



Master's Degree in Management

Course of Financial Reporting And Performance Measurement

# **THE INTESA SANPAOLO – UBI BANCA MERGER: STRATEGIC AND FINANCIAL ANALYSIS**

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## **Abstract**

In recent years, the Italian banking sector has been affected by an intense consolidation process, driven by regulatory pressures, macroeconomic instability and the need to strengthen competitiveness. This context places the merger between Intesa Sanpaolo and UBI Banca, one of the most notable and debated transactions in the national financial scene, which was completed in 2021. This thesis examines the strategic and financial factors that contributed to the transaction's success. Initially, each bank is analyzed independently to understand the pre-merger context. Subsequently, the structure of the transaction is analyzed, with particular attention to the strategic logic underlying the Public Exchange Offer and the evaluation of the creation of value for shareholders. Financial analysis is based on two complementary approaches: the Discounted Cash Flow method, which allows a prospective assessment of discounted future cash flows, and the analysis of market multiples, used as a control tool for comparison with comparable companies. Finally, a qualitative interview allows for comparing the results obtained with the direct experience of the process, confirming the evidence that emerged and deepening the realization of the expected synergies.

## Index

|                                                                                                   |           |
|---------------------------------------------------------------------------------------------------|-----------|
| <b>Introduction.....</b>                                                                          | <b>5</b>  |
| <b>Chapter 1: THEORETICAL FRAMEWORK ON BANK MERGERS AND ACQUISITIONS.....</b>                     | <b>7</b>  |
| 1.1. M&A Transactions in the Banking Sector.....                                                  | 7         |
| 1.1.1. Definition and Classification .....                                                        | 7         |
| 1.1.2. Mergers .....                                                                              | 8         |
| 1.1.3. Acquisitions .....                                                                         | 9         |
| 1.2. Key Drivers of M&A Transactions.....                                                         | 10        |
| 1.2.1. Characteristics of M&A banks.....                                                          | 11        |
| 1.2.2. Key Drivers .....                                                                          | 12        |
| 1.3. Valuation Methods in M&A .....                                                               | 14        |
| 1.3.1. Discounted Cash Flow (DCF).....                                                            | 15        |
| 1.3.2. Multiples Analysis .....                                                                   | 17        |
| 1.4. Post-Merger Value Creation .....                                                             | 20        |
| 1.5. Why Some Bank Mergers Fail: Causes and Consequences.....                                     | 22        |
| <b>Chapter 2: BANKING SYSTEM AND REGULATORY FRAMEWORK.....</b>                                    | <b>25</b> |
| 2.1. Overview of the Italian Banking System .....                                                 | 25        |
| 2.1.1. Historical evolution.....                                                                  | 25        |
| 2.1.2. The creation of the European Banking Union .....                                           | 26        |
| 2.1.3. Evolution and Reforms of the Italian Banking Sector .....                                  | 27        |
| 2.2. Regulatory Framework for Banking Mergers.....                                                | 28        |
| 2.2.1. Italian and European regulations.....                                                      | 28        |
| 2.2.2. The Role of the AGCM in M&A Transactions.....                                              | 29        |
| 2.2.3. OPA, OPS e OPAS e le loro discipline normative .....                                       | 30        |
| 2.3. M&A Trends in the Italian Banking Sector .....                                               | 32        |
| 2.3.1. The banking consolidation process .....                                                    | 32        |
| 2.3.2. The Rationale Behind the Banking Consolidation Process .....                               | 33        |
| 2.3.3. Notable mergers and acquisitions in Italy .....                                            | 34        |
| <b>Chapter 3: PRE-MERGER ANALYSIS OF INTESA SANPAOLO AND UBI BANCA .....</b>                      | <b>41</b> |
| 3.1. Intesa Sanpaolo: Corporate Profile and Strategic Vision.....                                 | 41        |
| 3.1.1. Banca Intesa S.p.A. ....                                                                   | 41        |
| 3.1.2. Sanpaolo IMI.....                                                                          | 41        |
| 3.1.3. Merger between Banca Intesa S.p.A. and Sanpaolo IMI .....                                  | 42        |
| 3.1.4. From the birth of the Intesa Sanpaolo Group to the merger with UBI Banca .....             | 45        |
| 3.1.5. Intesa Sanpaolo Today .....                                                                | 46        |
| 3.1.6. Organizational structure .....                                                             | 49        |
| 3.2. UBI Banca: Corporate Profile and Strategic Vision .....                                      | 51        |
| 3.3. Financial Performance and Key metrics: Intesa Sanpaolo.....                                  | 53        |
| 3.4. Financial Performance and Key metrics: UBI Banca .....                                       | 63        |
| <b>Chapter 4: THE MERGER PROCESS.....</b>                                                         | <b>71</b> |
| 4.1. Strategic Rationale Behind the Transaction .....                                             | 71        |
| 4.1.1. Why UBI Banca? Strategic rationales and expected impacts according to Intesa Sanpaolo..... | 71        |

|                                                                                                                      |            |
|----------------------------------------------------------------------------------------------------------------------|------------|
| 4.2. Merger Timeline and the Public Exchange Offer .....                                                             | 75         |
| 4.2.1. Public Exchange Offer .....                                                                                   | 75         |
| 4.2.2. The Merger .....                                                                                              | 82         |
| 4.3. Market and Investor Responses .....                                                                             | 83         |
| 4.3.1. Event Study Analysis: Cumulative Abnormal Return on the Day of the Public<br>Exchange Offer Announcement..... | 83         |
| <b>Chapter 5: TRANSACTION VALUATION.....</b>                                                                         | <b>86</b>  |
| 5.1. Methodological Approach: Discounted Cash Flow (DCF) and Multiples Analysis.....                                 | 86         |
| 5.1.1. Valuation Using the Discounted Cash Flow (DCF) Method.....                                                    | 86         |
| 5.1.2. Valuation Using Multiples Analysis.....                                                                       | 93         |
| 5.2 Post-Merger Synergies .....                                                                                      | 98         |
| 5.2.1. Comparison Between Initial Estimate and Actual Results.....                                                   | 99         |
| 5.3. Effect on key financial metrics .....                                                                           | 101        |
| 5.3.1. Earnings per share (EPS) .....                                                                                | 101        |
| 3.3.2. Effects on Income Statement items.....                                                                        | 103        |
| 3.3.3. Profitability, Efficiency, and Financial Strength Indicators .....                                            | 104        |
| 3.3.4. Stock price trend .....                                                                                       | 105        |
| <b>Chapter 6: QUALITATIVE METHOD.....</b>                                                                            | <b>106</b> |
| 6.1. Qualitative validation of the analysis.....                                                                     | 106        |
| 6.2. Intesa Sanpaolo point of view: intervista al Responsabile Planning & Control .....                              | 106        |
| <b>Conclusion.....</b>                                                                                               | <b>110</b> |
| <b>Sources: .....</b>                                                                                                | <b>114</b> |

## Introduction

In recent decades, the global banking industry has experienced significant transformation due to rising regulatory pressures, digitalization, the pursuit of operational efficiencies, and the necessity for consolidation to better confront financial market challenges. Within this framework, mergers and acquisitions (M&A) have emerged as a strategically vital tool, essential for enhancing competitiveness, attaining operational synergies, and boosting value generation for stakeholders.

Within the Italian banking landscape, the merger between Intesa Sanpaolo and UBI Banca, formalized in 2021, represents one of the most significant transactions in recent years, not only for the size of the entities involved, but also for its implications on the national and European banking system. It is an exemplary case for analysing in depth the strategic, regulatory and financial rationale underlying large bank mergers, as well as their concrete effects in terms of post-merger performance.

This thesis aims to analyze, in an integrated manner, the various strategic, regulatory and valuation aspects of the Intesa Sanpaolo–UBI Banca transaction, to understand whether and to what extent the transaction has actually generated value for shareholders and strengthened the competitive position of the new banking group. The paper is divided into six chapters, each of which deals with a specific level of analysis and contributes to the construction of a coherent overview based on a solid methodological framework.

The first chapter outlines the theoretical framework of reference, systematically exploring the academic literature on bank mergers and acquisitions. After clarifying the definition and classifications of M&A transactions, the main strategic drivers, the most common valuation methodologies, particularly the Discounted Cash Flow (DCF) method and multiple analysis, and the expected effects in terms of value creation are analyzed. The chapter concludes with a reflection on the recurring causes that explain the failure of many banking transactions, thereby providing a critical valuable framework for the empirical analysis that follows.

The second chapter provides an analysis of the Italian banking system and its regulatory framework, with a particular focus on the reforms introduced over the last thirty years. The process of bank consolidation, the Italian and European regulations on mergers, the role of the supervisory authorities (Bank of Italy, ECB, AGCM) and the regulation of takeover bids (takeover bids, ops, takeover bids) are described, in order to understand the institutional and legal context in which the merger analyzed took place.

The third chapter focuses on the pre-merger analysis of the two banks involved, Intesa Sanpaolo and UBI Banca. The respective evolutionary paths, business strategies, economic-financial performance and key balance sheet indicators are reconstructed. This section aims to provide an ex-ante comparative assessment, helpful in identifying the operational and strategic complementarities that motivated the merger.

The fourth chapter examines the merger process in detail, starting from the strategic motivations behind the transaction and proceeding to an analysis of the timing and methods of the public exchange offer launched by Intesa Sanpaolo. Particular attention is paid to the response of markets and investors, also through the use of an event study analysis that measures the anomalous reactions of share prices in the vicinity of the official announcement of the transaction.

The fifth chapter is dedicated to the financial evaluation of the transaction. After illustrating the methodological approach adopted, based on the DCF model and the analysis of multiples, a precise evaluation of the value created by the merger is carried out. This is followed by a comparative analysis of the synergies envisioned and those actually achieved, as well as an assessment of the impact on the main financial indicators of the new group, including earnings per share, profitability, operating efficiency, and share price.

The sixth chapter presents a qualitative interview with a professional involved in the fusion, useful for validating the results that emerged.

# **Chapter 1: THEORETICAL FRAMEWORK ON BANK MERGERS AND ACQUISITIONS**

## **1.1. M&A Transactions in the Banking Sector**

### **1.1.1. Definition and Classification**

Factors such as globalization, increasing competition, and technological advancements have led to a significant transformation of the banking industry. To address these challenges and maintain a high level of competitiveness, many banks have implemented restructuring strategies, including mergers and acquisitions (M&A). These operations can be used as a tool to increase profitability, avoid bankruptcy and optimize returns on assets and equity (Akhtar & Iqbal, 2014). They have therefore become a real strategic tool for expanding banks' activities, strengthening the capital base and increasing the stability of the financial environment in which they operate (Adhikari et al., 2023).

The growth of a bank can be pursued through natural growth, exploiting its internal assets, or through inorganic growth, through M&A operations. Organic growth takes longer and in the case of expanding markets, where business growth is outpaced by industry growth, it can be less efficient than inorganic growth (Borodin, Kiseleva, Panaedova, Yakovenko, & Bilchak, 2019).

In 2023, various factors influenced M&A deals, including inflation, geopolitical conflicts, a rigid regulatory environment, and low GDP growth and high interest rates (Mergers & Acquisitions in 2023: A Global Recap—Industry Insider | IBISWorld; Industry Insider | IBISWorld, n.d.). However, recent developments in the banking sector could lead to increasing consolidation, aimed at offsetting rising costs. The role of new technologies is also essential, as they represent a great opportunity for M&A transactions.

Operations such as M&A are often aimed at expanding into new markets and diversifying geographically. As a matter of facts, geographical strategies can be adopted, including the in-market strategy, partial-overlapping, parmarket-expansion and market penetration (Chakraborty & Das, 2024).

Creating synergies is one of the main purposes of M&A transactions (Khushalani & Sinha, 2021), which occur when the market value of the two companies taken individually is exceeded by the market value of the combined entity (Wajid et al., 2019). The increase in economic value can be given by greater operational effectiveness and cost reduction, the result of production improvements, use of economies of scale, higher market power and elimination of redundant structures and areas (Sudarsanam, 2003).

The terms merger and acquisition are often used interchangeably in the literature, as both involve the transfer of ownership of the business through a single transaction (Fiordelisi & Lopes, 2013). In the financial and credit encyclopedic dictionary they are defined as "a set of financial transactions aimed at integrating companies, organizations, etc., into a single economic entity aimed at obtaining competitive advantages and increasing the value of the result in the long term" (Financial and credit ..., 2002; Finance and statistics).

Mergers and acquisitions represent a form of restructuring of corporate ownership, which can result from the sale of shareholdings, the total or partial acquisition of another organization, the sale of divisions, the sale of subsidiaries (Gvardin, 2013).

Although they are very similar, they are distinct operations that must be analyzed separately. In Russian legislation, the term merger is defined as "the creation of a new company through the transfer of all rights and obligations of two or more companies, with the consequent cessation of the existence of the latter" (The Federal Law..., 2013). E.V. Semenkova and N.B. Rudyk, define the term acquisition as the transfer of the ownership rights of an organization resulting from a fee-based transaction.

In the text "Mergers, acquisitions and other forms of corporate restructuring", Depamfilis D. states that the acquisition operation occurs when there is the acquisition of the majority shares of one company by another, acquiring control (Mergers, Acquisitions ..., 2007; The Olympus is Business).

### **1.1.2. Mergers**

Article 2501 of the Civil Code defines a merger as the operation by which several companies merge, "by the establishment of a new company, or by the incorporation into a company of one or more others." Mergers are often used to increase a company's size and make the production cycle more efficient (Brocardi)<sup>1</sup>.

A merger in the strict sense, also known as a pure merger, occurs when a new legal entity is established, leading to the subsequent dissolution of the merging companies. Conversely, a merger by incorporation or improper merger involves the incorporation of one or more of the companies participating in the merger by another, which continues to survive by taking control of it, with a different organizational and financial structure.

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<sup>1</sup> <https://www.brocardi.it/codice-civile/libro-quinto/titolo-v/capo-x/sezione-ii/art2501.html>

Based on the legal nature of the companies involved in the merger, a distinction can be made between homogeneous mergers for companies of the same type and heterogeneous mergers involving different companies. Since 2003, following the company law reform, mergers between companies of different types of entities have been introduced, even with some limitations (Treccani)<sup>2</sup>.

