Net fee and commission income</b>	<b>4,492</b>	<b>4,834</b>
Caption 60 Net fee and commission income	4,396	4,677
+ Caption 80 (partial) Profits (Losses) on trading (Placement of Certificates)	38	197
+ Caption 110 a) (partial) Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (Placement of certificates)	93	-
+ Caption 160 b) (partial) Other administrative expenses (Recovery of other expenses)	-35	-40
<b>Profits (Losses) on financial assets and liabilities designated at fair value</b>	<b>1,301</b>	<b>1,676</b>
Caption 80 Profits (Losses) on trading	464	162
Caption 90 Fair value adjustments in hedge accounting	36	-46
Caption 110 a) Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (a) financial assets and liabilities designated at fair value	56	-2
Caption 110 b) Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) financial assets mandatorily measured at fair value through profit or loss	-107	158
Caption 100 b) (partial) Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income	782	1,178
Caption 100 c) (partial) Profits (Losses) on disposal or repurchase of financial liabilities	-20	137
+ Caption 70 (partial) Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	85	114
- Caption 70 (partial) Interest margin (Dividends received and paid within securities lending operations)	-4	-3
- Caption 80 (partial) Components of profits (losses) on trading relating to net interest	61	78
- Caption 80 (partial) Profits (Losses) on trading (Valuation effects of derivatives related to equity investments held)	-45	-
- Caption 80 (partial) Profits (Losses) on trading (Placement of Certificates)	-38	-197
+ Caption 100 a) (partial) Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Effect associated with profits (losses) on trading	88	102
- Caption 110 a) (partial) Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (Placement of certificates)	-93	-
Caption 110 b) (partial) Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) financial assets mandatorily measured at fair value through profit or loss - Charges concerning the banking industry	27	-14
+ Caption 170 b) (partial) Net provisions for risks and charges - Other net provisions (Charges for sale of NTV)	-	9
+ Caption 200 (partial) Other operating income (expenses) (Trading and valuation of other assets)	9	-
<b>Other operating income (expenses)</b>	<b>2,623</b>	<b>1,985</b>
Caption 70 Dividend and similar income	2,536	1,929
Caption 200 Other operating income (expenses)	620	613
- Caption 70 (partial) Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	-85	-114
- Caption 200 (partial) Other operating income (expenses) (Recovery of expenses and indirect taxes)	-506	-506
- Caption 200 (partial) Other operating income (expenses) (Valuation effects of other assets)	66	26
- Caption 200 (partial) Other operating income (expenses) (Trading and valuation of other assets)	-9	-
- Caption 200 (partial) Other operating income (expenses) (Non-recurring income/expenses)	15	50
- Caption 200 (partial) Other operating income (expenses) (Recovery of costs)	-	-
- Caption 200 (partial) Other operating income (expenses) (Charges for integration)	-14	-13
<b>Operating income</b>	<b>13,648</b>	<b>13,778</b>

Caption	(millions of euro)	
	2020	2019 Restated
<b>Personnel expenses</b>	<b>-4,421</b>	<b>-4,605</b>
Caption 160 a) Personnel expenses	-5,521	-4,656
- Caption 160 a) (partial) Personnel expenses (Charges for integration and exit incentives)	1,093	34
- Caption 160 a) (partial) Personnel expenses (Time value employee termination indemnities and other)	7	17
+ Caption 200 (partial) Other operating income (expenses) (Recovery of costs)	-	-
<b>Other administrative expenses</b>	<b>-1,803</b>	<b>-1,924</b>
Caption 160 b) Other administrative expenses	-3,052	-2,905
- Caption 160 b) (partial) Other administrative expenses (Charges for integration and exit incentives)	192	28
- Caption 160 b) (partial) Other administrative expenses (Resolution fund and deposit guarantee scheme)	516	407
- Caption 160 b) (partial) Other administrative expenses (Recovery of other expenses)	35	40
+ Caption 200 (partial) Other operating income (expenses) (Recovery of expenses and indirect taxes)	506	506
<b>Adjustments to property, equipment and intangible assets</b>	<b>-898</b>	<b>-867</b>
Caption 180 Net adjustments to / recoveries on property and equipment	-381	-392
Caption 190 Net adjustments to / recoveries on intangible assets	-595	-537
- Caption 180 (partial) Net adjustments to / recoveries on property and equipment (Charges for integration)	17	16
- Caption 180 (partial) Net adjustments to / recoveries on property and equipment (Impairment)	4	4
- Caption 190 (partial) Net adjustments to / recoveries on intangible assets (Charges for integration)	49	30
- Caption 190 (partial) Net adjustments to / recoveries on intangible assets (Impairment)	-	3
- Caption 190 (partial) Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	8	9
<b>Operating costs</b>	<b>-7,122</b>	<b>-7,396</b>
<b>Operating margin</b>	<b>6,526</b>	<b>6,382</b>
<b>Net adjustments to loans</b>	<b>-3,657</b>	<b>-1,926</b>
Caption 140 Profits/losses from changes in contracts without derecognition	-7	-5
Caption 170 a) Net provisions for risks and charges for credit risk related to commitments and guarantees given	-15	-
Caption 100 a) (partial) Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans	-286	-31
Caption 100 a) (partial) Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	-1	8
Caption 130 a) (partial) Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans	-3,369	-1,930
Caption 130 a) (partial) Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	1	-15
Caption 130 b) (partial) Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Loans	-6	1
+ Caption 170 b) (partial) Net provisions for risks and charges (Provisions for non-recurring expenses)	-11	-
- Caption 100 a) (partial) Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost (Effect of purchase price allocation)	34	27
- Caption 130 a) (partial) Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans	-	16
- Caption 170 a) (partial) Net provisions for risks and charges for credit risk related to commitments and guarantees given	3	3
<b>Other net provisions and net impairment losses on other assets</b>	<b>-236</b>	<b>-210</b>
Caption 170 b) Net provisions for risks and charges - Other net provisions	-615	-67
+ Caption 230 Valuation differences on property, equipment and intangible assets measured at fair value	-33	-10
Caption 130 a) (partial) Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (Governments, financial and insurance companies)	-1	-18
Caption 130 b) (partial) Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Debt securities	-2	-35
+ Caption 130 a) (partial) Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans	-	-16
+ Caption 170 a) (partial) Net provisions for risks and charges (Net provisions for risks and charges for credit risk related to commitments and guarantees given)	-3	-3
- Caption 170 b) (partial) Net provisions for risks and charges (Time value allowances for risks and charges)	-	2
- Caption 170 b) (partial) Net provisions for risks and charges - Other net provisions (Charges for integration and exit incentives)	488	-19
- Caption 170 b) (partial) Net provisions for risks and charges - Other net provisions (Charges for sale of NTV)	-	-9
- Caption 170 b) (partial) Net provisions for risks and charges - Other net provisions (Solidarity fund for the reimbursement of subordinated bondholders)	-	-6
- Caption 170 b) (partial) Net provisions for risks and charges (Provisions for non-recurring expenses)	11	-
+ Caption 180 (partial) Net adjustments to / recoveries on property and equipment (Impairment)	-4	-4
+ Caption 190 (partial) Net adjustments to / recoveries on intangible assets (Impairment)	-	-3
+ Caption 200 (partial) Other operating income (expenses) (Valuation effects of other assets)	-66	-26
+ Caption 220 (partial) Profits (Losses) on equity investments (Adjustments/recoveries due to impairment of associates)	-56	4
+ Caption 80 (partial) Profits (Losses) on trading (Valuation effects of derivatives related to equity investments held)	45	-

**Attachments to the Parent Company's financial statements**

Captions	(millions of euro)	
	2020	2019 Restated
<b>Other income (expenses)</b>	<b>91</b>	<b>-41</b>
Caption 220 Profits (Losses) on equity investments	-154	-54
Caption 250 Profits (Losses) on disposal of investments	29	-
+ Caption 100 a) (partial) Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (Governments, financial and insurance companies)	87	102
- Caption 100 a) (partial) Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Effect associated with profits (losses) on trading	-88	-102
+ Caption 200 (partial) Other operating income (expenses) (non-recurring expenses)	-15	-50
- Caption 220 (partial) Profits (Losses) on equity investments (Adjustments/recoveries due to impairment of associates)	56	-4
- Caption 220 (partial) Profits (Losses) on equity investments (impairment of controlling interests)	176	67
<b>Income (Loss) from discontinued operations</b>	<b>1,153</b>	<b>88</b>
Caption 290 Income (Loss) after tax from discontinued operations	1,126	64
- Caption 290 (partial) Income (Loss) after tax from discontinued operations (Taxes)	27	24
<b>Gross income (loss)</b>	<b>3,877</b>	<b>4,293</b>
<b>Taxes on income</b>	<b>-257</b>	<b>-735</b>
Caption 270 Taxes on income from continuing operations	639	-513
+ Caption 290 (partial) Income (Loss) after tax from discontinued operations (Taxes)	-27	-24
- Caption 270 (partial) Taxes on income from continuing operations (Other net provisions for risks and charges - Solidarity fund for the reimbursement of subordinated bondholders)	-	2
- Caption 270 (partial) Taxes on income from continuing operations (Charges for integration)	-585	-27
- Caption 270 (partial) Taxes on income from continuing operations (Effect of purchase price allocation)	-37	-45
- Caption 270 (partial) Taxes on income from continuing operations (Goodwill impairment)	-69	-
- Caption 270 (partial) Taxes on income from continuing operations (Profits (Losses) on equity investments - Impairment of controlling interests)	-1	-
- Caption 270 (partial) Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	-168	-132
- Caption 270 (partial) Taxes on income from continuing operations (Impairment losses on financial assets - Charges for the stability of the banking system)	-9	4
<b>Charges (net of tax) for integration and exit incentives</b>	<b>-1,240</b>	<b>-51</b>
+ Caption 130 a) (partial) Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Charges for integration	-	-6
+ Caption 160 a) (partial) Personnel expenses (Charges for integration and exit incentives)	-1,093	-34
+ Caption 160 b) (partial) Other administrative expenses (Charges for integration and exit incentives)	-192	-28
+ Caption 170 b) (partial) Net provisions for risks and charges - Other net provisions (Solidarity fund for the reimbursement of subordinated bondholders)	-	6
+ Caption 170 b) (partial) Net provisions for risks and charges (Charges for integration and exit incentives)	-488	19
+ Caption 180 (partial) Net adjustments to / recoveries on property and equipment (Charges for integration)	-17	-16
+ Caption 190 (partial) Net adjustments to / recoveries on intangible assets (Charges for integration)	-49	-30
+ Caption 200 (partial) Other operating income (expenses) (Recovery of costs from Group companies)	14	13
+ Caption 270 (partial) Taxes on income from continuing operations (Other net provisions for risks and charges - Solidarity fund for the reimbursement of subordinated bondholders)	-	-2
+ Caption 270 (partial) Taxes on income from continuing operations (Charges for integration)	585	27
<b>Effect of purchase price allocation (net of tax)</b>	<b>-74</b>	<b>-91</b>
+ Caption 30 (partial) Interest margin (Effect of purchase price allocation)	-69	-100
+ Caption 190 (partial) Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	-8	-9
- Caption 100 a) (partial) Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost (Effect of purchase price allocation)	-34	-27
+ Caption 270 (partial) Taxes on income from continuing operations (Effect of purchase price allocation)	37	45



Captions	(millions of euro)	
	2020	2019 Restated
<b>Levies and other charges concerning the banking industry (net of tax)</b>	<b>-366</b>	<b>-265</b>
Caption 110 b) (partial) Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) financial assets mandatorily measured at fair value through profit or loss - Charges concerning the banking industry	-27	14
+ Caption 160 b) (partial) Other administrative expenses (Resolution fund and deposit guarantee scheme)	-516	-407
+ Caption 270 (partial) Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	168	132
+ Caption 270 (partial) Taxes on income from continuing operations (Impairment losses on financial assets - Charges for the stability of the banking system)	9	-4
<b>Impairment (net of tax) of goodwill and other intangible assets</b>	<b>-1,261</b>	<b>-67</b>
Caption 240 Goodwill impairment	-1,155	-
+ Caption 220 (partial) Profits (Losses) on equity investments (impairment of controlling interests)	-176	-67
+ Caption 270 (partial) Taxes on income from continuing operations (Goodwill impairment)	69	-
+ Caption 270 (partial) Taxes on income from continuing operations (Profits (Losses) on equity investments - Impairment of controlling interests)	1	-
<b>Net income (loss)</b>	<b>679</b>	<b>3,084</b>

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Other attachments

## Fees for auditing and services other than auditing pursuant to Article 149-duodecies of Consob Regulation 11971

(millions of euro)

Type of service	INTESA SANPAOLO		GROUP COMPANIES <sup>(*)</sup>	
	KPMG	KPMG Network	KPMG	KPMG Network
Independent audit (**)	11.95	-	11.66	-
Release of attestations (***)	7.14	-	5.03	-
Other services:				
<i>agreed audit procedures</i>	0.88	-	0.61	-
<i>consolidated non-financial statement</i>	0.17	-	0.09	-
<b>TOTAL</b>	<b>20.14</b>	<b>-</b>	<b>17.39</b>	<b>-</b>

(\*) Group companies and other consolidated subsidiaries.

(\*\*) Including costs for statutory audit and voluntary audit. Costs for audit of non-consolidated funds for about 8.3 million euro are not included

(\*\*\*) Including audit costs, on a voluntary basis, for "Pillar 3" disclosure

Amounts net of VAT and reimbursed expenses and Consob contribution

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# Glossary

*ABS – Asset-Backed Securities*

Financial securities whose yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively intended to ensure satisfaction of the rights attached to said financial securities. Examples of assets pledged as collateral include mortgages, credit card receivables, short-term trade receivables and auto loans.

*ABS (receivables)*

ABS whose collateral is made up of receivables.

*Acquisition finance*

Leveraged buy-out financing.

*Additional return*

Type of remuneration of the junior securities arising from securitisation transactions. In addition to a fixed dividend, such securities accrue periodic earnings (quarterly, semi-annual, etc.), whose amount is linked to the profit generated by the transaction (which in turn reflects the performance of the securitised assets).

*Advisor*

Financial broker assisting government authorities or companies involved in privatisation or other corporate finance transactions, whose tasks range from arranging appraisals to drawing up documents and providing general professional advice about specific transactions.

*AIRB (Advanced Internal Rating Based) Approach*

Approach to using internal ratings within the framework of the New Basel Accord, which provides for either the Foundation or the Advanced Approach. The Advanced Approach may be used only by institutions meeting more stringent requirements compared to the Foundation Approach. In this case, the Bank uses its own internal estimates for all inputs (PD, LGD, EAD and Maturity) for credit risk assessment, whereas for Foundation IRB it only estimates PD.

*ALM – Asset & Liability Management*

Integrated management of assets and liabilities designed to allocate the resources with a view to optimising the risk/yield ratio.

*ALT-A Agency*

Securities whose collateral consists of Alt-A mortgages, guaranteed by specialised Government Agencies.

*ALT- A - Alternative A Loan*

Residential mortgages generally of “prime” category, but which, due to various factors such as LTV ratio, documentation provided, borrower’s income/employment situation, type of property etc., cannot be classified as standard contracts usable in subscription programmes.

Incomplete documentation is the main reason for a loan being classified as “Alt-A”.