Depending on the sector in which the companies operate, mergers can be horizontal, in the case of belonging to the same sector, the same assets or production processes; vertical, if companies operate in different sectors but in connected phases of the production chain; asset, if companies produce interrelated goods and conglomerate, if the companies belong to distinct and unrelated sectors. Conglomerate mergers can have as their objective the expansion of the product line, the expansion in the market or they can be pure conglomerates, where there is no objective to create operational or production synergies (Borodin, Kiseleva, Panaedova, Yakovenko, & Bilchak, 2019).

In addition, mergers can be classified as forced or voluntary. In voluntary mergers, the companies involved spontaneously merge to increase market power, cost efficiency, and take advantage of economies of scale (Jayadev & Sensarma, 2007). In contrast, forced mergers are usually imposed to face competition and strengthen the banking sector (Sufian et al., 2012).

### **1.1.3. Acquisitions**

Acquisition is an operation whereby one company becomes the owner or parent company of another. This is done by purchasing shares in the acquired company, called target, by another, usually larger company. In contrast to the merger in which a new legal entity is created, in the acquisition, both the acquiring and the absorbed company maintain the legal structures before the transaction.

In the event of a friendly acquisition, both companies are in favor of the operation, usually for reasons related to the desire for growth and expansion or the creation of large business groups capable of responding to the increase in market competitiveness. Following an initial strategic analysis, there is a negotiation phase that, in the event of a positive outcome, ends with the acquisition.

In the event of a hostile acquisition, however, the process is forced by the acquiring company that wants to gain control of the Board of Directors of the target company. Usually in this case there is a devaluation of the shares of the target company, through financial speculation, by the company that wants to acquire. Once the market devaluation has taken place, the company buys the shares of the

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<sup>2</sup> <https://www.treccani.it/enciclopedia/acquisizione>

target quickly before the share price returns to the actual market value. Often a hostile acquisition has a subsequent merger between the two companies as its objective, which will be approved once the majority in the Board of Directors has been obtained (Treccani)<sup>3</sup>.

These transactions can be carried out through different forms of financing, including the "stock-for-stock deal", in which shares of the acquiring company are offered to the shareholders of the target company, making them become new shareholders. There is also financing through internal resources (Cash Flow), whereby the acquisition is financed by the liquidity of the acquiring company or by operating cash flows. This method of financing allows the company to avoid interest costs related to external debt. Many acquisitions, however, are derived from external financing, including debt and bank loans (Benfratello, 2000).

In this regard, it is important to mention the Leveraged buy-out (LBO), which consists of the purchase of a company primarily through leveraged financing. Usually, the operation takes place through the establishment of a new company called "new company" or "newco", which will proceed with the acquisition of the target company, characterized by high debt, which will be repaid with future profits or through the sale of part of the assets of the target company. A merger by incorporation between the newco and the target company is then deliberated, whereby the target company is incorporated into the company that purchased the shares, an operation known as Merger Leveraged Buyout (M.L.B.O.). The merger allows the union of the assets of the two companies, which will later be used to repay the initial debt (Brocardi)<sup>4</sup>.

Management buy-out (MBO), also known as internal acquisition, should also be mentioned. In this operation, the managers of a company acquire the control of it, using their own or external capital as financing. This form of LBO is carried out by the management in order to ensure decision-making autonomy on the governance of the company.

Conversely, Management buy-in, involves the acquisition of a target company by external managers, usually financed by investors or financial institutions (Borsa Italiana)<sup>5</sup>.

## **1.2. Key Drivers of M&A Transactions**

Since the global financial crisis, there has been a significant reduction in bank M&A transactions in Europe, both in terms of the number of transactions and the value of the transactions themselves. As

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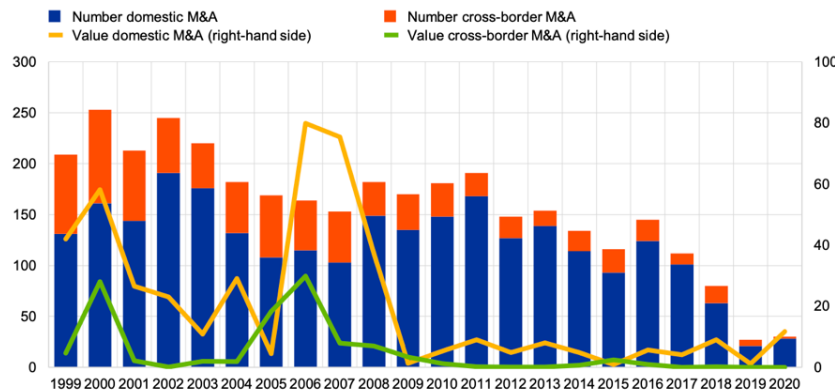
<sup>3</sup> <https://www.treccani.it/enciclopedia/acquisizione>

<sup>4</sup> <https://www.brocardi.it/codice-civile/libro-quinto/titolo-v/capo-x/sezione-ii/art2501bis.html>

<sup>5</sup> <https://www.borsaitaliana.it/borsa/glossario/acquisizione.html>

a matter of fact, one out of every three transactions failed, compared to one in six during the decade preceding the crisis (European Central Bank, 2021).

Since 2019, there has been a growth in M&A activity, also driven by the European Banking Supervision, which states: "[Consolidation] can be a means of addressing longstanding issues in the European banking sector, such as low profitability and overcapacity".



Graph 1: Sample from 1999-2020 for all EU countries plus the United Kingdom. M&As with a final stake >30%  
Source: Dealogic, SNL, and Zephyr, put together by Bijsterbosch et al. (2019) for the period 1999-2017

In this regard, it is essential for the European Banking Supervision, as well as for the ECB, to understand the rationale that leads to M&A transactions and the characteristics of the banks involved in such transactions.

### 1.2.1. Characteristics of M&A banks

First, research shows that the size of banks in terms of total assets is a significant factor that increases the likelihood that a bank will decide to engage in M&A as a buyer (Molyneux, 2003; Lanine & Vennet, 2007; Pasiouras & Gaganis, 2007; Pasiouras et al., 2011; Bijsterbosch et al., 2019). Moreover, acquiring banks are more cost-efficient (Pasiouras & Gaganis, 2007; Pasiouras et al., 2011; Bijsterbosch et al., 2019) and more profitable (Lanine & Vennet, 2007; Pasiouras et al., 2011). Although it may seem like a contradiction, many studies show that poor asset quality increases the likelihood of becoming a buyer in an M&A process (Bijsterbosch et al., 2019).

Regarding target banks, various studies in the literature have shown that various characteristics increase the probability of a bank becoming a target; including: large size (Lanine & Vennet, 2007; Pasiouras et al., 2011; Bijsterbosch et al., 2019), high volume of non-performing loans (Bijsterbosch et al., 2019), low liquidity (Pasiouras et al., 2011; Bijsterbosch et al., 2019), low cost efficiency

(Hernando et al., 2009; Caiazza et al., 2012; Bijsterbosch et al., 2019) and low levels of capital (Hannan & Rhoades, 1987; Wheelock & Wilson, 2000).

In terms of efficiency, Hernando et al. (2009) and Pasiouras et al. (2011) observed that the target banks in the EU15 countries generally exhibited below-average efficiency. Therefore, it could be assumed that the objective of the acquisition was to acquire weaker financial intermediaries with the aim of restructuring them and improving their efficiency (Focarelli et al. al., 2002). It also appears that these results are more frequent in domestic M&A transactions than in cross-border ones.

Experts have given mixed results on the topic of profitability. Some studies suggest that target banks are usually more profitable (Hannan & Rhoades, 1987; Lanine & Vennet, 2007), while others argue the opposite (Pasiouras & Gaganis, 2007; Goddard et al., 2009; Pasiouras et al., 2011). It is, however, a common view that poor bank management increases the likelihood of becoming a target bank.

### **1.2.2. Key Drivers**

According to the literature, M&A transactions are driven by different drivers depending on the characteristics of the companies involved and market conditions. These drivers, observed in the field of M&A in companies, are almost the same as those analyzed in the banking sector.

The search for a synergistic effect is undoubtedly fundamental. This means creating added value deriving from the integration between the companies involved. In other words, the overall result of the combined companies will be greater than the sum of the results obtained by the companies separately.

"Synergy is about the outcome resulting from the combination of different factors instead of their individual sum. From an etymological point of view, synergy has a neutral meaning: the joint effect of two or more factors is different from their simple sum" (Mocciaro Li Destri A.; Picone P.; Minà A., 2012, p. 26).

Synergies from M&A transactions can be divided into cost synergies and revenue synergies. Cost synergies are generally the result of economies of scale, consolidation of operations and the elimination of duplicate activities. For example, it is possible to improve the profitability of the new entity resulting from the M&A process by combining some back-office functions, such as finance, marketing and human resources.

Revenue synergies are linked to companies' ability to increase sales or the markets in which they operate, which has a positive impact on revenues. An example of this is a company that acquires a competitor, which will be able to expand its customer base and achieve incremental revenue growth.

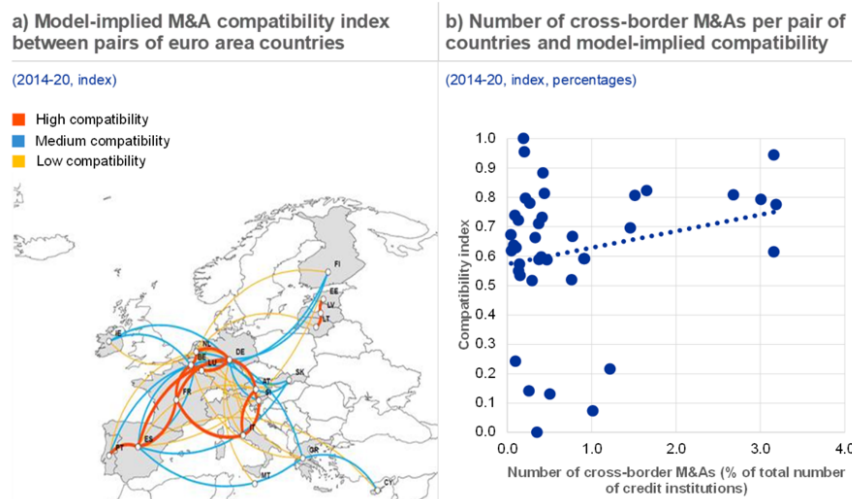
Realizing and quantifying revenue synergies is more complex than cost synergies. Moreover, while synergies can offer significant benefits, they are often complex to achieve.

M&A transactions also allow to achieve objectives related to market penetration, vertical expansion, entry into new markets and identification of the potential of assets (Eccles, Kersten and Wilson, 2001). Additionally, they can lead to increased market share and diversification of revenue sources.

The objective of entering new markets is particularly evident in cross-border M&A transactions, which can lead to lower barriers to entry, gain local expertise and strategic synergies.

Cross-border M&A transactions tend to occur more frequently between countries that already have strong ties, such as those within the Eurozone, as well as between nations with existing bilateral bank loans and significant securities holdings. In addition, banks usually acquire other banks that are located in states where there are already branches or subsidiaries.

A study applied a compatibility index for mergers and acquisitions through the use of a gravitational model capable of measuring commercial, financial and cultural links related to the frequency of cross-border M&A transactions. The results of the study state that such transactions are more frequent among banks operating in the central countries of the Eurozone, including Austria, Belgium, Germany and the Netherlands. In addition, it is believed that French banks may be more compatible with banks in neighboring countries, while Spanish banks are more similar to Portuguese ones (European Central Bank, 2021).



Graph 2: Representation of the M&A compatibility index for Euro area countries (2014-2020), showing compatibility levels between country pairs (Panel a) and the positive correlation between compatibility and cross-border M&A activity (Panel b).

Source: European Central Bank, 2021

### 1.3. Valuation Methods in M&A

There are three main valuation approaches used for M&A transactions, including Asset-Based Evaluation, Fundamental Analysis and Multiple Analysis.

1. Asset-Based Valuation identifies all assets and liabilities on the company's balance sheet. Subsequently, a revaluation of the assets is carried out at market value, and then the liabilities are subtracted from them (whose value usually remains unchanged), in order to determine the Equity Value.
2. Fundamental Analysis is based on predicting the future growth of a company to determine Equity Value. It can be applied on two levels: Asset-side and Equity Side. The asset side uses the Discounted Cash Flow Model, which assumes that the value of a company is given by the present value of future cash flows, discounted to the Weighted Average Cost of Capital (WACC). Finally, it subtracts the net financial position of the current year. This model is best suited for companies that reinvest profits and do not pay dividends regularly. The Equity Side, on the other hand, uses the Dividend Discount Model, according to which the value of the company's shares is equal to the value of future dividends discounted at the cost of equity. This model is most used for companies that pay dividends regularly.
3. Multiple Analysis determines the value of the company based on comparison with similar companies, using different multiples, such as P/E and EV/EBIT.

In the literature, the most widely used approach over the years is the Asset-Based approach (Miles R. C., 1984), but it should be considered that the valuation model must be selected based on the specific

case, taking into account the type of business, the business objectives, the timing, the composition of the aggregate assets, the macroeconomic conditions and the reference market (Richard A. Brealy, Stewart C. Myers, Franklin Allen, 2011).

For the purposes of this study, the Discounted Cash Flow model (DCF) and the Multiple Analysis will be analyzed, since, according to the literature, the former is used as the main valuation method and the latter as a verification tool (Richard A. Brealy, Stewart C. Myers, Franklin Allen, 2011).

### 1.3.1. Discounted Cash Flow (DCF)

The Discounted Cash Flow Model enables the valuation of the target company; however, the final purchase price will be established by negotiations between the buyer and the seller. It will reflect not only the intrinsic value derived from the analysis but also a portion of the expected synergies, which will inevitably drive up the acquisition cost. It is important to underline that estimating and quantifying the expected synergies represents one of the main challenges in the field of business valuation (Dallocchio M.; Lucchini G.; Scarpelli M., 2015).

In this model, the value of the company will be determined by the present value of the expected future cash flows (Free Cash Flow-FCF), discounted to the WACC, which depends on the capital structure, risk and nature of the cash flows.

Usually, the valuation time horizon is based on a period of five years, and then the Terminal Value is calculated, assuming that the company will continue to operate indefinitely.

The Enterprise Value will be the result of the following formula:

$$EV = \frac{FCF1}{(1 + WACC)^1} + \frac{FCF2}{(1 + WACC)^2} + \frac{FCF3}{(1 + WACC)^3} + \dots + \frac{FCFn + TV}{(1 + WACC)^n}$$

Where:

1. FCF1, FCF2, FCF3 and FCFn are the estimated Unlevered Free Cash Flow from year 1 to year n, i.e. it is the cash flow available to both creditors and shareholders, before the deduction of debt interests. They reflect the actual economic value of the company, as opposed to net profit, which does not reflect actual available liquidity. In order to calculate the Unlevered Free Cash Flow, the following formula is used:

$$FCF = EBIT - Taxes + Depreciation and Amortization - CAPEX - \Delta NWC$$

EBIT represents Earnings Before Interest and Taxes, i.e. operating profit before interest and taxes. Taxes are subtracted from it, in order to calculate the NOPAT, or Net Operating Profit After Taxes, which is the operating profit after taxes. Depreciation, amortization and impairment losses will then be added to the NOPAT, as they represent non-cash costs that will therefore not affect the actual cash flow. Subsequently, CAPEX (Capital Expenditures), i.e. investments in tangible and intangible assets, which represent a cash outflow, is subtracted. Finally, the change in Net Working Capital, calculated as  $NWC1 - NWC2$ , is subtracted. Where the NWC is defined as the difference between Current Assets and Current Liabilities. It is subtracted because it represents resources used to support the company's operational growth (Corporate Finance Institute, n.d.).

2. WACC is the Weighted Average Cost of Capital, at which all estimated cash flows, including Terminal Value, are discounted. It reflects the risk associated with FCF (Poniachek, 2018). The formula used to calculate the WACC is as follows:

$$WACC = Ke * \frac{E}{D + E} + Kd * \frac{D}{D + E} * (1 - t)$$

$\frac{E}{D+E}$  is the percentage of equity in the capital structure, as well as  $\frac{D}{D+E}$  represents the percentage of debt.  $D$  is the debt used to finance the company, while  $E$  is the equity, which is calculated as price per share \* numbers of shares outstanding, representing the market capitalization of the company.  $Kd$  is the cost of debt, which is adjusted by multiplying it by  $(1 - t)$ , where  $t$  is the marginal tax rate. This adjustment reflects the tax advantage derived from the fact that interest on debt is tax-deductible.  $Ke$  represents, the cost of equity, which can be obtained through the use of the Capital Asset Pricing Model (CAPM), through the following formula:

$$Ke = Rf + \beta(Rm - Rf)$$

In this case,  $Rf$  will be the risk-free rate of return, i.e. the return on risk-free securities over a time horizon consistent with that analyzed. Usually, the rates of Treasury Bills for maturity of 1 year, Treasury Notes for maturities up to 10 years and Treasury Bonds for maturities up to 30 years are used.  $\beta$  measures market risk, also known as non-diversifiable risk or systematic risk. It measures the percentage change in the expected return of a security as the market return changes by 1%. In the case of  $\beta > 1$ , the reference is to cyclical companies., which have a higher volatility than the market index chosen as a reference. If  $\beta = 1$  the stock moves like the market, while if  $\beta < 1$  it pertains to defensive companies, therefore less influenced by the

economic cycle.  $(R_m - R_f)$  represents the market risk premium, i.e. the premium that investors get for holding shares instead of risk-free assets (Poniachek, 2018).

3. TV is the Terminal Value, which represents the estimated value of a company's future cash flows beyond the forecast period, which is usually five years. It generally constitutes a significant percentage of the company's value. There are different approaches to calculating the TV. In the first scenario, the company will cease operations at the end of the forecast period, leading to a TV equal to 0. The second case involves a constant growth of cash flows over time and is therefore calculated as  $\frac{FCFn}{WACC}$ . In the third case, it is assumed that cash flows will grow at a constant rate  $g$ . This method is known as the Gordon Growth Model, which calculates the TV as  $\frac{FCFn(1+g)}{(WACC-g)}$ . The last method is called the Exit Multiple Approach and assumes that the company can be sold at a financial multiple based on similar companies in the market. The formula in this case is *Financial metric x multiple* (Corporate Finance Institute).
4.  $n$  is the forecast period

One of the main limitations of the Discounted Cash Flow Model is that it bases the valuation on assumptions that depend on the discretion of analysts and can therefore be inaccurate. In this regard, a subsequent verification can be carried out through additional evaluation models, including Multiples Analysis.

### 1.3.2. Multiples Analysis

Multiples Analysis is often used as a control method to validate the results obtained from the application of analytical methods. This method is based on the use of "multiples" deriving from the relationship between market data such as Equity Value and Enterprise Value and economic quantities of comparable companies (EBITDA, EBIT, etc.). Through these information, the analyst is able to evaluate the share price of the acquired company (Schueler A., 2020).

The first step for the application of the method under analysis involves the identification of a panel of companies comparable with the one being assessed. The sample must be composed of companies characterized by a certain similarity in terms of markets in which they operate, products, growth, profitability and business risk (Poniachek, 2018). The choice of companies used for the comparison influences the accuracy of the evaluation. As a matter of facts, Boatsman and Baskin (1981) argue that there are fewer errors of assessment when firms are chosen on the basis of similar historical earnings growth, as opposed to when selection is random.

Once the panel of companies has been identified, we proceed with the identification of the multiples most suitable for the company's characteristics. In this regard, Tasker (1998) analyzes how there is a systematic use of certain multiples for each sector (Liu, Nissim, & Thomas, 2002).

Multiples can be divided into two categories: asset-side and equity-side. Usually, in terms of M&A, the use of multiple asset-sides is preferable, which do not consider the company's leverage or financial structure.". Indeed, according to the asset-side approach, the multiple is given by the ratio between the Enterprise Value (EV) and an "unlevered" performance measure, i.e. not influenced by the financial structure. Some asset-side multiples are:

- Enterprise Value/ Sales: this represents the relationship between the Enterprise Value and the company's sales. This index tends to be stable over time and is linked to the company's growth rates. On the other hand, however, it may not fully reflect the efficiency of a company, its ability to generate cash flows and meet its obligations.
- Enterprise Value/EBITDA: this represents the ratio between Enterprise Value and EBITDA (Earnings Before Interest Tax Depreciation and Ammortization). It is the most widely used multiple, considering that EBITDA is the metric that best represents the company's ability to generate income through operating activities. This is a neutral multiple, as it is not influenced by any accounting decisions, since it excludes Depreciation and Ammortization. On the other hand, not considering the investments made could represent a limit in the accuracy of the results. According to an analysis performed by Kaplan and Ruback (1995) on transactions with a high level of debt, company valuations carried out using the DCF model have a level of precision similar to those carried out using EBITDA multiples (Schueler A., 2020).
- Enterprise Value/EBIT: represents the ratio between Enterprise Value and EBIT (Earnings Before Interest and Tax). In this case, the effect of non-monetary costs (Depreciation and Ammortization) is considered, making the analysis more complete but subjecting it to the influence of accounting policies.

Equity Side multiples relate the value of shareholders' equity, i.e. market price or market capitalization (Equity Value), with financial metrics that represent the performance of a company.

These include:

- Price/Earnings Per Share: it measures the ratio between the market price of the share and the Earnings Per Share and represents the years of profits needed to repay the investment in the share. It is easy to calculate, as both values are readily available and effectively reflect the

company's performance. The main limitation of this multiple is that it could be affected by temporary earnings and cannot be used for loss-making companies.

- Price/Book Value: represents the relationship between the share price and its book value. If this index is higher than 1, the market places a higher value on the stock than the company's tangible assets. If, on the other hand, the result is less than 1, the share is undervalued. This multiple is widely used for sectors that have a high presence of tangible assets.
- Price/Cash Flow: in this case, the market price of a share is related to the company's operating cash flows, i.e. the company's ability to generate positive cash flows. It is a neutral measure, not being influenced by accounting standards or financial statement policies.

When choosing multiples, it is essential to take into account the time dimension, based on which three different types of multiples can be distinguished: “historical”, which are based on data from the last available financial statements, “trailing”, which refers to the last twelve months prior to the valuation, and “leading”, which are instead based on future estimates.

Kim and Ritter (1999) argue that multiples based on future results are more accurate than multiples based on historical data, and therefore the EPS forecast for the following year is more representative than that for the current year (Schueler A., 2020).

Finally, the mean or median of the multiples from the selected companies is calculated and then multiplied by the economic quantity (e.g. EBITDA, EBIT, etc.) of the company to be evaluated. Although the arithmetic mean is the most widely used, some studies including that of Beatty, Riffe and Thompson (1999), believe that the use of the harmonic mean would be more effective, which would guarantee greater precision, as it is less influenced by outliers. In addition, Baker and Ruback (1999), believe that there is a proportional link between the value of the firm and the absolute error of evaluation, but in any case, the use of the harmonic mean is close to the "minimum variance estimators", thus reducing the variance between the errors (Schueler A., 2020).

Once the average (arithmetic or harmonic) or median has been calculated, the Enterprise Value is calculated when using an asset-side multiple, whereas the Equity Value is derived in the case of an equity-side multiple for the target company. To obtain the price of the single share, it is necessary to divide the Equity Value by the number of shares outstanding; at the same time, if the Enterprise Value is available, the Net Financial Positions must be subtracted from this value, to obtain the Equity Value and then proceed with the division by the number of shares outstanding to obtain the value of the single share.

#### **1.4. Post-Merger Value Creation**

Before the 1980s, in order to analyze the effects of M&A, studies by Financial Economics and Industrial Organization were carried out, which led to partially different results. Effects analysis using the Financial Economics approach focuses more on price developments and abnormal returns. In this regard, the most widely used methodology is that of event studies, which analyze the excess or abnormal returns due to the announcement of the event of the transaction. This methodology is based, however, on two hypotheses. The first concerns the efficiency of financial markets, at least in its semi-strong form, assuming that all publicly available information is reflected in market prices. The second hypothesis is that the market incorporates all the information available at the time of the announcement, without systematic errors, to be able to focus the analysis on a limited time window without focusing on the long term.

Financial studies also argue that shareholders of acquired firms make gains: 20% on average for mergers and 30% for tender offers (Jensen & Ruback, 1983). According to the same studies, the shareholders of the acquiring companies do not suffer losses, thus assessing the final effects of these transactions as positive.

The explanation for the value generated by M&A is less clear. A possible hypothesis put forward by financial studies believes that the merger could increase market power, positively influencing share prices and therefore leading the company to achieve higher future profits. However, Jensen & Ruback (1983), building on the studies of Eckbo (1983) and Stillman (1983), reject this hypothesis, stating that the true cause of gains remains uncertain ("still eludes us"). Other value transfer hypotheses, such as tax advantages, undervalued targets or losses for bondholders and workers, have also been discarded by financial studies. As a result, the exact explanation of the value generated by mergers remains an open point in the academic debate.

Industrial Economics studies analyze the topic in a broader way, focusing not only on the profitability of the firm, but also on productivity, growth rates and aggregate concentration.

The profitability analysis is usually based on balance sheet data, comparing pre- and post-operations profitability ratios with those of a control group. However, there are critical issues related to this study. First, the so-called "Goodwill bias", whereby the price paid for the purchase of a company is often higher than the book value of the assets. This difference is recorded in the balance sheet under the heading "goodwill". This value increases assets, causing, for example, a reduction in profitability indicators such as ROA. On the other hand, the "goodwill" must be amortized over time, creating an additional cost that reduces the company's net profit. Another critical issue is related to the "leveling

effect”, according to which if a more profitable company merges with one with less profitability, there will be a leveling and therefore the company with less profitability will be able to show an apparent improvement. Finally, macroeconomic factors that influence profitability are often not considered.

Consequently, industrial economics studies have concluded that M&A does not lead to improvements in the profitability of the companies involved. There are, however, exceptions, including the study by Cosh, Hughes & Singh (1980), which emphasizes positive performance due to merger operations.

These results are partly due to the geographical origin of the companies participating in the M&A processes, considering that most of the mergers of American companies are conglomerates, as opposed to those that have taken place in the European landscape which are instead mainly horizontal mergers, and which therefore should produce a greater increase in profitability.

Several studies have focused on evaluating potential profitability improvements and cost reductions resulting from merger operations. Williamson (1968) failed to do so due to insufficient data. Subsequently, Newbould (1970) and Pratten (1971) observed the achievement of economies of scale following mergers, carrying out questionnaires, interviews and case studies. A more detailed analysis is the one proposed by Cowling et al. (1980), thanks to the use of an average cost indicator. However, the cases of improvement found by the study are limited.

Thus, mergers sometimes lead to cost reductions, but evidence of real efficiency gains is limited.

Since the 1980s, M&A studies have become increasingly detailed, thanks to the increasing availability of data and the increase in transactions, especially in Western countries.

The methodologies traditionally used by Financial Economics and Industrial Organization have been criticized. In finance, particular attention has been given to the lack of evidence regarding long-term negative performance, the sensitivity of results to the benchmarks used for estimating abnormal returns, and the debate over whether value creation from transactions is genuinely intrinsic. As a matter of facts, price increases, may have various interpretations and do not necessarily indicate value generation.

The studies of Industrial Economics were questioned as well, with a particular focus on profitability ratios, which have been considered insufficient to accurately reflect the actual performance of mergers and the use of aggregate data, that ignore the differences between the different business divisions. These criticisms have led to new methodologies: in Finance, more importance has been given to the specific characteristics of mergers, such as the nationality of the buyers and the method

of financing, while in Industrial Economics more detailed data have been adopted at the level of divisions or plants and sectoral studies to analyze specific effects such as impact on prices and employment. In addition, to better assess the efficiency of mergers, models based on the boundaries of production, cost and profit were introduced. These developments have improved the understanding of the effects of fusions, but the debate on their effectiveness remains open (Benfratello, 2000).