*Alternative investment*

Alternative investments comprise a wide range of investment products, including private equity and hedge funds (see definitions below).

*Other related parties – close relatives*

An individual’s “close relatives” comprise those family members likely to influence or be influenced by such individual in their relations with the entity. They include the individual’s non-separated spouse/domestic partner and the individual’s children, his/her spouse’s/domestic partner’s children, and the individual’s or his/her spouse’s/domestic partner’s dependents.

*AP – Attachment Point*

Level above which a protection seller will cover the losses of a protection buyer. It is typically used in synthetic CDOs.

*Arrangement fee*

A fee paid for professional advice and assistance provided in the loan structuring and arranging stage.

*Arranger*

In the structured finance sector, the arranger is the entity that – albeit in different forms and with different titles (mandated lead arranger, joint lead arranger, sole arranger etc.) – coordinates the organisational aspects of the transaction.

*Asset allocation*

The distribution of assets in an investment portfolio among different markets, geographical areas, sectors and products.

*Asset management*

The various activities relating to the management and administration of different customer assets.

*AT1*

Additional Tier 1 Capital (AT1). In general, the AT1 category includes equity instruments other than ordinary shares (which are eligible for Common Equity) and which meet the regulatory requirements for inclusion in that level of own funds (e.g. savings shares).

*Intangible asset*

An identifiable, non-monetary asset lacking physical substance.

*Discounting*

Process of determining the present value of a payment or payment flows to be received in the future.

### *Audit*

In listed companies, it indicates the various examinations of the business activities and bookkeeping of a company, performed by both in-house staff (internal audit) and independent audit firms (external audit).

### *AVA (Additional Valuation Adjustment)*

Additional valuation adjustments necessary to adjust the fair value to the prudent value of the positions. To perform a prudent valuation of the positions measured at fair value, the EBA envisages two approaches for calculating the AVA (the Simplified approach and Core approach). The prudent valuation requirements apply to all positions measured at fair value regardless of whether they are held in the trading book or not, where the term 'positions' refers solely to financial instruments and commodities.

### *AUM Assets under management*

Overall market value of assets such as deposits, securities and funds managed by the Group on behalf of customers.

### **$\beta$**

The beta coefficient of an issuer or a group of comparable issuers, an expression of the relationship between an equity's actual return and the total return of the market in question.

### *Back office*

The unit of a bank or financial company that processes all the transactions performed by the operational units (front office).

### *Backtesting*

Retrospective analyses performed to verify the reliability of the measurement of risk sources associated with different asset portfolios.

### *Banking book*

Usually referred to securities or financial instruments in general, it identifies the portion of a portfolio dedicated to "proprietary" trading.

### *Basis swap*

Contract providing for the exchange between two parties, of two floating-rate payments linked to a different index.

### *Best practice*

It generally identifies conduct in line with state-of-the-art skills and techniques in a given technical/professional area.

### *Bid-ask spread*

The difference between the buying and selling price of a given financial instrument or set of financial instruments.

### *Bookrunner*

See Lead manager and Joint lead manager.

### *Brand name*

IFRS 3 considers the "brand name" a potential, marketing related intangible asset, which may be recorded in the purchase price allocation process. The term "brand" is not used in accounting standards a restrictive sense as a synonym for "logo" and "name"; it is rather considered as a general marketing term which defines a set of complementary intangible assets (including, in addition to name and logo, the skills, the trust placed by the consumer, the quality of the services, etc.) which concur to form the so called "brand equity".

### *Budget*

Forecast of cost and revenue performance of a company over a period of time.

### *Business combinations*

In accordance with IFRS 3, a transaction or other event in which an acquirer obtains control of one or more company assets.

### *Business model*

The business model within which financial assets are managed.

With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed: Hold to Collect (HTC), Hold to Collect and Sell (HTCS), Others/Trading.

### *CAGR (Compound Annual Growth Rate)*

Compound annual growth rate of an investment over a specified period of time. If  $n$  is the number of years, the CAGR is calculated as follows:  $(\text{Ending value}/\text{Beginning value})^{(1/n)} - 1$ .

### *Capital Asset Pricing Model (CAPM)*

An economic model for determining the "opportunity cost" i.e. the amount of income for the period necessary to remunerate the cost of capital.

### *Capital structure*

It is the entire set of the various classes of bonds (tranches) issued by a special purpose vehicle (SPV), and backed by its asset portfolio, which have different risk and return characteristics, to meet the requirements of different categories of investors. Subordination relationships between the various tranches are regulated by a set of rules on the allocation of losses generated by the collateral:

Equity Tranche (B): the riskiest portion of the portfolio, it is also known as "first loss" and is subordinated to all other tranches; hence, it is the first to bear the losses which might occur in the recovery of the underlying assets.

Mezzanine Tranche (B): the tranche with intermediate subordination level between equity and senior tranches. The mezzanine tranche is normally divided into 2-4 tranches with different risk levels, subordinated to one another. They are usually rated in the range between BBB-AAA.

Senior/Supersenior Tranche (B): the tranche with the highest credit enhancement, i.e. having the highest priority claim on remuneration and reimbursement. It is normally also called super-senior tranche and, if rated, it has a rating higher than AAA since it is senior with respect to the AAA mezzanine tranche.

#### *Captive*

Term generically referring to “networks” or companies that operate in the exclusive interest of their parent company or group.

#### *Carry trade*

The carry trade is a financial transaction in which funds are procured in a country with a low cost of money and then invested in a country with high interest rates to take advantage of the difference in returns.

#### *Securitisation*

A transaction in which the risk associated with financial or real assets is transferred to a special-purpose vehicle by selling the underlying assets or using derivative contracts. In Italy the primary applicable statute is Law 130 of 30 April 1999.

#### *Cash flow hedge*

Coverage against exposure to variability in cash flows associated with a particular risk.

#### *Cash-generating Unit (CGU)*

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

#### *Cash management*

A banking service that in addition to informing companies on the status of their relations with the bank, is an operational tool enabling companies to transfer funds, thus leading to more efficient treasury management.

#### *Certificates*

Financial instruments which, based on their contracts, may be classified as optional derivatives that replicate the performance of an underlying asset. By purchasing a certificate, an investor acquires the right to receive – at a set date – an amount linked to the value of the underlying. In other words, through certificates investors can acquire an indirect position in the underlying asset. In some cases, investors can use the option structure to obtain full or partial protection of the invested capital, which takes the form of full or partial return of the premiums paid, irrespective of the performance of the parameters set in the contracts.

Certificates are securitised instruments and, as such, they can be freely traded as credit securities (traded on the SeDeX - Securitised Derivatives Exchange - managed by Borsa Italiana, and on the EuroTLX market).

#### *Sale without recourse*

Transfer of a loan or receivable in which the transferor does not offer any guarantees in the event of default by the debtor. The transferor thus only guarantees the transferee that the transferred loan or receivable exists, but not that the debtor is solvent.

#### *Sale with recourse*

Transfer of a loan or receivable in which the transferor guarantees payment by the debtor. The transferor thus guarantees the transferee both that the transferred loan or receivable exists and that the debtor is solvent.

#### *CCF - Credit Conversion Factor*

In determining credit risk, the CCF is the factor used to transform the EAD (Exposure At Default) of an off-balance sheet exposure into that of an on-balance sheet exposure. Where the Bank does not use internal models to estimate those factors (internal CCF), these are indicated as follows by the supervisory rules (regulatory CCF):

- a) 100 % if it is a full risk item;
- b) 50 % if it is a medium-risk item;
- c) 20 % if it is a medium/low-risk item;
- d) 0 % if it is a low-risk item.

#### *CCP (Central Counterparty Clearing House)*

A central counterparty is an institution interposed in securities trades between the two contracting parties, protecting the latter against default risk and guaranteeing the successful execution of the transaction. The central counterparty protects itself against its own risk by taking securities or cash collateral (margins) commensurate with the value and risk of the contracts guaranteed. Central counterparty services can be provided not only in the markets that expressly provide for them but also in respect of over-the-counter trading outside regulated markets.

#### *CDO – Collateralised Debt Obligation*

Financial instruments issued within the framework of securitisation transactions, backed by a pool of loans, bonds and other financial assets (including securitisation tranches). In the case of synthetic CDOs the risk is backed by credit derivatives instead of the sale of assets (cash CDOs).

#### *CDSs on ABX*

An Asset-backed security index (ABX) is an index with asset-backed securities as an underlying. Each ABX refers to a basket of 20 reference obligations belonging to a specific ABS sector. Each ABX (there are five in total) reproduces a rating class (AAA, AA, A, BBB, and BBB-).

In particular, the ABX.HE index, launched on 19 January 2006 (Annex Date), is made up of reference obligations of the home equity segment of ABS (Residential Mortgage-Backed Security – RMBS). The CDS on an ABX.HE therefore hedges the credit risk of underlying RMBSs or the risk relative to the 20 reference obligations which make up the index.

For ABX, the market does not provide credit curves but directly price valuation. The settlement admitted for contracts on ABX indices, as described in ISDA 2005 documentation, is PAUG (Pay As You Go): the protection seller pays the protection buyer the losses incurred as these emerge, without leading to termination of the contract.

Please note that the coverage achieved via the purchase of ABX indices, even if it is structured so as to match as closely as possible the characteristics of the hedged portfolio, remains in any case exposed to basis risks. In other words, since it is not a specific hedge



of individual exposures, it may generate volatility in the income statement whenever there is imperfect correlation between index prices and market value of the hedged positions.

### *CLO - Collateralised Loan Obligation*

CDOs backed by a portfolio of corporate loans.

### *CMBS - Commercial Mortgage-Backed Securities*

Securitisations Debt instruments backed by mortgages on commercial real estate.

### *CMO - Collateralised Mortgage Obligation*

Securities backed by mortgages in which the total amount of the issue is divided into tranches with different maturities and return. The tranches are repaid according to an order specified in the issue.

### *Commercial paper*

Short-term notes issued in order to collect funds from third-party underwriters as an alternative to other forms of indebtedness.

### *Consumer ABS*

ABS whose collateral is made up of consumer credits.

### *Core Business*

Main area of business on which company's strategies and policies are focused.

### *Core deposits*

"Core deposits" are "customer-related intangibles", generally recorded in business combinations between banks. The intangible value of core deposits stems from the future benefits for the acquirer deriving from the normally lower funding cost compared to market parameters. Basically, the acquirer may use funding for its lending and investment activities which, under normal conditions, pays less than the market interest rate.

### *Common Equity Tier 1 Ratio (CET1 Ratio)*

The ratio of Common Equity Tier 1 capital (CET1) to total risk-weighted assets.

### *Corporate*

Customer segment consisting of medium- and large-sized companies (mid-corporate, large corporate).

### *Cost/income ratio*

Economic indicator consisting of the ratio of operating costs to net operating income.

### *Amortised cost*

Differs from "cost" in that it provides for the progressive amortisation of the differential between the book value and nominal value of an asset or liability on the basis of the effective rate of return.

### *Transaction costs*

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. It is a cost that would not have been incurred if the entity had not acquired issued or disposed of the financial instrument.

### *Covenant*

A covenant is a clause, expressly agreed upon during the contractual phase, under which a lender is entitled to renegotiate and revoke a loan upon the occurrence of the events set out in the clause, linking the debtor's financial performance to events that trigger termination/amendment of contractual conditions (maturity, rates, etc.).

### *Coverage ratio*

It represents the percentage coverage of the value adjustment with respect to the gross exposure.

### *Covered bond*

Special bank bond that, in addition to the guarantee of the issuing bank, is also backed by a portfolio of mortgage loans or other high-quality loans sold to a special purpose vehicle.

### *CPPI (Constant Proportion Insurance Portfolio)*

A technique consisting of forming a portfolio of two assets, one without risk that offers a certain rate of return (risk-free) and one with risk that offers a generally higher return. The purpose of the re-balancing procedure is to prevent the value of the portfolio from falling below a predetermined level (floor), which rises at the risk-free rate over time and coincides with the capital to be guaranteed at maturity.

### *Credit default swap/option*

Contract under which one party transfers to another - in exchange for payment of a premium - the credit risk of a loan or security contingent on occurrence of a default event (in the case of an option the right must be exercised by the purchaser).

### *Credit derivatives*

Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, mainly by means of instruments other than cash, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

### *Credit enhancement*

Techniques and instruments used by issuers to improve the credit rating of their issues (providing sureties, cash credit lines, etc.).

*Credit/emerging markets (Funds)*

Funds that invest in securities with credit risk exposure, since they are issued by financial or corporate entities, which may be located in emerging countries.

*Credit-linked notes*

Similar to bonds issued by a protection buyer or a special purpose vehicle whose holders (protection sellers) – in exchange for a yield equal to the yield of a bond with the same maturity plus the premium received for credit risk hedging – take the risk of losing (in whole or in part) the maturing capital and the related flow of interest, upon occurrence of a default event.

*Credit Risk Adjustment (CRA)*

A technique that aims to draw attention to the penalty resulting from the counterparty's creditworthiness used in determining the fair value of unlisted derivative financial instruments.

*Credit spread option*

Contract under which the protection buyer reserves the right, against payment of a premium, to collect from the protection seller a sum depending on the positive difference between the market spread and that fixed in the contract, applied to the notional value of the bond.

*Past due loans*

"Past due exposures" are non-performing exposures on which payments are past due on a continuing basis for over 90 days, in accordance with the definition set forth in current supervisory reporting rules.

*CreditVaR*

Value that indicates an unexpected loss with respect to a credit portfolio at a specified confidence interval and a specified time horizon. CreditVaR is estimated through loss distribution and represents the difference between the average value of the distribution and the value corresponding to a certain percentile (usually 99.9%), which reflects the Bank's risk appetite.

*Cross selling*

Activity designed to increase customer loyalty through the sale of integrated products and services.

*CRM – Credit Risk Mitigation*

Techniques used by institutions to reduce the credit risk associated with their exposures.

*CRP (Country Risk Premium)*

Country risk premium: it expresses the component of the cost of capital aimed specifically at providing compensation for the risk implicit in a particular country (namely the risk associated with financial, political and monetary instability).

*CR01*

Referred to a credit portfolio, it indicates the change in portfolio value that would occur for a 1-basis-point increase in credit spreads.

*CSA (Credit Support Annex)*

A document through which counterparties trading in an over-the-counter derivative instrument establish the terms of contribution and transfer of the underlying guarantees to mitigate credit risk in the event of in-the-money position of the instrument. This document, although not mandatory for the transaction, is one of the four components that contribute to the establishment of the Master Agreement according to the standards established by the International Swaps and Derivatives Association (ISDA).

*Reclassification date*

The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

*Default*

Declared inability to honour one's debts and/or make the relevant interest payments.

*Delinquency*

Failure to make loan payments at a certain date, normally provided at 30, 60 and 90 days.

*Delta*

Value that expresses the sensitivity of the price of the underlying asset for an option. Delta is positive for call options because the price of the option rises along with the price of the underlying asset. Delta is negative for put options because a rise in the price of the underlying asset yields a decrease in the price of the option.

*Embedded derivatives*

Embedded derivatives are clauses (contractual terms) included in a financial instrument that generate the same effects as an independent derivative.

*Desk*

It usually designates an operating unit dedicated to a particular activity.