### **1.5. Why Some Bank Mergers Fail: Causes and Consequences**

The increase in M&A transactions in the 80s and later in Europe following the Second EU Directive on the Single Market, has contributed to boosting the efficiency of the credit allocation mechanism (Vander Venet, 1996; Akhavein et al., 1997; Focarelli and Panetta, 2003). Despite the wide diffusion of these operations globally, not all of them are successful. There are multiple studies that show that half of the operations in question fail to achieve the objectives set (Hubbard 2001: 11; Eccles et al. 2001: 68). In addition, O'Sullivan and Wong (1998) showed that between 1989 and 1995 in the UK, about 20% of publicly announced M&A transactions were not concluded. According to Wong and O'Sullivan (2001), the determining factors of the failures of these operations are:

- Regulatory intervention
- Defensive strategies by the management of the target company
- Voluntary withdrawal of the acquired company due to any changes in market conditions, alternative offers or improvement of their position
- Failure to reach an agreement between the parties involved

Regarding the banking sector, Focarelli and Pozzolo (2001) and Pozzolo (2009), believe that information asymmetries (Morgan, 2002) and the role of regulators are the determinants of M&A failures.

It is important to point out that the process of planning M&A transactions is very expensive and involves the participation of many professionals, including internal managers and external consultants. The process is also very complex for the target company, as it must evaluate the offer, participate in the negotiation and possibly prepare a defensive strategy.

Furthermore, once the M&A transaction is announced, withdrawing it can generate a negative reaction on the market, with a subsequent drop in the buyer's share price (Lorenz and Schiereck, 2007) and possible removal of management (Franks and Mayer, 1996; Agrawal and Walkling, 1994).

Most of the studies in the literature take into consideration samples that mainly present M&A transactions in the non-financial sector, generalizing the results obtained also for the banking and

financial sector, which, however, has different characteristics. Indeed, Wong and O'Sullivan (2001) condemn the practice whereby operations in different sectors are treated as if they were similar. As a matter of facts, as previously stated, in the banking sector, a key role is represented by information and regulatory asymmetries, factors that are sometimes less influential in other sectors.

In the banking sector, there are various determinants that can lead to the failure of M&A transactions, including:

1. Reaction of the target's management: The role of the target company's executives is key when considering the probability of success of the deal. As a matter of facts, such a reaction can be friendly or hostile. According to Jensen (1988), there will be a hostile reaction whenever there is a competition between the management of the target company and that of the acquiring company to gain control of the new entity. It is obvious to think that the hostile response of the management of the target company reduces the possibility of success of the operation (Sokolyk 2011). A practice often used to reduce these types of opposition is to include clauses in the agreement that impose costs in the event of abandonment of the transaction. Among the most common clauses, there are cash compensation, the “stock lockup”, for which the acquiring company obtains call options on the target's shares and the “asset lockup”, for which the acquiring company obtains call options on the target company's assets. According to the study by Holl and Kyriazis (1996), carried out between 1978 and 1989, the probability of success of operations with friendly reactions from management is 96%, compared to 61% in the case of hostile reactions.
2. Presence of multiple bidders: In the event that there are several bidders for the same target company, it is obvious to think that some of them will have to withdraw from the transaction. There are various perspectives in the literature on this topic. Betton and Eckbo (2000), believe that a large number of bidders reduces the likelihood that the M&A deal will be successful. Probably because a high level of competition between the various offers leads the management of the target company to re-evaluate its company and therefore to evaluate the idea of no longer underneath acquisition. According to Cotter and Zenner (1994), the probability of success of an M&A transaction increases if there are several bidders.
3. Time elapsed: If the transaction is profitable for both parties, the time it takes to conclude the agreement is usually short. Therefore, if the time it takes to reach an agreement is very long, the operation is highly likely to fail.
4. Payment method: If the payment method of the acquisition is through shares, the value may be uncertain, as opposed to cash payments that eliminate such uncertainty (Chang and Suk,

1998; Ang and Cheng, 2006). However, according to Asquith (1983) and Jennings and Mazzeo (1993), the probability of failure of the transaction is not greater in the case of payment in shares, rather the decline in the buyer's share price will be greater than in those paid in cash.

5. Characteristics of bidders and targets: the size of the acquiring company can affect the success of the transaction. Many failures are due to the fact that small companies have attempted to acquire much larger companies. In this regard, Lorenz and Schiereck (2007), believe that the small size of the acquiring bank can lead to a higher probability of failure of the transaction, as they tend to offer an excessively high purchase price which causes a subsequent fall in share prices on the market once the transaction is announced. On the other hand, the size of the target company is also an element to consider. Wong and O'Sullivan (2001) believe that if the target company is large, the chances of success of the operation increase. Although, in the banking sector, the limits imposed by regulators must be considered, which could prevent acquisitions between banks that already have a high market share. The level of debt of the acquiring company should also be taken into account. As a matter of facts, Faccio and Masulis (2005) believe that companies with high leverage are more likely not to complete M&A transactions than those with low leverage.
6. Country characteristics: If the country where the transaction is expected to take place already has a high concentration of banks, regulators are more likely not to approve the acquisition. The regulatory and legal environment is, indeed, a key element that influences the results of these transactions. Those with higher risk aversion tend to intervene more and block many more acquisitions than those with low risk aversion.
7. Cross-border transactions: Despite the increased complexity of cross-border M&A transactions, including increased information difficulties, higher costs and possible conflicts from national authorities (Serdar Dinc and Erel, 2013), they are more likely to succeed than domestic ones. This result is probably due to a longer and more detailed preparation of the operation, which reduces the risks.

## **Chapter 2: BANKING SYSTEM AND REGULATORY FRAMEWORK**

### **2.1. Overview of the Italian Banking System**

#### **2.1.1. Historical evolution**

At the end of the 80s, the Italian banking system was defined as a "petrified forest", as it had a large number of banks, but just as few branches, with a system dominated by local oligopolies. In this context, it was difficult to penetrate new markets, due to already established competitors. In addition, M&A transactions were discouraged, due to the high presence of state-owned banks.

Indeed, from the Great Depression to the 1990s, the state held about 70% of the assets of the total credit system. In 1990, Law No. 218, the so-called "Amato Law" and Legislative Decree No. 356, opened the first phase of banking sector privatization, which led to the transformation of state-owned banks into joint-stock companies.

Therefore, after the 1990s, the Italian banking system changed radically, starting with an increase in the number of branches, which went from 16,600 in 1990 to 33,600 in 2010, and the increase in M&A transactions, which reduced the number of banks in Italy (De Bonis, Pozzolo, & Stacchini, 2011).

The liberalization process, accompanied by economic and financial globalization, has led to an increase in competition between the various operators of the Italian banking and credit system, especially in the retail segment. This has led to the need for banks to grow in size, achieve economies of scale and reduce operating costs, in order to ensure survival. This process has resulted in a more sophisticated range of services and improved performance (Schilirò, 2008a).

In 1993, the Consolidated Banking Act (Testo Unico Bancario, TUB) was introduced, with Legislative Decree 385/1993, implementing Directive 1989/646/EC. It replaced the 1936 Banking Law and regulates banking activities and their supervision (Treccani, 2012)<sup>6</sup>.

In 1998, with the so-called Draghi Reform, the Consolidated Law on Finance (Testo Unico della Finanza, TUF) was introduced with Legislative Decree 58/1998, regulating financial markets and intermediation. It consolidated existing financial regulations on the subject and aimed to align Italy's regulation of financial markets with European standards (Borsa Italiana)<sup>7</sup>.

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<sup>6</sup> [https://www.treccani.it/enciclopedia/tub\\_\(Dizionario-di-Economia-e-Finanza\)/](https://www.treccani.it/enciclopedia/tub_(Dizionario-di-Economia-e-Finanza)/)

<sup>7</sup> <https://www.borsaitaliana.it/borsa/glossario/testo-unico-sull-intermediazione-finanziaria.html>

In the field of financial markets and financial instruments, the Markets in Financial Instruments Directive (MiFID) (2004/39/EC) was introduced and later transposed into Italian law with Legislative Decree 164/2007.

### **2.1.2. The creation of the European Banking Union**

Italy, like other European countries, has also suffered the consequences of the Sovereign Debt Crisis, with a deterioration in credit quality, an increase in non-performing loans and a contraction in volumes. The negative impacts of the crisis prompted the European Union to adopt a more articulated banking supervision, culminating in the establishment of the European Banking Union in 2014. The main purpose was to increase the transparency of the banking sector, making it more secure (Schilirò, 2018). The aim was also to improve banks' financial stability and financial crises management.

Moreover, another objective was to overcome the "doom loop", a vicious circle generated by the purchase of government bonds by banks, which, following a reduction in trust in the issuing state, recorded a depreciation of their assets, compromising the stability of credit institutions (Schiliro, 2019).

In this regard, the European Banking Union was based on two pillars: the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM).

The Supervisory Mechanism (SSM), introduced in 2014, provides for direct supervision by the European Central Bank (ECB) of "significant" banks in EU Member States, leaving the supervision of other banks to the national supervisory authorities. These authorities constantly transmit information to the ECB, which may intervene if necessary (Banca d'Italia)<sup>8</sup>.

The Single Resolution Mechanism (SRM), operational since 2016, aims to ensure coordinated management of banking crises in the countries belonging to the Single Supervisory Mechanism, through a Single Resolution Board (SRB), in close collaboration with national resolution authorities (Banca d'Italia)<sup>9</sup>. The aim is to manage bank resolutions in an orderly manner, to reduce the impact on public finances and on the real economy (Schiliro, 2019).

On January 1, 2016, Bail-in mechanism was introduced, through the European BRRD Directive (Bank Recovery and Resolution Directive - Directive 2014/59/EU). It is a resolution tool for banks in crisis, which requires that shareholder and, in specific cases, other investors in possession of

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<sup>8</sup> <https://www.bancaditalia.it/compiti/vigilanza/unione-europea/index.html>

<sup>9</sup> <https://www.bancaditalia.it/compiti/vigilanza/unione-europea/index.html>

financial instruments issued by the bank, contribute with their own funds to cover the bank's losses. The aim is to reduce the need for public intervention (bail-out).

The first to intervene are shareholders or holders of similar securities, such as convertible bonds and savings shares. If these resources are insufficient, holders of subordinated bonds are also involved, then those of ordinary unsecured bonds and, finally, current account holders with deposits of more than 100 thousand euros. The Interbank Deposit Protection Fund (FITD) guarantees the protection of deposits up to 100 thousand euros per individual depositor (Banca Popolare di Sondrio)<sup>10</sup>.

### **2.1.3. Evolution and Reforms of the Italian Banking Sector**

In parallel with the interventions at the European level, starting from 2015, changes have been introduced in the Italian banking sector, including: the reform of Mutual Banks (Banche Popolari) and the reform of Cooperative Credit Banks (Banche di Credito Cooperativo - BCC).

The reform of Mutual Banks was introduced in 2015 and updated the Consolidated Banking Act (TUB, Legislative Decree 385/1993). According to this reform, cooperative banks with assets exceeding €8 billion are obliged to adopt the legal form of joint-stock companies and no longer the cooperative model. This facilitates access to capital market and funding from institutional investors. Moreover, the reform introduced common rules for mergers and transformations, increasing the transparency of these transactions and avoiding discretionary rules linked to individual banks. In addition, it allowed for the issuance of financial instruments with differentiated voting rights, eliminating the one-member-one-vote rule. This, in turn, increased the attractiveness of these banks' shares for investors (Ministero dell'Economia e delle Finanze)<sup>11</sup>.

Decree-Law No. 18 of February 14, 2016, among other measures, introduced the reform of Cooperative Credit Banks, aiming to reduce sector fragmentation and address the structural weaknesses deriving from the small size of these banks (Ministry of Economy and Finance, 2016). Indeed, the BCC model envisioned a local cyclical trend, linked to regional crises, fragmented organizational structures and small size of individual banks. The reform obliged BCC to join a Cooperative Banking Group (GBC), controlled by a parent company, which deals with strategic coordination, management and risk control. However, each BCC, maintains operational autonomy. Thanks to this reform, the fragmentation of the sector has been largely reduced, leading to greater financial stability and resilience to economic crises.

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<sup>10</sup> <https://www.popso.it/comunicazioni-alla-clientela/cosa-e-il-bail-in-e-come-funziona>

<sup>11</sup> [https://www.mef.gov.it/export/sites/MEF/focus/sistema\\_bancario/Evoluzione\\_e\\_riforme\\_del\\_settore\\_bancario\\_italiano.pdf](https://www.mef.gov.it/export/sites/MEF/focus/sistema_bancario/Evoluzione_e_riforme_del_settore_bancario_italiano.pdf)

## **2.2. Regulatory Framework for Banking Mergers**

### **2.2.1. Italian and European regulations**

In the Italian landscape, the primary source regulating M&A transactions, as well as all other corporate transactions, is represented by the Italian Civil Code, specifically articles 2501-2506-quarter. Article 2501 regulates the possible forms of mergers, making a distinction between the merger by consolidation, which provides for the "establishment of a new company" and the extinction of the companies participating in the operation, and the merger by incorporation, which takes place "through the incorporation into a company of one or more others".

Article 2501b mentions the merger procedure and all the phases of the operation. The first phase consists of the drafting of a merger plan by the administrative body, which applies to all the companies involved. The merger plan must include:

- The type, name or business name and registered office of the participating companies;
- The deed of incorporation of the new company;
- The exchange ratio of the shares or quotas, as well as any cash adjustment;
- Methods of allocation of shares;
- Date from which the shares will entitle holders to dividends.

The merger plan will then be filed with the Business Register. This is followed by the merger decision and the final merger deed. Article 2501-quarter established the mandatory requirement for the administrative body to prepare the financial statements of the companies involved, with a reference date no earlier than 120 days prior to the merger. The directors' and experts' report on the merger plan must then be prepared, indicating the criteria used to determine the exchange ratio (Articles 2501-quinquies and 2501-sexies of the Italian Civil Code). Since the merger is a decision rather than a resolution, shareholders' meeting approval is not necessarily required. Instead, only the consent of the shareholders is needed, which, pursuant to Article 2502, must be given in accordance with the procedures established in the shareholders' agreements. Creditors are entitled to oppose the merger (Article 2503 of the Italian Civil Code) within 60 days of the registration in the Business Register. Article 2504 regulates the deed of merger, which has the nature of a contract and sets forth the decisions included in the resolution. This deed will then be filed with the Business Register, from which point the effects of the transaction will take effect (Article 2504-bis of the Italian Civil Code) and the deed will have a remedial effect (Article 2504-quarter of the Italian Civil Code).