*Dynamics of funding*

Sum of deposits in a current account (free current accounts and bank drafts), returnable deposits upon prior notice (free savings deposits), time deposits (time current accounts and time deposits, certificates of deposit), repo agreements and bonds (including subordinated loans). All contract types, with the exception of bonds, refer to Italian customers, excluding the Central Administration, in euro and foreign currency. Bonds refer to the total amount issued, irrespective of residence and sector of the holder.

*Directional (Funds)*

Funds that invest in financial instruments that profit from directional market movements, also through macroeconomic forecasting.

### *Domestic Currency Swap*

Contract settled in euro, whose economic effect is equal to that of a time purchase or sale of a foreign currency in exchange for domestic currency. On expiry, the difference between the forward and the spot exchange rates is settled in euro.

### *Duration*

An indicator of the interest rate risk of a bond or bond portfolio. In its most frequent form, it is calculated as a weighted average of the due dates of interest and principal payments associated with a bond.

### *EAD – Exposure At Default*

Relating to on- or off-balance sheet positions, it is defined as the estimated future value of an exposure upon default of a debtor. Only banks meeting the requirements for using the AIRB approach are entitled to estimate EAD. The others are required to make reference to statutory estimates.

### *ECAI – External Credit Assessment Institution*

An external credit assessment institution.

### *EDF – Expected Default Frequency*

Frequency of default, normally based on a sample internal or external to the bank, which represents the average risk level associable with a counterparty.

### *EHQLA (Extremely High Quality Liquid Asset)*

Encumbered assets that are notionally eligible to be classified as extremely high quality liquid assets. Notionally eligible encumbered EHQLA and HQLA are the assets listed in Articles 11, 12 and 13 of Commission Delegated Regulation (EU) 2015/61.

### *ETD – Exchange Trade Derivatives*

Standard derivative contracts (futures and options with various types of underlying) traded on regulated markets.

### *Embedded value*

A measure of the underlying value of a life insurance company. It is the sum of the company's adjusted net asset value and the present value of the future income margins from the policies already in force over the period of their residual life.

### *Eonia (Euro overnight index average)*

Weighted average of the overnight rates transmitted to the ECB by a sample of banks operating in the Euro area.

### *Equity hedge / long-short (Funds)*

Funds that predominantly invest in stocks with the possibility of creating hedging strategies by means of short sales of the same stocks or strategies in derivative contracts involving securities or market indices.

### *Equity origination*

Increase of a company's risk capital achieved by floating a new issue of stock.

### *ERP (Equity Risk Premium)*

Risk premium demanded by investors in the market in question. ISP uses the risk premium calculated according to the historical approach (geometric average of the difference between equity and risk-free returns for the period 1928-2009) by New York University - Stern School of Business.

### *Exotics (derivatives)*

Non-standard instruments unlisted on the regular markets, whose price is based on mathematical models.

### *EVA (Economic Value Added)*

An indicator that provides a snapshot of the amount of value created (if positive) or destroyed (if negative) by enterprises. In contrast to other parameters that measure business performance, EVA is calculated net of the cost of equity capital, that is to say the investment made by shareholders.

### *Event-driven (Funds)*

Funds that invest in opportunities arising out of significant events regarding the corporate sphere, such as mergers, acquisitions, defaults and reorganisations.

### *EVT – Extreme Value Theory*

Statistical methodologies that deal with extreme hypothetical deviations from median of probability distributions of specific events.

### *Expected Credit Losses (ECL)*

Expected credit risk adjustments, determined based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

Calculated as the difference between all contractual flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls) discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

### *12-Month Expected Loss*

Portion of the lifetime expected loss that arises if the default occurs within 12 months from the reporting date (or a shorter period if the expected life is less than 12 months), weighted by the probability of that default.

### *Facility (fee)*

Fee calculated with reference to the disbursed amount of a loan.

**Factoring**

Sale of trade receivables to factoring companies, for credit management and collection, normally associated with the granting of a loan to the seller.

**Fair value**

The amount at which an asset could be bought or sold or a liability incurred or settled, in a current transaction between willing parties.

**Fair value hedge**

Hedging against the risk of change in the fair value of a financial statement item, attributable to a particular risk.

**Fair Value Option (FVO)**

The Fair Value Option is an option for classifying a financial instrument.

When the option is exercised, even a non-derivative financial instrument not held for trading may be measured at fair value through profit or loss.

**Fairness/Legal opinion**

An opinion provided on request by experts of recognised professionalism and competence, on the adequacy of the economic terms and/or lawfulness and/or technical aspects of a given transaction.

**“G” factor (“g” growth rate)**

It is the factor used for perpetuity projection of cash flows in order to calculate “Terminal value”.

**FICO Score**

In the US, a credit score is a number (usually between 300 and 850) based on the statistical analysis of an individual's credit report. The FICO score is an indicator of the borrower's creditworthiness. A mortgage lender will use the “score” to assess borrower default risk and to correctly price risk.

**FIFO: First In First Out**

Criterion used to recognise the expected credit losses (ECL) recorded on a security through profit or loss at the time of sale

**Prudential filters**

In schemes for calculating regulatory capital, corrections made to line items with the aim of safeguarding the quality of regulatory capital and reducing its potential volatility as a result of the application of international accounting standards (IAS/IFRS).

**Harmonised mutual funds**

Mutual funds within the scope of Directive 85/611/EEC of 20 December 1985, as amended, characterised by their open form, the possibility of offering units to the public and certain investment limits. Investment limits include the obligation to invest primarily in quoted financial instruments.

**Forward Rate Agreement**

See “Forwards”.

**Forwards**

Forward contracts on interest rates, exchange rates or stock indices, generally negotiated in over-the-counter markets and whose conditions are established at the time when the contract is entered into, but which will be executed at a specified future date, by means of the receipt or payment of differentials calculated with reference to parameters that vary according to the object of the contract.

**Front office**

The divisions of a company designed to deal directly with customers.

**Funding**

The raising of capital, in various forms, to finance the company business or particular financial transactions.

**Futures**

Standardised forward contracts under which the parties agree to exchange securities or commodities at a specified price on a specified future date. Futures are normally traded on organised markets, where their execution is guaranteed. In practice, futures on securities often do not involve the physical exchange of the underlying.

**FVTOCI: Fair Value Through Other Comprehensive Income**

Method of recognition of changes in the fair value of financial assets through other comprehensive income (therefore in shareholders' equity) and not through profit or loss.

**FVTPL: Fair Value Through Profit or Loss**

Method of recognition of changes in the fair value of financial assets through profit or loss

**Global custody**

An integrated package of services including, in addition to the custody of securities, the performance of administrative activities relating to the settlement of securities, collections and payments, acting as depositary bank and cash management, as well as various forms of portfolio performance reporting.

**GMSLA**

Global Master Securities Lending Agreement: these are margin agreements used to mitigate counterparty risk in securities lending transactions

### *GMRA*

Global Master Repurchase Agreement: these are margin agreements used to mitigate counterparty risk in repurchase agreement transactions.

### *Goodwill*

The value attached to intangible assets as part of the purchase price of a shareholding in a going concern.

### *Governance*

The set of instruments, rules and standards regulating the life of the company, particularly as regards the transparency of documents and company records, and the completeness of information made available to the market.

### *Grandfathering*

The new composition of own funds under Basel 3 and other less significant measures will enter into force following a transitional period. Specifically, old instruments included in Basel 2 regulatory capital, which are not included under Basel 3, will be gradually eliminated (referred to as the grandfathering period).

### *Greeks*

Greeks are the quantities that identify the greater or lesser sensitivity of a derivative contract, typically an option, to changes in the value of the underlying asset or other parameters (e.g. intrinsic volatility, interest rates, stock prices, dividends and correlations).

### *Hedge accounting*

Rules pertaining to the accounting of hedging transactions.

### *Hedge funds*

Mutual fund that employs hedging instruments in order to achieve a better result in terms of risk/return ratio.

### *HELs – Home Equity Loans*

Loans granted up to the current market value of the real estate property used as collateral (therefore with a loan-to-value ratio higher than the ordinary thresholds), by means of first or second lien mortgages. Standard & Poor's considers Subprime and Home Equity Loan largely synonymous when the home equity loan borrowers have low credit score (FICO<659).

### *HQLA (High Quality Liquid Asset)*

Encumbered assets that are notionally eligible to be classified as high quality liquid assets. Notionally eligible encumbered EHQLA and HQLA are the assets listed in Articles 11, 12 and 13 of Commission Delegated Regulation (EU) 2015/61.

### *HY CBO – High-Yield Collateralised Bond Obligation*

CDOs with collateral represented by High-Yield securities.

### *IAS/IFRS*

The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

### *IASB (International Accounting Standard Board)*

The IASB (previously known as the IASC) is the entity responsible for issuing international accounting standards (IAS/IFRS).

### *ICAAP (Internal Capital Adequacy Assessment Process)*

The "Second Pillar" provisions require that banks implement processes and instruments of Internal Capital Adequacy Assessment Process (ICAAP), to determine the amount of internal capital needed to cover all risks, including risks different from those covered by the total capital requirement ("First Pillar"), when assessing current and potential future exposure, taking into account business strategies and developments in the economic and business environment.

### *IFRIC (International Financial Reporting Interpretations Committee)*

A committee within the IASB that establishes official interpretations of international accounting standards (IAS/IFRS).

### *IMA (Internal Models Approach)*

Approach for calculating the capital requirement for market risk using internal models.

### *IMM (Internal Model Method)*

Method for calculating Exposure at Default, within the counterparty risk assessment, through internal models based on the concept of Expected Positive Exposure.

### *Impairment*

When referred to a financial asset, a situation of impairment is identified when the book value of an asset exceeds its estimated recoverable amount.

### *Deferred tax (tax liabilities or assets)*

Deferred tax liabilities are the amounts of income tax that will be payable in future periods and arising from taxable temporary differences.

Deferred tax assets are the amounts of income taxes claimable in future periods and arising from:

- (a) deductible temporary differences;
- (b) the carry forward of unused tax losses; and
- (c) the carry forward of unused tax credits.

Temporary difference is the difference between the carrying amount of an asset or liability and its tax base.

There are two types of temporary difference:

- a) taxable temporary difference, i.e. a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in taxable amounts in the future when the carrying amount of the asset is recovered or the liability is settled; or

- b) deductible temporary difference: a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in amounts that are tax deductible in the future when the carrying amount of the asset is recovered or the liability is settled.

**Significant increase in credit risk "SICR"**

Criterion used to verify the transition between stages: if the credit risk of the financial instrument has increased significantly since initial recognition, the value adjustments are equal to the lifetime expected credit losses of the instrument (lifetime ECL). The bank establishes whether there has been a significant increase in credit risk based on qualitative and quantitative information. Exposures are considered to have had a significant increase in credit risk when:

- the weighted average lifetime PD has increased beyond the threshold at the time of the origination. Other measures of PD deterioration can also be used. The relative thresholds are defined as percentage increases and set at a particular value or segment;
  - exposures are determined to be of higher credit risk and subject to closer monitoring;
- exposures are more than 30 days past due, used as a backstop rather than a primary driver.

**Incurred loss**

Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss." It represents the risk level inherent in a portfolio of performing loans and is the basic indicator for determining the size of the stock of collective adjustments recognised in the financial statements.

**Index-linked**

Policies whose performance at maturity depends on the performance of a reference parameter, which may be a stock index, a basket of securities or some other indicator.

**CMBX index**

The same as the ABX index, the only difference being that the reference entities are CMBSs.

**Internal dealing**

Transactions between different operating units of the same company. These transactions are recognised in the accounts and contribute to determining the position (trading or hedging) of the individual units involved.

**Intraday**

Used to refer to an investment/disinvestment transaction performed in the course of a single day involving the negotiation of a security. It is also used with reference to prices quoted during any one day.

**Investment property**

Real estate owned for the purpose of obtaining income and/or benefiting from an increase in their value.

**Investment grade**

Term used with reference to high-quality bonds that have received a medium/high rating (e.g., not less than BBB on Standard & Poor's index).

**IRC – Incremental Risk Charge**

The maximum potential loss in the trading book resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level.

**IRS – Interest Rate Swap**

A binding agreement between two parties to exchange two flows calculated over a notional amount with fixed/floating or floating/floating rate.

**ISDA - International Swaps and Derivatives Association**

An association of participants in the over-the-counter derivatives market. It is based in New York and has created a standard contract for entering into derivatives transactions.

**Joint venture**

Agreement between two or more firms for the performance of a given economic activity, generally through the incorporation of a joint-stock company.

**Junior**

In a securitisation transaction, it is the lowest-ranking tranche of the securities issued, being the first to bear losses that may occur in the course of the recovery of the underlying assets.

**Ke (Cost of Equity)**

Cost of equity, the minimum return demanded for investments of the same risk level.

**Ke – g**

Difference between the cash flow discounting rate and the long-term growth rate. If cash flows remain equal, value in use increases as that difference decreases.

**Lambda ( $\lambda$ )**

Coefficient that measures the assessed item's specific exposure to country risk. In the model used by Intesa Sanpaolo, it is estimated to be 1, in that it is presumed that it is necessary to vary the country's risk level.

### *LCRE: Low Credit Risk Exemption*

Exemption from the ordinary credit risk measurement according to which it can be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk (at least equal to investment grade) at the reporting date.

### *LDA - Loss Distribution Approach*

Method of quantitative assessment of the risk profile through actuarial analysis of individual internal and external loss events; by extension, the term Loss Distribution Approach also refers to the calculation model for the historical capital per business unit.

### *Lead manager - Bookrunner*

Lead bank of a bond issue syndicate. The lead manager deals with the debtor and is responsible for choosing the co-lead managers and the other members of the underwriting syndicate in agreement with the debtor. It also determines the terms and conditions of issue and coordinates its execution (usually placing the largest share of the issue on the market) and keeps the books (bookrunner); in addition to reimbursement of expenses and usual fees, the lead manager receives a special commission for its services.

### *Risk-based lending*

A methodology applied to a credit portfolio to identify the most suitable pricing conditions taking into account the risk factor of each credit.

### *Leveraged & acquisition finance*

See "Acquisition finance".

### *Liquidity Coverage Ratio (LCR)*

It aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that may be converted into cash to meet its liquidity needs within a period of 30 days under conditions of severe stress. The liquidity coverage ratio is equal to the ratio of liquidity reserves to net outflows of liquidity over a stress period of 30 calendar days.

### *LTV – Loan-to-Value Ratio*

The ratio between the loan and the value of the asset for which the loan was requested or the price paid by the borrower to buy the asset.

The LTV ratio measures the weight of the borrower's own funds used to buy the asset on the value of the asset used as guarantee of the loan. The higher the LTV ratio, the lower the borrower's own funds used to buy the asset, the lower the creditor's protection.

### *Cumulative loss*

Cumulative loss incurred, at a certain date, on the collateral of a specific structured product.

### *Loss Given Default (LGD)*

It represents the percentage of loans that are estimated to be irrecoverable in the event of default by the debtor.

### *M–Maturity*

The remaining time of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is fixed at 2.5 years if the foundation approach is used.

### *Macro-hedging*

Use of macro-hedging. Hedging procedure involving a single derivative product for various positions.

### *Mark to Market*

Process of determining the value of a portfolio of securities or other financial instruments by reference to the prices expressed by the market.