Bank mergers, on the other hand, are regulated by the Consolidated Banking Act (TUB, Legislative Decree 385/1993), which encompasses the laws governing the banking and credit sector.

Specifically, art. 57 requires that bank mergers be authorized by the Bank of Italy and comply with the principle of "sound and prudent management". Moreover, the article establishes that registering the shareholders' resolution in the Business Register is prohibited if authorization for any subsequent amendments is not granted. It has also been reduced the period available for creditors' opposition from 60 days, pursuant to Article 2503 of the Italian Civil Code, to 15 days. In addition, all privileges and guarantees in favor of incorporated banks, retain their validity, without the need for reconfirmation.

Article 56 states that the Bank of Italy must verify that any amendments to bank statutes comply with the principle of "sound and prudent management".

The Bank of Italy may also authorize mergers between Cooperative Credit Banks (BCCs) and banks of a different nature, if such mergers serve the interests of creditors and financial stability. The resulting banks from these operations may take the form of Cooperative Banks (Banche Popolari) or joint-stock companies (Article 36 of the T.U.B.).

Article 31, previously established that the Bank of Italy could authorize mergers between Cooperative Banks (Banche Popolari) resulting in a joint-stock company. This rule was repealed by Law No. 33 of 24 March 2015, which reformed the Popular Banks, requiring the transformation into a joint-stock company for those with assets exceeding 8 billion euros.

### **2.2.2. The Role of the AGCM in M&A Transactions**

M&A transactions, both between companies and between credit institutions, can lead to the creation of a dominant position, which can compromise competition. In this regard, Law no. 287/1990, which regulates antitrust and is entitled "Rules for the protection of competition and the market", intervenes. This law provides for the establishment of the Italian Competition Authority (Autorità Garante della Concorrenza e del Mercato - AGCM).

The law refers to concentration operations in art. 5, defining them as operations in which:

- Two or more companies merge
- A party or company acquires control of another, directly or indirectly, through the purchase of shares, assets or contractual agreements.
- A joint venture is created between two or more companies, with an autonomous and stable business activity.

Regarding these transactions, art. 6 states that "the authority assesses whether they significantly hinder effective competition in the national market or in a substantial part of it, particularly due to the creation or strengthening of a dominant position".

Concentrations must be "notified to the Authority if the total turnover generated at the national level by all the companies involved exceeds 492 million euros and if the total turnover individually achieved at the national level by at least two of the companies involved exceeds 30 million euros" (Article 16). It should be noted that these values vary each year according to the GDP price deflator index.

Art. 16 also applies to credit institutions and other financial institutions, stating that "for credit institutions and other financial institutions, turnover is replaced by the sum of the following items of income net, where applicable, value added tax and other taxes directly associated with the income: (a) interest and similar income; b) income from shares, units and other variable-income securities, income from equity investments, income from equity investments in associated companies and other income from securities; c) commission income; d) profits from financial transactions; e) other operating income".

The Italian Competition Authority (AGCM) may therefore intervene in the event of non-compliance with the above and, pursuant to art. 18, may prohibit the execution of the concentration. If such an operation is carried out, in violation of the prohibition, "the Authority shall impose administrative monetary sanctions of no less than one percent and not more than ten percent of the turnover of the business activities subject to the concentration" (art. 19).

### **2.2.3. OPA, OPS e OPAS e le loro discipline normative**

The acquisition of companies, including banks, involves the purchaser of shares in the target firm, by the acquirer, to gain control. These transactions can involve both listed and unlisted companies. In the case of listed companies, the acquisition is usually carried out through a Public Tender Offer (PTO) (Offerta Pubblica d'Acquisto – OPA) or a Public Exchange Offer (PEO) (Offerta Pubblica di Scambio – OPS). Both instruments are regulated by the Consolidated Law on Finance (Testo Unico della Finanza – TUF, Legislative Decree No. 58/1998).

The PTO is defined as "any offer, invitation to offer or promotional message, made in any form, aimed at the purchase or exchange of financial products" (art. 1, letter v, TUF). It is possible to make a distinction between voluntary PTO and mandatory PTO. The voluntary PTO is entirely voluntary by the offerors and it can be launched on listed, unlisted or widely held securities. In this case, the

offeror will determine the cash consideration. In addition, a voluntary PTO may involve all the securities of the same category issued by the issuer (total voluntary PTO) or only a portion of them (partial voluntary PTO) (Articles 102 et seq. of the TUF).

The mandatory PTO, on the other hand, stipulates that the offer is imposed by law under certain conditions. It is only applicable to listed securities, and the consideration is determined by law. Moreover, it can only be a total offer (Articles 106 et seq. of the TUF). In the case of a large company, the law requires that a mandatory PTO be launched if, as a result of an acquisition or an increase in voting rights, the 30% threshold of the share capital or voting rights is reached. A mandatory PTO is also required when a party, as a result of purchases, exceeds 25% of the shares and there is no other shareholder who holds a larger stake. For small and medium-sized enterprises (SMEs), the threshold is also set at 30%, but it can be modified according to the statutes, within the range from 25% to 40% (art. 106). However, there are exemptions to the mandatory takeover bid, regulated by art. 107.

Another distinction pertains to consensual and hostile PTOs, based on the response of the target company's Board of Directors following the offer. In the first scenario, i.e. that of a consensual PTO, the Board of Directors is in favor of the offer, on the contrary, if the PTO is hostile, the Board of Directors will oppose the operation through defensive actions.

Depending on the percentage of shares subject to the PTO, there are total PTOs and partial PTOs. If the offer is total, the acquirer aims to acquire 100% of the target company's share.

The PTO is a Public Tender Offer that provides a cash consideration for the purchase of the shares in the target company. In contrast, the PEO (Public Exchange Offer), involves a consideration in financial instruments. Lastly, the PTOE (Public Tender Offer and Exchange) involves a consideration that is partially in cash and partially in financial instruments.

Once the offer has been made, it is no longer revocable and is open to all those who hold the shares of the target company. The offeror is called the "bidder", while the target company is also called the "issuer". The "offerees" are instead the shareholders holding the shares subject to the operation. The acceptance must occur within the time frame established by the "acceptance period" (Consob)<sup>12</sup>.

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<sup>12</sup> <https://www.consob.it/web/investor-education/in-caso-di-offerta-pubblica-di-acquisto>

## **2.3. M&A Trends in the Italian Banking Sector**

### **2.3.1. The banking consolidation process**

Before the 1990s, the Italian banking sector was characterized by strong segmentation and significant state participation. The market was highly fragmented and small-sized banks operated in specific niches, making it difficult for competitors to access these markets (Zurru, 2022).

In 1936 the Banking Law was introduced, in response to the financial crisis of the 1930s. It led to the distinction between commercial banks, for deposit-taking and short-term credit, and investment banks, for long-term financing operations. In addition, 'special credit institutions' were created, responsible for savings collection and the provision of medium-to-long-term credit. Moreover, 'public law institutions' were established with a dual function: they operated in the short term like commercial banks but also had special sections for medium-to-long-term operations. The Banking Law considered banking activities to be of 'public interest' and, therefore, granted the government direct control over banks through a committee of ministers and an inspectorate office responsible for overseeing and managing credit operations.

The Banking Law of 1936 began to face challenges in the early 1980s. Partially, the crisis was due to the European Community's push for greater state involvement, with the aim of promoting competition (Merusi, 1985). On the other hand, the emergence of new financial instruments, that represented new investment opportunities, intensified the competition in the sector.

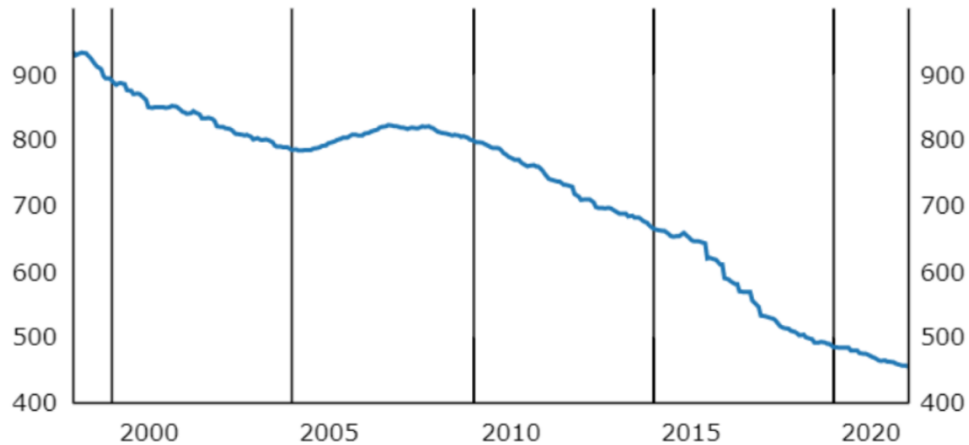
The law. No. 218 of 1990, also called the Amato-Carli law, marked a new transformation of the banking sector. The law abolished the separation between commercial banks and investment banks and introduced banking foundations, autonomous legal entities and private non-profit entities, aimed at managing the assets of banks undergoing privatization.

In addition, Legislative Decree no. 385 of 1993, known as the Consolidated Banking Act (Testo Unico Bancario, TUB), recognized the corporate nature of banking activities.

Therefore, at the beginning of the 1990s, the process of consolidation of the banking sector began. The number of operational credit institutions declined from 1,156 in 1990 to 876 in 1999, with 324 M&A transactions over these 9 years. Among the 876 banks, 239 operated as joint-stock companies, 49 as cooperative banks, 531 as cooperative credit banks and 57 as branches of foreign banks (Banca d'Italia, 1999).

The consolidation process continued into the new millennium, with 806 credit institutions in 2007 (Banca d'Italia, 2007), 522 in 2016 (Banca d'Italia, 2016) and 474 in 2020 (Del Maso, 2022).

**Number of Banks in Italy (1998-2020)**



*Graph 3: Number of banks in Italy between 1998 and 2020*  
*Source: Banca d'Italia*

The European Central Bank (ECB), in 2020, reduced the parameters for merger operations in the Eurozone banking sector. The main purpose was to push the sector to a new wave of consolidation, which could lift the problems caused by the financial crisis and increase profits (Reuters, 2020).

On January 12, 2021, the ECB published its guide on the supervision of consolidation in the European banking sector, with the following key points (AnalisiBanka, 2021):

- The ECB will not penalize credible integration plans by setting higher Pillar II capital requirements;
- Banks will not pay dividends from goodwill (or merger differences), until the sustainability of the business model of the new reality is established;
- The acquiring bank in a merger will benefit from a lower purchase price to enhance financial sustainability;
- Banks considering consolidation will be encouraged by the ECB to engage with authorities in a timely manner to receive early feedback on their plans.

### **2.3.2. The Rationale Behind the Banking Consolidation Process**

Among the main drivers of bank consolidation, it is necessary to mention cost reduction. The existing literature on the subject, focuses on cost savings, resulting from economies of scale, economies of scope or a more efficient allocation of resources.

On the other hand, another objective is represented by the increase in revenues, by enhancing efficiency and strengthening market power.

Further motivations are, certainly, the reduction of risk, the change in organizational focus and the willingness of managers to create large intermediaries (Gruppo dei Dieci, 2001).

There are also environmental factors that have favored the consolidation process. These include:

- Improvements in information technology, given by technological developments that have led to an increase in fixed costs and the consequent need to spread these costs over a wider pool of customers.
- Deregulation, which has led many governments over time to reduce regulatory and legal barriers, allowing the consolidation process to develop both nationally and internationally and also between different segments of the financial industry
- Globalization, which has led to a change in customer demand for financial services
- The influence of shareholders, who demand improvements in earnings results
- The euro as a single currency, because, although the impact of the euro on the concentration process in Europe is still difficult to assess, there is reason to believe that the single currency represents a stimulus to consolidation.

Among the environmental factors that have hindered the consolidation process, the following should be mentioned:

- Regulatory constraints, including legal and policy restrictions such as competition regulations, limits on foreign ownership in financial institutions, and regulatory discrepancies across countries.
- Cultural differences, both in corporate cultures and national contexts, may represent an obstacle to consolidation, especially with regard to transnational operations (Gruppo dei Dieci, 2001).

### **2.3.3. Notable mergers and acquisitions in Italy**

Between the 1990s and 2000s, following the process of privatization and deregulation, the banking sector was subjected to various M&A transactions, which gave rise to the first large Italian banking groups.

- In 1998 Banca Intesa was born, from the merger between Cariplo and Banco Ambrosiano Veneto. Banco Ambrosiano Veneto was born in 1989, from a further merger between

Nuovo Banco Ambrosiano and Banca Cattolica del Veneto. Between 1991 and 1995, it acquired several banks, including Banca Vallone di Galatina, Citibank Italia (Banco Ambroveneto Sud), Società di Banche Siciliane, Banca Massicana and Banca di Trento e Bolzano, expanding its presence throughout the country. Internationally, it strengthened its position thanks to the acquisition of Caboto, which later became one of the largest European investment banking structures (Intesa Sanpaolo)<sup>13</sup>. Cariplo was, on the other hand, the Cassa di Risparmio delle Provincie Lombarde, founded in 1932, in order to encourage family savings in Lombardy. In 1997 the president of Fondazione Cariplo, Giuseppe Guzzetti, and the president of Banco Ambrosiano Veneto, Giovanni Bazoli, decided to sign an agreement for the merger between Cariplo and Ambroveneto that would give life to Banca Intesa (Intesa Sanpaolo)<sup>14</sup>.

- In 1998, the merger between Istituto Bancario San Paolo di Torino and IMI led to the birth of Sanpaolo IMI. Sanpaolo was founded in 1563 in Turin as a credit assistance institution. In the seventeenth century it became administrator of the public debt of the Savoy state, evolving into a bank in the nineteenth century. In 1932, the bank was restructured as a public law credit institution, and subsequently into a joint-stock company, on 1 January 1992. In the 1960s, it experienced a national expansion, and a subsequent internationalization in the 1970s. In the 1990s, it expanded through acquisitions and was subsequently privatized in 1997 (Intesa Sanpaolo)<sup>15</sup>. IMI is the Istituto Mobiliare Italiano, founded in 1931 as a public financial institution, created to support Italian industrial companies, by providing medium-to-long-term loans. Over the years, it evolved into an investment bank, specializing in industrial credit and financial markets operations (Intesa Sanpaolo)<sup>16</sup>.
- The UniCredit group was established in 1998, through the merger between Credito Italiano and Unicredito. Credito Italiano was founded in 1870 in Genoa as Banca di Genova. In the early decades of the 20th century, it operated as a mixed bank, combining commercial and investment banking activities. Later, in 1930, it incorporated Banca Nazionale di Credito, and in 1937, it was declared a Bank of National Interest (Banca di Interesse Nazionale - BIN), coming under the control of IRI, until its privatization in 1993.

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<sup>13</sup> <https://group.intesasanpaolo.com/it/chi-siamo/storia/banco-ambrosiano-veneto>

<sup>14</sup> <https://group.intesasanpaolo.com/it/chi-siamo/storia/cariplo>

<sup>15</sup> <https://group.intesasanpaolo.com/it/chi-siamo/storia/sanpaolo-torino>

<sup>16</sup> <https://group.intesasanpaolo.com/it/chi-siamo/storia/imi>

From the post-war period to 1994, Credito Italiano expanded its network, participated in the foundation of Mediobanca (1946) and acquired several banks, including Credito Fondiario Sardo and Banca Nazionale dell'Agricoltura. In the 1990s, it restructured its operating model, moving from a financial holding company structure to a universal banking model. Unicredito S.p.A. was a parent holding company (Unicredito Group), established in 1994 by Fondazione Cassa di Risparmio di Verona and Fondazione Cassamarca di Treviso, which contributed their respective banking businesses along with an 86.04% stake in Banca di Bergamo. In June 1997, Fondazione Cassa di Risparmio di Trieste and Fondazione Cassa di Risparmio di Torino, joined the holding company, transferring Cassa di Risparmio di Trieste-Banca and Banca CRT respectively<sup>17</sup>

Between 2000 and 2007, Italian banks began to compete internationally, and the consolidation process continued, with the following main transactions:

- On January 1, 2007, Banca Intesa and Sanpaolo IMI merged and led to the creation of Intesa Sanpaolo. The guidelines of the merger plan were approved by the Boards of Directors of the two banks on August 26, 2006. The project was then ratified on 12 October 2006 and validated by the respective Extraordinary Assemblies, on December 1 of the same year.
- On May 20, 2007, the Boards of Directors of UniCredit and Capitalia approved the plan for the merger by incorporation of Capitalia S.p.A. into UniCredito Italiano S.p.A. The respective Shareholders' Meetings were also convened in an extraordinary session, to approve the merger and the resulting statutory changes. The merger included an exchange ratio of 1.12 new ordinary shares of UniCredit for each ordinary share of Capitalia. The main objectives of the merger include strengthening UniCredit's position in Italy and expanding the network to over 5,000 branches, gross synergies estimated for 2010 at €1.2 billion, with 68% of which comes from cost reductions. In addition, financial benefits were guaranteed to shareholders, with growth expected to be 17% between 2007 and 2009, and a Core Tier I ratio of 6.8% by 2008. The merger marked the birth of the largest bank in the Eurozone by market capitalization of those years (UniCredit, 2007)<sup>18</sup>.

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<sup>17</sup> [https://www.bankpedia.org/termine.php?c\\_id=19588](https://www.bankpedia.org/termine.php?c_id=19588)

<sup>18</sup> <https://www.unicreditgroup.eu/it/press-media/press-releases-price-sensitive/2007/PressRelease0235.html>

M&A transactions, aimed at bank consolidation, have led to an increase in the operational efficiency and profitability of Italian banking groups, which have aligned themselves with the main competitors at European level. From 1997 to 2007, the ratio of operating costs to net banking income decreased by approximately 6 percentage points, reaching 59.8%, while the return on capital and reserves increased from 1.9% to 12.9%. (Saccomanni, 2008).

The financial crisis of 2008 and the subsequent sovereign debt crisis in Europe from 2010 to 2012, has a significant effect on the European banking sector, due to the heavy exposure to Non-performing Loans (NPLs). During this period, the consolidation process slowed down, as the primary focus shifted towards strengthening the stability of existing credit institutions.

Following the crisis, starting from 2014, the European Union and the ECB began to push for greater consolidation in the banking sector across member states. Starting with the establishment of the European Banking Union (2014), which introduced the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). In addition, the ECB increased the "capital requirements", including CET1 ratio and the capital conservation buffer, as introduced by Basel III, to enhance the resilience of banks. Individual states also introduced structural reforms to facilitate bank consolidation. In Italy, two reforms had an important impact on this process: the reform of Cooperative Banks in 2015 and the reform of Cooperative Credit Banks in 2016.

All these factors contribute to Italian banking consolidation, leading to a high number of M&A transactions, between 2015 and 2019, including:

- On January 1, 2017, the merger between two Cooperative Banks, Banco Popolare and Banca Popolare di Milano, took place, resulting in the birth of the banco BPM group. Banco Popolare was Italy's largest Cooperative Banking Group, while Banca Popolare di Milano was Italy's eighth-largest bank by capitalization. On May 24, 2016, the merger was ratified by the boards of directors of the two banks and subsequently approved by the shareholders' meetings on October 15 of the same year. The exchange ratios envisaged by the merger are: for each share held, a shareholder of Banco Popolare will receive one share of Banco BPM; for every 6.386 shares held, one shareholder of Banca Popolare di Milano will obtain one share of Banco BPM. Banco BPM's share capital will be composed of 54.6% Banco Popolare shareholders and 45.4% Banca Popolare di Milano shareholders. As a result, Banco BPM became the third largest Italian banking group, after Intesa Sanpaolo and UniCredit (Banco BPM)<sup>19</sup>.

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<sup>19</sup> <https://gruppo.bancobpm.it/il-gruppo/#>

- On June 26, 2017, Banca Popolare di Vicenza and Veneto Banca were acquired by Intesa Sanpaolo. Customers were ensured operational continuity, being able to count on their previous points of contact, to maintain a climate of trust. Intesa Sanpaolo's intervention took place during the compulsory administrative liquidation procedure of the two banks. As a matter of facts, the acquiring bank purchased some assets and liabilities and some legal relationships from the liquidators of Banca Popolare di Vicenza and Veneto Banca. Non-performing loans and subordinated bonds issued are excluded from the transaction, as well as all shareholdings and legal relationships considered not functional to the acquisition. The branches of the two former banks have become branches of Intesa Sanpaolo, for a total of about 900 branches in Italy and 60 abroad (Intesa Sanpaolo, 2017)<sup>20</sup>.

In order to demonstrate the effects of the consolidation process in the Italian banking sector, it is possible to analyze the variation in the Herfindahl Index and in the market share of the top 5 Italian banks, over a given period. The Herfindahl index is given by the sum of the square of the individual market shares and is very sensitive to the number of subjects, which is why it is used to calculate the concentration in a market. To assess Italy's situation in comparison with other European economies, the following study compared the Italian data with those of 3 other countries of the European Union (Diritto Bancario)<sup>21</sup>.

| Country | Herfindahl Index (2015) | Herfindahl Index (2019) | $\Delta$ 2015-2019 | Market Share of Top 5 Banks (2015) | Market Share of Top 5 Banks (2019) | $\Delta$ 2015-2019 |
|---------|-------------------------|-------------------------|--------------------|------------------------------------|------------------------------------|--------------------|
| Italy   | 435                     | 643                     | 208                | 0,41                               | 0,479                              | 6,9                |
| Germany | 273                     | 277                     | 4                  | 0,306                              | 0,312                              | 0,6                |
| France  | 589                     | 654                     | 65                 | 0,472                              | 0,487                              | 1,5                |
| Spain   | 896                     | 1110                    | 214                | 0,602                              | 0,674                              | 7,2                |

*Table 1: Evolution of the Herfindahl Index and the market share of the top five banks in Italy, Germany, France, and Spain between 2015 and 2019.*

*Source: Diritto Bancario. (s.d.). La concentrazione del sistema bancario italiano: un'analisi e qualche considerazione. Diritto Bancario.*

The table shows the Herfindahl index in 2015, 2019 and the variation between values, as well as the market share of the top 5 Italian banks over the same period. As observed, the Herfindahl index increased from 435 to 643 in Italy, with a variation of 208, indicating a rise in concentration within

<sup>20</sup> <https://group.intesasanpaolo.com/it/newsroom/comunicati-stampa/2017/06/CNT-05-00000004DF5B8>

<sup>21</sup> <https://www.diritto Bancario.it/art/la-concentrazione-del-sistema-bancario-italiano-un-analisi-e-qualche/>

the banking sector. In addition, the top 5 Italian banks saw their market share grow from 41% to 47.9%, with a percentage change of 6.9, indicating a strengthening of the large Italian banking groups. It's also evident that Italy and France are very close in terms of both the market share of the top 5 banks and the concentration ratio. On the contrary, Spain shows a much more concentrated market, while Germany has a much more fragmented structure, both in terms of the market share of its top five banks and its concentration index. This fragmentation is due to the presence of numerous small-scale local institutions, often cooperative or publicly owned, within the German banking system.

In 2019, the banking groups UniCredit, Intesa Sanpaolo and Banco BPM were identified as "Other Systemically Important Institutions (O-SII)", through Circular No. 285/2013 of the Bank of Italy. As a matter of facts, they were required to maintain a capital buffer of 1.00 for Unicredit, 0.75 for Intesa Sanpaolo and 0.25 for Banco BPM. These values represent the percentage of their total risk-weighted exposures. The assessment was based on 4 pillars: size, relevance for the national economy, complexity and interrelationship with the financial system (Banca d'Italia, 2018)<sup>22</sup>.

During the COVID-19 pandemic, the Italian banking sector saw an acceleration of the concentration process, driven by the mergers and acquisitions of 2020 and 2021. As a matter of facts, in 2020, the Herfindahl index recorded an increase, from 643 to 936. The share of the 5 largest Italian companies, grew from 47.9% to 52.6%. Among the most influential M&A deals in the banking sector are:

- The merger by incorporation of UBI Banca S.p.A. by Intesa San Paolo has raised the Herfindahl index to 1,152 and has increased the share of the top 5 banks to 56.77% of the market. Intesa Sanpaolo launched a Public Tender Offer and Exchange (PTOE) on UBI Banca, on February 17, 2020 (Intesa Sanpaolo, 2020). UBI Banca (Unione di Banche Italiane), founded on April 1, 2007, is the result of the merger between Banche Popolari Unite and Banca Lombarda e Piemontese, and since August 5, 2020, has been part of the Intesa Sanpaolo Group. This operation will be the subject of analysis in the following chapters (UBI Banca)<sup>23</sup>.
- In 2022, BPER Banca S.p.A. obtained authorisation from the ECB to acquire a direct controlling stake in Banca CARIGE S.p.A., equal to 80% of the share capital, currently held by the Interbank Deposit Protection Fund (FITD) and the Voluntary Intervention Scheme. It also acquired an indirect controlling stake in its subsidiaries, Banca Monte di

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<sup>22</sup> <https://www.bancaditalia.it/compiti/stabilita-finanziaria/politica-macroprudenziale/identificaz-gruppi-bancari-2018/index.html>

<sup>23</sup> <https://archivio.ubibanca.it/pagine/Chi-siamo-IT-3.html>

Lucca S.p.A. and Banca Cesare Ponti S.p.A. Subsequently, BPER Banca launched a mandatory PTO on the remaining shares of Banca CARIGE S.p.A, for a price of €0.80 per share. On November 28, 2022, Banca Carige was officially incorporated into BPER Banca (Credit Village, 2022)<sup>24</sup>.

- Crédit Agricole Italia, a subsidiary of Crédit Agricole, launched a voluntary PTO for all shares of Credito Valtellinese (Creval), offering a cash consideration. The initial offer price was set at 10.5 euros per share, for a total investment of 737 million euros. Subsequently, the offer was increased to 12.5 euros per share, with a total investment of 855 million euros. The transaction was successfully completed and Crédit Agricole Italia obtained 91.17% of Creval shares. Considering that the PTO reached a percentage of more than 90%, it was possible to launch a residual PTO to purchase the remaining outstanding shares. The residual PTO led to the exceeding of 95% of the share capital, acquired by Crédit Agricole Italia, allowing for the implementation of the Squeeze-out, i.e. the compulsory purchase of the remaining shares. Therefore, on June 4, 2021, Creval was fully merged by incorporation into Crédit Agricole Italia and ceased to exist as an independent entity (Crédit Agricole, 2021)<sup>25</sup>

From 2021 to 2024, the Italian banking market has not witnessed any major M&A transactions, both for the improvement in banks' financial health and for the ECB's monetary policy. In 2024, a study by McKinsey states that the top 5 banks in Italy, Intesa Sanpaolo, UniCredit, MPS, Banco BPM and BPER, hold 51% of total market assets, compared to the average value of 68% at the European level. Nunzio Digiacomio, senior partner at McKinsey, says: "After a sharp decrease in M&A transactions in the last three years, it is possible to imagine a new trend of consolidation in the Italian banking market, driven by the search for economies of scale and commercial synergies" (Il Sole 24 Ore, 2024)<sup>26</sup>.

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<sup>24</sup> <https://www.creditvillage.news/2022/05/30/bce-approvato-lacquistodi-carige-da-parte-di-bper-per-1-euro/>

<sup>25</sup> <https://www.credit-agricole.com/en/finance/financial-press-releases/credit-agricole-italia-crossed-the-95-threshold-in-credito-valtellinese>

<sup>26</sup> <https://www.quotidiano.ilsole24ore.com/art.php?t=S24&e=SOLE&i=20240815&artid=1965092>

## **Chapter 3: PRE-MERGER ANALYSIS OF INTESA SANPAOLO AND UBI BANCA**

### **3.1. Intesa Sanpaolo: Corporate Profile and Strategic Vision**

Intesa Sanpaolo was born from the merger between Banca Intesa S.p.A. and Sanpaolo IMI, which took place on January 1, 2007.