### *Market dislocation*

Turbulence in financial markets characterised by a strong reduction in volumes traded on financial markets with difficulties in finding significant prices on specialised information providers.

### *Market making*

Financial activity carried out by brokerage houses that ensure market liquidity and depth, both through their ongoing presence and by means of their role as competitive guides in determining prices.

### *Market neutral*

Operating strategies involving securities designed to minimise the relevant portfolios' exposure to market volatility.

### *Mark-down*

Difference between the 1-month Euribor and interest rates on household and business current accounts.

### *Mark-up*

Difference between the overall interest rate applied to households and businesses on loans with a duration of less than one year and 1-month Euribor.

### *Merchant banking*

A range of activities including the underwriting of securities – both equities and bonds – issued by corporate customers for subsequent offering on the market, the acquisition of equity investments for longer periods but always with the aim of selling them later, and the provision of advisory services on mergers, acquisitions and reorganisations.

### *Mezzanine*

In a securitisation transaction it is the tranche ranking between junior and senior tranche.



*Monoline*

Insurance companies which, in exchange for a commission, guarantee the reimbursement of certain bond issues. Formed in the 1970s to guarantee municipal bond issues from default, their services were subsequently particularly appreciated for issues of complex financial products: the structure and the assets underlying such issues are often highly complex; the debt positions guaranteed by monoline insurers become easier to value and more appealing for risk-averse investors, since default risk is borne by the insurer.

*Multistrategy / Funds of funds (Funds)*

Funds that do not invest in a single strategy but in a portfolio reflecting different strategies, i.e. in a portfolio of investment funds managed by third parties.

*NAV - Net Asset Value*

The market value of one share of the fund's managed assets.

*Net Stable Funding Ratio (NSFR).*

It is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. Net stable funding requirement is equal to the ratio of the stable funding available to the entity to the stable funding required by the entity and is expressed as a percentage.

*Non-performing*

Term generally referring to loans for which payments are overdue.

*Covered bond*

See "Covered Bond".

*Option*

Against payment of a premium, the buyer acquires the right, but not the obligation, to purchase (call option) or to sell (put option) a financial instrument at a set price (strike price) within (American option) or on (European option) a given future date.

*Outsourcing*

The transfer of business processes to external providers.

*Overnight Indexed Swap (OIS)*

Contract involving the exchange of the net flow deriving from the difference between a fixed and floating interest rate applied to a notional principal amount. The fixed rate is set at the inception of the contract, while the floating rate is determined at maturity as the average of the overnight rates surveyed during the term of the contract, with compound interest.

*Over-The-Counter (OTC)*

It designates transactions carried out directly between the parties outside organised markets.

*Packages*

Strategy made up of a funded asset whose credit risk is hedged by a specific credit default swap. If present, any interest rate and foreign exchange rate risks can be hedged with financial derivatives.

*Expected credit loss*

It is calculated as the product of the Probability of Default (PD) and Loss Given Default (LGD) multiplied by the exposure value (EAD). It represents the ratio of the amount expected to be lost on the exposure, over a time horizon of one year, as a result of a potential default by the counterparty and the amount of the exposure at the time of default.

*Lifetime expected loss*

Expected credit loss that results from all possible default events over the expected life of a financial instrument.

*Performing*

Term generally referring to loans characterised by regular performance.

*Plain vanilla (derivatives)*

Products whose price depends on that of the underlying instrument, which is listed on the regulated markets.

*POCI: Purchased or Originated Credit-Impaired Assets* – Assets for which the lifetime expected losses are recognised upon initial recognition and which are automatically classed as Stage 3.

*Index-linked life insurance policies*

Life insurance policies the benefits of which are based on indexes, normally drawn from equity markets. Policies may guarantee capital or offer a minimum return.

*Pool (transactions)*

See "Syndicated lending".

*Held for trading*

A financial asset or financial liability that:

- is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

### *Pricing*

Broadly speaking, it generally refers to the methods used to determine yields and/or costs of products and services offered by the Bank.

### *Prime broker*

The Prime Broker is an international financial intermediary that operates as agent in the settlement process, carrying out the financial transactions ordered by the hedge fund's manager with the utmost confidentiality. The Prime Broker also acts as the fund's lender, providing credit lines and securities lending for short selling, and directly obtaining guarantees in respect of the financing granted to the fund. The Prime Broker also provides risk management services, monitoring the hedge fund's risk exposure to ensure conditions of financial stability. Other services provided by the Prime Broker are holding and deposit of the fund's cash and securities, handling of the netting and settlement process, and recording of all market transactions.

### *Prime loan*

Mortgage loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high-quality (as concerns the borrower) and low-risk.

### *Private banking*

Business designed to provide preferred customers with asset management, professional advice and other personalised services.

### *Private equity*

Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

### *One-year Probability of Default (PD)*

The likelihood that a debtor will default within the space of 1 year.

### *Lifetime PD*

The likelihood that a debtor will default within a period equal to the expected life of the financial instrument.

### *Project finance*

Technique for the financing of industrial projects based upon a forecast of the cash flow generated by the projects themselves. The analysis is based upon a series of evaluations differing from those generally made when assessing ordinary credit risk and covering, in addition to cash flow analysis, technical examination of the project, the suitability of the sponsors engaged in its implementation and the markets where the product will be placed.

### *PV01*

Measures the price value change of a financial asset following a one basis point shift in the yield curve.

### *Indirect customer deposits*

The holding of third parties' securities and similar valuables not issued by the bank, at nominal value, excluding certificates of deposit and bank bonds.

### *Rating*

An evaluation of the quality of a company or of its bond issues, based on the company's financial strength and outlook. Such evaluation is performed by specialised agencies or by the Bank based on internal models.

### *Real estate (finance)*

Structured finance transactions in the real estate sector.

### *Real Estate Investment Trust (REITs)*

REITs are entities that invest in different types of real estate or financial assets related to real estate, including malls, hotels, offices and mortgage loans.

### *Relative value/Arbitrage (Funds)*

Funds that invest in market neutral strategies, profiting from the price differentials of particular securities or financial contracts, neutralising the underlying market risk.

### *Retail*

Customer segment mainly including households, professionals, retailers and artisans.

### *Counterparty risk*

Counterparty risk is a particular type of credit risk, relating to OTC derivatives and SFTs (Securities Financing Transactions), which refers to the possible default of the counterparty before the expiry of a contract that has a positive market value.

### *Credit risk*

The risk that an unexpected change in a counterparty's creditworthiness, in the value of the collateral provided, or in the margins used in case of default might generate an unexpected variation in the value of the bank's exposure.

### *Market risk*

Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as concerns the interest rate component, deposits in euro and in foreign currency, etc.).

### *Liquidity risk*

The risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash

without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

*Operational risk*

Risk of incurring losses due to inadequacy or failures of processes, human resources or internal systems, or as a result of external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.

*Risk-free*

Return on risk-free investments. For the Italy CGU and countries in the International Subsidiary Banks CGU with "normal" growth prospects, the return on 10-year Bunds has been adopted, while for countries with "strong" growth prospects, the return on 30-year Bunds has been used.

*Risk Management*

Activity pertaining to the identification, measurement, evaluation and overall management of various types of risk and their hedging.

*RMBS - Residential Mortgage-Backed Securities*

Asset-backed securities guaranteed by mortgages on residential real estate.

*ROE (Return On Equity)*

It expresses the return on equity in terms of net income. It is the indicator of greatest interest to shareholders in that it allows them to assess the return on their equity investment.

*RTS (Regulation Technical Standards)*

Regulatory technical standards

*Risk-Weighted Assets (RWA)*

On- and off-balance sheet assets (derivatives and guarantees) that are classified and weighted by means of several risk ratios, in accordance with the rules issued by regulatory authorities on the calculation of capital ratios.

*Scoring*

System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

*Senior/Super senior tranche*

In a securitisation transaction, this is the tranche that has first claim on interest and principal payments.

*Sensitivity*

It refers to the degree of sensitivity with which certain assets/liabilities react to changes in rates or other input variables.

*Servicer*

In securitisation transactions, it is the organisation that – on the basis of a specific servicing contract – continues to manage the securitised credits or assets after they have been transferred to the special purpose vehicle tasked with issuing the securities.

*SGR (Società di gestione del risparmio)*

Joint-stock companies reserved the possibility of providing both collective and individual asset management service jointly. In particular, they are authorised to set up mutual funds, manage their own or others' mutual funds and the assets of SICAVs and provide individual investment portfolio management service.

*SPE/SPV*

A Special Purpose Entity or Special Purpose Vehicle is a company established by one or more entities to perform a specific transaction. Generally, SPEs/SPVs have no operating and managerial structures of their own and rely on those of the other parties involved in the transaction.

*Speculative grade*

Term used to identify issuers with a low credit rating (e.g., below BBB on Standard & Poor's index).

*SPPI TEST*

One of the two classification drivers (the other is the "business model") that the classification of the financial assets and the measurement basis depend on. The objective of the SPPI test is to identify the instruments, which can be defined as "basic lending arrangements" in accordance with the standard, whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI - solely payment of principal and interest). Assets with contractual characteristics other than SPPI are mandatorily measured at FVTPL.

*Spread*

This term can indicate the difference between two interest rates, the difference between the bid and ask price of a security or the price an issuer of stocks and bonds pays above a benchmark rate.

*SpreadVar*

Value that indicates the maximum possible loss on a trading portfolio due to the market performance of CDS spreads or bond spreads, with a certain degree of probability and assuming a certain amount of time needed for the disposal of positions.

*Stage 1*

Represents the financial instruments whose credit risk has not significantly increased since the initial recognition date. A 12-month expected loss is recognised for these financial Instruments.

### *Stage 2*

Represents the financial instruments whose credit risk has significantly increased since the initial recognition date. A lifetime expected loss is recognised for these financial instruments.

### *Stage 3*

Represents financial instruments that are credit impaired or in default. A lifetime expected loss is recognised for these financial instruments.

### *Stakeholders*

Subjects who, acting in different capacities, interact with the firm's activity, sharing in its profits, influencing its performance/services, and evaluating its economic, social and environmental impact.

### *Stock options*

Term used to indicate the right granted to company managers to purchase the company's shares at a certain price (strike price).

### *Stress tests*

A simulation procedure designed to assess the impact of extreme market scenarios on a bank's overall exposure to risk.

### *Structured export finance*

Structured finance transactions in the goods and services export financing sector.

### *Financial instruments listed in an active market*

A financial instrument is regarded as listed in an active market if listed prices are promptly and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### *Subprime*

A universally agreed-upon definition of sub-prime loans does not exist. In short, this term refers to loans granted to borrowers with low creditworthiness, either because of bad credit history (non-payment, debt settlements or bad loans) or because their debt-to-income or loan-to-value ratio is high.

### *Swaps*

Transactions normally consisting of an exchange of financial flows between operators under various contractual arrangements. In an interest-rate swap, the parties exchange flows which may or may not be benchmarked on interest rates, calculated on a notional principal amount (e.g., one party pays a fixed-rate flow while the other pays a floating-rate flow). In the case of a currency swap, the parties exchange specific amounts of two different currencies at the outset, repaying them over time according to arrangements that may regard both the principal and the indexed interest flows.

### *Syndicated lending*

Loans arranged and guaranteed by a pool of banks and other financial institutions.

### *Effective interest rate*

The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.

### *Tax rate*

The effective tax rate, determined by the ratio of income taxes to income before tax.

### *Terminal value*

An enterprise's value at the end of an analytical cash-flow forecasting period, calculated by multiplying the analytical cash flow for the final period by  $(1 + g)$  and dividing that amount by  $(K_e - g)$ .

### *Impairment test*

The impairment test is an estimate of the recoverable amount (the higher of an asset's fair value less costs to sell and its value in use) of an asset or group of assets. Pursuant to IAS 36, the following assets should be tested for impairment annually:

- intangible assets with indefinite useful life;
- goodwill acquired in a business combination;
- any asset, if there is any indication of impairment losses.

### *Tier 1*

Tier 1 Capital consists of Common Equity Tier 1 Capital (CET1) and Additional Tier 1 Capital (AT1).

### *Tier 1 capital ratio*

Ratio of Tier 1 Capital, which consists of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1), to total risk-weighted assets.

### *Tier 2*

Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches.

Specific transitional provisions (grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new Basel 3 regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

### *Time value*

Change in the financial value of an instrument with regard to the time frame in which certain monetary flows will become available or due.

*Total capital ratio*

Capital ratio referred to regulatory capital components of Own Funds (Tier 1 plus Tier 2).

*Total return swap*

A contract under which one party, usually the owner of a security or a debt instrument, agrees to make periodic payments to an investor (protection seller) of the capital gains and interest generated by the asset. On the other side, the investor agrees to make payments based on a floating rate, as well as any negative price changes of the asset from the date of the contract.

*Trading book*

The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

*Trustee (Real estate)*

Real estate vehicles.

*Trust-preferred Securities (TruPS)*

Financial instruments similar to preferred shares, which are entitled to particular tax benefits.

*Underwriting fee*

Fee received in advance by the bank as compensation for assuming the underwriting risk associated with the granting of a loan.

*Value in use*

Value in use is the present value of estimated future cash flows expected to arise from an asset or from a cash-generating unit.

*Collective assessment of performing loans*

With reference to a homogeneous group of regularly performing financial assets, collective assessment defines the degree of credit risk potentially associated with them, though it is not yet possible to tie risk to a specific position.

*Fundamental Valuation*

Stock price analysis performed by estimating the fair value of stocks and comparing it with their market value.

*VaR - Value at Risk*

The maximum value likely to be lost on a portfolio as a result of market trends, estimating probability and assuming that a certain amount of time is required to liquidate positions.

*Vega*

Coefficient that measures the sensitivity of an option's value in relation to a change (increase or decrease) in volatility.

*Vega 01*

Referred to a portfolio, it indicates the change in value that it would undergo as a consequence of a one percent increase in the volatility of the underlying financial instruments.

*Vintage*

Date of generation of the collateral underlying the securitisation. It is an important factor in the assessment of the risk of the mortgage portfolios underlying securitisations.

*Expected life*

This refers to the maximum contractual life and takes into account expected prepayment, extension, call and similar options. The exceptions are certain revolving financial instruments, such as credit cards and bank overdrafts, that include both a drawn and an undrawn component where the bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the bank's exposure to credit losses to the contractual notice period. The expected life for these credit facilities is their behavioural life. Where data is insufficient or analysis inconclusive, an additional 'maturity factor' may be incorporated to reflect the full estimated life, based upon other experienced cases or similar cases of peers. Potential future modifications of contracts are not taken into account when determining the expected life or exposure at default until they occur.

*Warrant*

Negotiable instrument that entitles the holder to purchase from or sell to the issuer fixed-income securities or shares according to specific procedures.

*Waterfall*

Characteristic of a CDO's cash flow projection that is used in the CDO pricing process to model and allocate flows. It establishes the priority of payment of the various tranches in the event of failure of the tests on overcollateralisation and interest coverage ratios.

*Wealth management*

See "Asset management".

*What-if*

Form of analysis that attempts to predict the response of specific elements to changes in baseline parameters.

*Wholesale banking*

Banking activity mainly consisting of high-value transactions concluded with major counterparties.