#### **3.1.1. Banca Intesa S.p.A.**

Banca Intesa was formed in 1998 through the merger of Cariplo and Banco Ambrosiano Veneto. In 1999, talks commenced with Banca Commerciale Italiana (Comit), leading to the Board of Directors approving a federative model integration by June 30 of that year. On August 17, 1999, the capital increase for acquiring 70% of Comit received approval. Following this, from September 27 to October 15, 1999, the Public Exchange and Conversion Offer (OPSC) between Intesa and Comit was executed. Unlike the traditional Public Offering Stock (OPS), the OPSC facilitates not only the exchange of Comit's ordinary shares for Intesa's but also the conversion of various financial instruments issued by Comit into shares of the acquiring bank.

In 2000, Banca Intesa introduced a new division model, and on June 6 of that year, the integration with Comit began, marked by the appointment of the committee and the leaders of various sectors. On July 28, 2000, Banca Intesa expanded by incorporating Ambroveneto, Cariplo, and Mediocredito Lombardo, which was finalized on December 31. In 2001, the merger between Intesa and Comit was officially completed, resulting in the formation of IntesaBci on May 1. Then, on December 17, 2002, the Extraordinary Shareholders' Meeting of IntesaBci voted to restore the original name, renaming the company back to Banca Intesa S.p.A. (Intesa Sanpaolo)<sup>27</sup>.

#### **3.1.2. Sanpaolo IMI**

Sanpaolo IMI was established in 1998 following the merger of the San Paolo Banking Institute of Turin, which specialized in retail and commercial credit, with IMI (Istituto Mobiliare Italiano), an investment bank aimed at revitalizing Italy's industrial sector. In 2000, the bank expanded by acquiring Banco di Napoli and purchasing a stake in Cassa di Risparmio di Forlì e Della Romagna, alongside forming strategic partnerships with major Italian banks. Between 2001 and 2002, the integration with the Cardine Group commenced; this group was born from the merger of Casse Venete and Casse Emiliano Romagnole, consisting of seven banks that operated in Northeastern Italy and along the Adriatic coast. In 2003, Sanpaolo IMI began integrating Banco di Napoli with the Cardine

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<sup>27</sup> [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni\\_2006/CNT-04-000000001D6D7.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni_2006/CNT-04-000000001D6D7.pdf)

Group banks, ultimately restoring the Banco di Napoli name in July 2007. To enhance operational efficiency, in 2004, the group standardized the organizational and informational frameworks of its commercial banks. Additionally, Sanpaolo IMI created a Savings and Pension Hub to concentrate on the management of savings, insurance, and investments. This initiative resulted in the formation of Eurizon Financial Group, which encompassed Eurizon Capital SGR (Asset Management), EurizonVita (insurance), and Banca Fideuram (private banking and asset management). Following the merger of Banca Intesa and Sanpaolo IMI, Eurizon Financial Group was integrated into Intesa Sanpaolo (Intesa Sanpaolo)<sup>28</sup>.

### **3.1.3. Merger between Banca Intesa S.p.A. and Sanpaolo IMI**

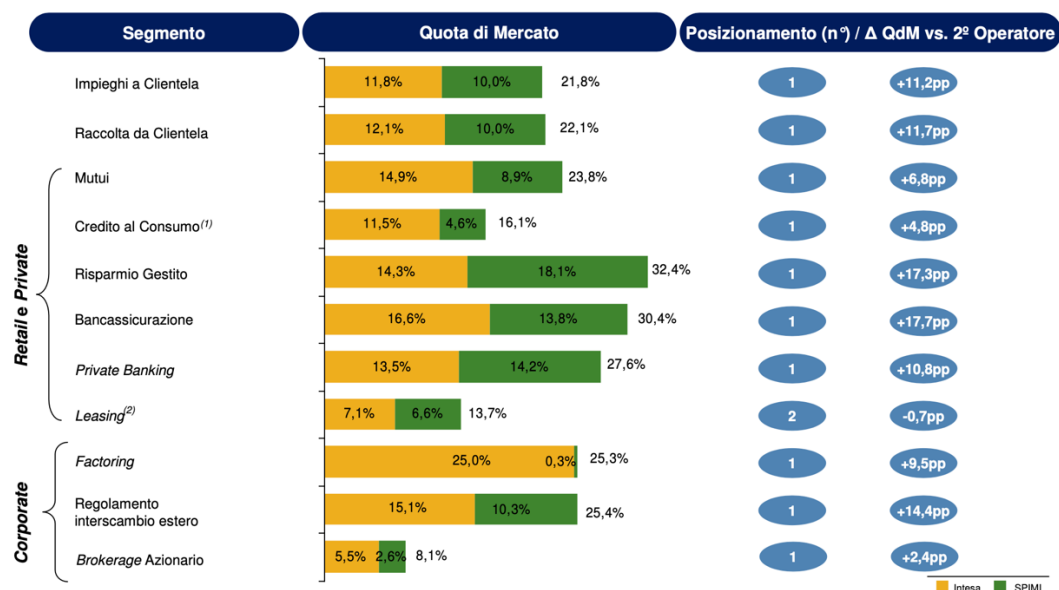
The merger between Banca Intesa S.p.A and Sanpaolo IMI is considered an "amicable transaction to be implemented as a merger of equals". The exchange ratio has been set at 3.115 ordinary shares of Intesa for each ordinary share of Sanpaolo IMI.

For what concern the Governance, a two-tier model has been envisaged, with a Supervisory Board, for strategic decisions and capital transactions and a Management Board, for the ordinary administration of the group.

Following the merger, Intesa Sanpaolo will have a market share of approximately 22% in loans and deposits with customers. In addition, as can be seen from the following image, Intesa Sanpaolo will also be the absolute leader in all corporate retail and private segments, with the exception of Leasing. The gap with the second operator on the market is high in all segments, as shown by the values of percentage points (pp), which represent the difference between the market share of Intesa Sanpaolo and that of its main competitor.

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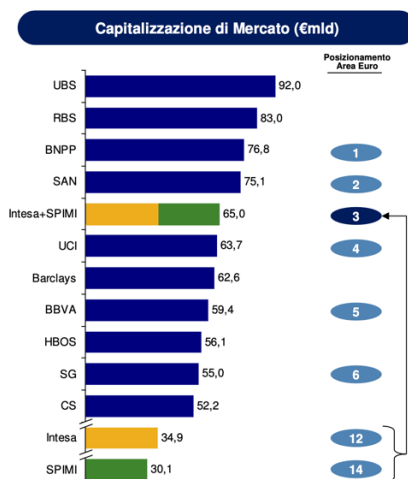
<sup>28</sup> <https://group.intesasnpaolo.com/it/chi-siamo/storia>



Graph 4: Intesa Sanpaolo's market share in the main banking segments after the merger and positioning with respect to the second operator on the market.

Source: Intesa Sanpaolo. (2006). Presentation on the merger between Banca Intesa and Sanpaolo IMI. Intesa Sanpaolo Group. [https://group.intesasampaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni\\_2006/CNT-04-000000001D6D7.pdf](https://group.intesasampaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni_2006/CNT-04-000000001D6D7.pdf)

The merger project aims for Intesa Sanpaolo to become the third-largest bank by market capitalization in the euro area, valued at 65 billion euros. Prior to the merger, Intesa and Sanpaolo IMI held the 12th and 14th positions, respectively.

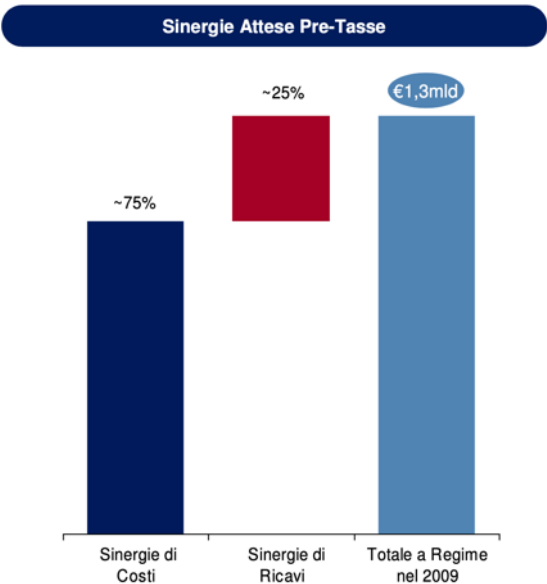


Graph 5: Ranking of the top banks by market capitalization

Source: Intesa Sanpaolo. (2006). Presentation on the merger between Banca Intesa and Sanpaolo IMI. Intesa Sanpaolo Group. [https://group.intesasampaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni\\_2006/CNT-04-000000001D6D7.pdf](https://group.intesasampaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni_2006/CNT-04-000000001D6D7.pdf)

The anticipated synergies for 2009 amount to €1.3 billion, with 75% attributable to cost synergies and 25% to revenue synergies. In terms of costs, enhancements stem from streamlining IT systems, centralizing the back office, renegotiating contracts, and optimizing central and administrative

functions, which together yield economies of scale. On the revenue side, expanding market share by province has enabled cross-selling opportunities, while adherence to best practices has boosted productivity and profit margins.



Graph 6: Total expected post-merger synergies, divided into cost synergies and revenue synergies  
Source: Intesa Sanpaolo. (2006). Presentation on the merger between Banca Intesa and Sanpaolo IMI. Intesa Sanpaolo Group. [https://group.intesasampaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni\\_2006/CNT-04-000000001D6D7.pdf](https://group.intesasampaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni_2006/CNT-04-000000001D6D7.pdf)

The net profit was determined using the CAGR from 2005 to 2009, reflecting a value of 13%. In 2005, net income reached €4.3 billion after adjusting for significant extraordinary items. In contrast, net profit for 2009 was estimated by factoring in the previous year's growth along with the anticipated synergy value.

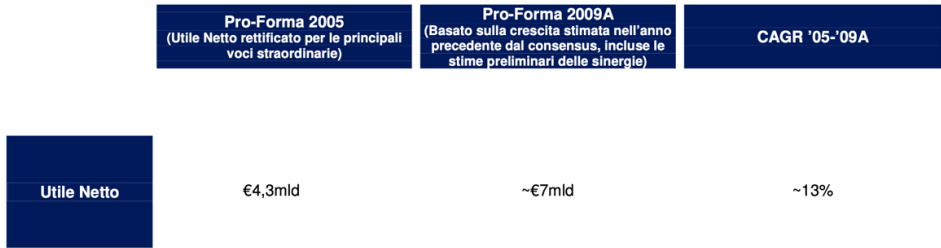


Figure 1: Net Profit 2005-2009 and CAGR 2005-2009  
Source: Intesa Sanpaolo. (2006). Presentation on the merger between Banca Intesa and Sanpaolo IMI. Intesa Sanpaolo Group. [https://group.intesasampaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni\\_2006/CNT-04-000000001D6D7.pdf](https://group.intesasampaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni_2006/CNT-04-000000001D6D7.pdf)

The merger plan also envisages benefits for Intesa Sanpaolo's shareholders, including an increase in 2009 Earnings Per Sharing (EPS) of 13%, a dividend payout of 60%, maintaining a solid capital base, and the possibility of distributing excess capital to shareholders.

Ultimately, the post-merger divisional model outlines four primary areas: the Italy Network, Corporate & Investment Banking, Public Entities and Infrastructures, and International Subsidiary Banks.

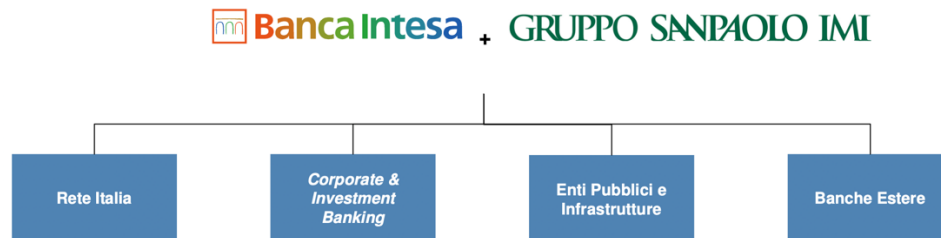


Figure 2: post-merger divisional model of the Intesa Sanpaolo Group

Source: Intesa Sanpaolo. (2006). Presentation on the merger between Banca Intesa and Sanpaolo IMI. Intesa Sanpaolo Group. [https://group.intesasampaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni\\_2006/CNT-04-000000001D6D7.pdf](https://group.intesasampaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni_2006/CNT-04-000000001D6D7.pdf)

The guidelines for the merger plan were approved by Banca Intesa and Sanpaolo IMI on August 26, 2006. Subsequently, on October 12, 2006, the two banks approved the merger plan. On December 1, 2006, the shareholders' meetings of both banks met in extraordinary session to approve the merger by acquisition. On the same day, an agreement was signed with the Trade Unions for the Solidarity Fund. The Italian Competition Authority (AGCM) granted approval for the merger on December 20, 2006. The merger deed was signed by Banca Intesa and Sanpaolo IMI on December 28, 2006, and subsequently registered with the commercial register on December 29, 2006 (Intesa Sanpaolo, 2006)<sup>29</sup>.

#### 3.1.4. From the birth of the Intesa Sanpaolo Group to the merger with UBI Banca

The Intesa Sanpaolo Group is the outcome of merging over 300 different institutions, including savings banks, pawnshops, rural banks, cooperative banks, commercial credit companies, Catholic banks, public law bodies, and banks of national significance. These institutions span around 189 towns and cities across Italy.

In 2012, the Umbrian banks were reorganized, and a strategy to streamline the operating brands and optimize the number of operational units was implemented.

<sup>29</sup> [https://group.intesasampaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni\\_2006/CNT-04-000000001D6D7.pdf](https://group.intesasampaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/presentazioni_2006/CNT-04-000000001D6D7.pdf)

In 2013, Banca dell' Adriatico was merged with the Cassa di Risparmio di Ascoli Piceno, resulting in the formation of the "Banca dell' Adriatico, " which was then incorporated into Intesa Sanpaolo three years later.

In 2014, Intesa Sanpaolo incorporated Cassa di Risparmio di Venezia and Banca di Credito Sardo, followed by Banca di Trento e Bolzano, Banca Monte Parma, Cassa di Risparmio della Provincia di Viterbo, Cassa di Risparmio di Rieti, and Cassa di Risparmio di Civitavecchia. In 2016, it acquired Banca ITB, fully purchasing its shares, after which the bank was renamed "Bank 5" while retaining its operational model.

In 2018, after acquiring Veneto banks, Intesa Sanpaolo merged Banca Nuova S. p. A., Cassa di Risparmio del Veneto S. p. A., Cassa di Risparmio del Friuli- Venezia Giulia S. p. A., Cassa dei Risparmio di Forlì e della Romagna S. p. A., and Banco di Napoli. From 2019 to 2020, there were mergers involving Banca CR Firenze S. p. A., Cassa di Risparmio in Bologna S. p. A., Cassa di Risparmio di Pistoia e della Lucchesia S. p. A., Banca Apulia S. p. A., Banca Prossima S. p.A., and Banca IMI.

In February 2020, Intesa Sanpaolo announced a Voluntary Public Exchange Offer (OPS) for all shares of UBI Banca, which concluded in October 2020 with the Public Tender Offer (OPAS). The merger between Intesa Sanpaolo and UBI Banca facilitated national growth and had beneficial effects on the Italian financial system within the European context, enhancing the positioning of the Intesa Sanpaolo Group in the international banking sector.

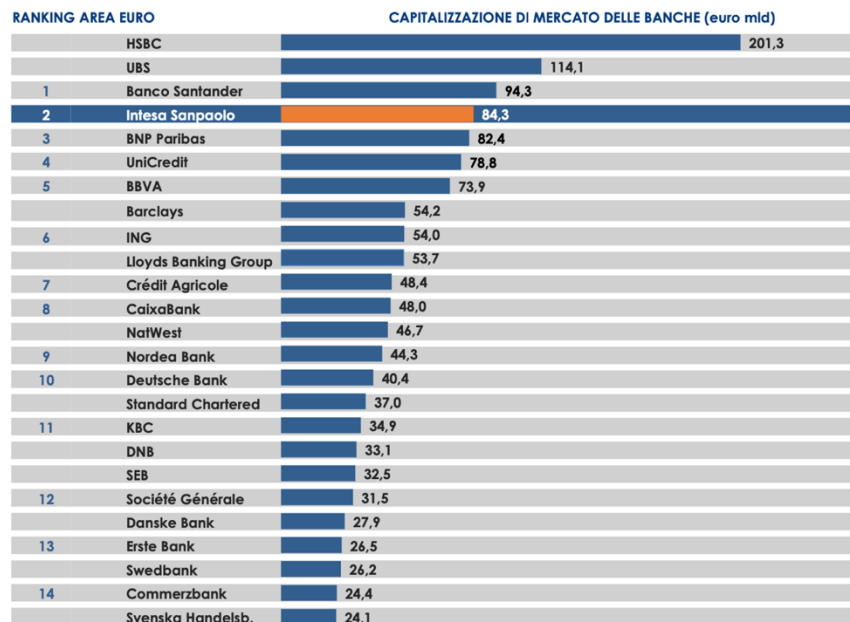
### **3.1.5. Intesa Sanpaolo Today**

In 2025, Intesa Sanpaolo is the industry leader in Italy, with a market share of 22% in deposits and 18% in loans. It has 3,000 branches in Italy and a customer base of 13.9 million, reaching a market share of 15%. Its presence is widespread, with a market share equal to or greater than 12% in 16 out of 20 regions and equal to or greater than 5% in 105 out of 107 provinces. It also has a strategic international presence, with over 900 branches and 7.5 million customers, including subsidiary banks, operating in commercial banking in 12 countries in Central and Eastern Europe, the Middle East, and North Africa. A network also deals with corporate customer support in 25 countries, mainly in the Middle East and North Africa.

The bank presents a fintech omnical model, using multiple communication channels and allowing customers to access services through physical branches, online banking, mobile app and telephone assistance.

As far as shareholders are concerned, the 2022-2025 Business Plan provides for a distribution of cash dividends, with a payout ratio of 70%. In November 2022, an interim cash dividend of €1.4 billion was paid, and in May 2023 a cash dividend balance of €1.6 billion, for a total of €3 billion. A buyback of €3.4 billion was also executed in 2023. For 2023, an interim dividend of €2.6 billion and a dividend balance of €2.8 billion were paid in May 2024, for a total of €5.4 billion in dividends. In 2024, the interim dividend amounts to 3 billion and a dividend balance of 3.1 billion has been proposed for May 2025. As for the buyback, the buyback for 2024 amounts to 1.7 billion and the proposed buyback for 2025 amounts to 2 billion.

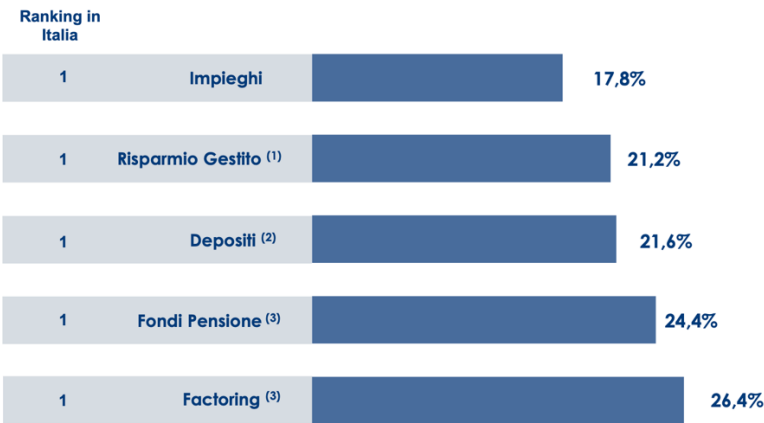
With regard to Intesa Sanpaolo's positioning in the European context, the ranking of banks in the euro area by market capitalization sees the Group in second position, with a market capitalization of 84.3 billion euros, considering prices as at 28 February 2025.



*Graph 7: Ranking of banks by market capitalization*  
Source: Intesa Sanpaolo. (2024). Brochure istituzionale.

[https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/Brochure\\_istituz\\_ita.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/Brochure_istituz_ita.pdf)

On the Italian level, Intesa Sanpaolo is in first position, with Unicredit as the main competitor.



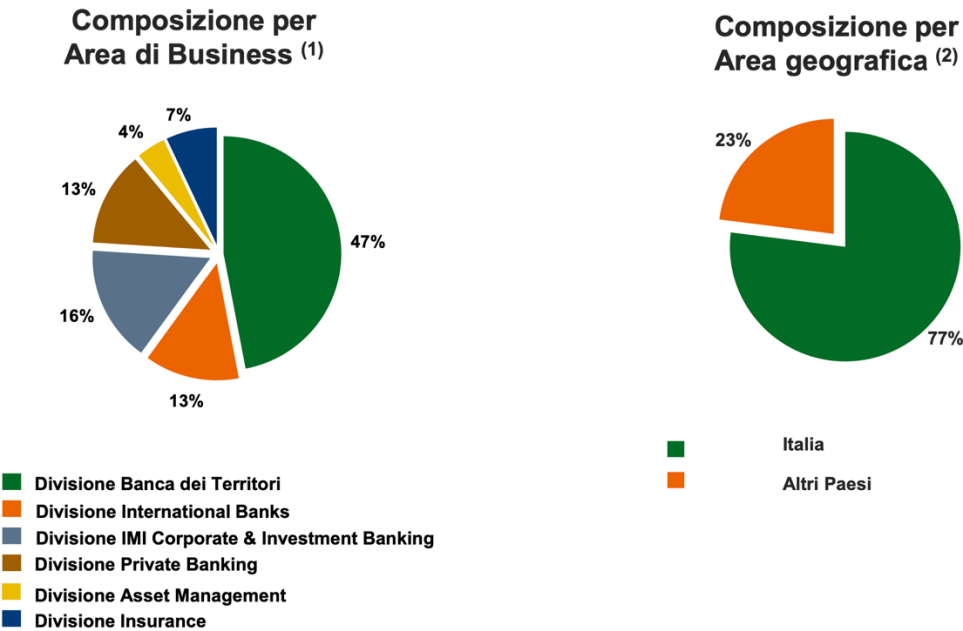
Graph 8: Intesa Sanpaolo's ratings in key financial market sectors

Source: Intesa Sanpaolo. (2024). Brochure istituzionale.

[https://group.intesasnpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/Brochure\\_istituz\\_ita.pdf](https://group.intesasnpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/Brochure_istituz_ita.pdf)

Intesa Sanpaolo's operating income, as at 31 December 2024, is as follows:

### Proventi Operativi Netti



Graph 9: Breakdown of Intesa Sanpaolo's Net Operating Income as at 31 December 2024, by business area and geographical area

Source: Intesa Sanpaolo. (2024). Brochure istituzionale.

[https://group.intesasnpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/Brochure\\_istituz\\_ita.pdf](https://group.intesasnpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/Brochure_istituz_ita.pdf)

As can be seen from the graph, the main source of revenue is represented by the Banca dei Territori division, which participates in net operating income at 47%. This is followed by the IMI Corporate & Investment Banking Division (16%), the International Banks Division (13%) and the Private

Banking Division (13%). The Asset Management and Insurance Divisions contribute 7% and 4% respectively. In addition, it is possible to observe that most of the revenues come from Italy (77%), and 23% come from other countries.

Intesa Sanpaolo presents the following assessments by the main international rating agencies:

- Fitch Ratings assigns a rating of BBB for the long term and F2 for the short term, with a positive outlook.
- Moody's assigns a rating of Baa1 for the long term and P-2 for the short term, with a stable outlook.
- DBRS Morningstar ranks the bank with BBB (high) for the long term and R-1 (low) for the short term, with a positive trend for the long term and stable for the short term.
- S&P Global Ratings assigns a rating of BBB for the long term and A-2 for the short term, with a stable outlook.

### **3.1.6. Organizational structure**

The organizational structure of Intesa Sanpaolo is divided into 6 divisions, according to a consumer-oriented model:

- Banca dei Territori Division<sup>30</sup>: This division is aimed at the retail segment, of private customers with financial assets up to 100,000 euros and activities with simple needs; the personal segment, with private customers with financial assets from 100,000 euros to one million euros, and SMEs with a turnover of less than 350 million. In order to manage these subjects, there are groups of specialists for the various industrial sectors who also address foreign companies investing in Italy. The Banca dei Territori division has 13.7 million customers, with a total of 2700 branches. Of the 2,700 branches, 2,100 are dedicated to the Retail & Exclusive segment, 245 to SMEs, 246 to the agribusiness sector, and 99 to nonprofit customers.
- Corporate and Investment Banking Division<sup>31</sup>: this division presents itself as a global partner for companies (with over 350 million in turnover), financial institutions and public administration. This includes capital markets, investment banking and structured finance activities, carried out through Banca IMI. It is also present in the Public Finance sector, where the division presents itself as a partner for the public administration and in the transactional services sector. There are

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<sup>30</sup> [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/Banche\\_territori\\_it.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/Banche_territori_it.pdf)

<sup>31</sup> [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/CIB\\_it.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/CIB_it.pdf)

27 branches in Italy and about 19 thousand customers. The division is spread globally, and is present in 25 countries, with branches, representative offices and subsidiaries, for the performance of Corporate Banking activities. Overseas subsidiaries are located in the European Union, UK & MEA, Asia Pacific and USA. There are also representative offices in emerging markets, including Beirut, Cairo, Beijing, Jakarta, Mumbai etc. Finally, there are corporate banks in Ireland, Brazil and Luxembourg. The division has 4 main activities:

- Commercial & Transaction Banking:
  - Commercial Banking: Loans and Guarantees, Leasing, Factoring and Confirming.
  - Transaction Banking: Cash Management, Trade & Structured Export Finance, Merchants Services e Carte, Securities Services.
- Investment Banking and Structured Finance: M&A Advisory, Equity Capital Markets, Debt Capital Markets, Structured Finance.
- Capital Markets:
  - Markets: Equity, Fixed Income, Commodities, Foreign Exchange, Investment Products for Distribution, Market Hub, Clearing Service.
  - Solutions: Hedging Solutions, Investment & Liquidity Solutions, Loan Management & Advisory, Loan Syndication, Risk Transfer & Financing, Securitization, Solutions & Financing.
- Sustainable Solutions: Loan, Bond, Sustainable Hedging, Circular Economy.

- International Banks Division<sup>32</sup>: this is a division that controls the Intesa Sanpaolo Group's activities on foreign markets, through subsidiaries and investee banks, which deal with commercial banking activities. The division mainly carries out guidance, coordination and support activities for international banks, in order to maintain a continuous relationship with the group's central structures and with the branches and other foreign offices of the Corporate and Investment Banking Division. The division has 7.4 million customers and 907 branches in 12 countries, including Central and Eastern Europe, the Middle East and North Africa.
- Asset Management Division<sup>33</sup>: it provides asset management services to clients, external commercial networks and institutional clients. The division operates through Eurizon Capital

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<sup>32</sup> [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/Banche\\_Estere\\_it.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/Banche_Estere_it.pdf)

<sup>33</sup> [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/Asset\\_Management\\_it.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/gruppo/Asset_Management_it.pdf)

SGR, the parent company of the division and its subsidiaries, which are also located in Luxembourg and Central-Eastern Europe. On December 31, 2024, the value of assets under management amounted to €333 billion.

- **Private Banking Division:** it is responsible for serving clients belonging to the Private and High Net Worth Individuals segment, which amounts to approximately 125,000 customers, with 250 dedicated branches and 6814 private bankers, specialized in wealth management. The group company dedicated to private banking is Fideuram, which controls Intesa Sanpaolo Private Banking, SIREF Fiduciaria, Intesa Sanpaolo Wealth Management, Reyl Intesa Sanpaolo, Fideuram - Intesa Sanpaolo Private Banking Asset Management and Fideuram Asset Management Ireland.
- **Insurance Division:** it supplies the Group's customers with insurance and pension products, with direct insurance income of €177 billion. It includes Intesa Sanpaolo Assicurazioni (non-life policies), Intesa Sanpaolo Protezione (life policies), Intesa Sanpaolo Insurance Agency (insurance distribution), InSalute Servizi (health care) and Fideuram Vita (insurance solutions for private banking).

### **3.2. UBI Banca: Corporate Profile and Strategic Vision**

UBI Banca is the result of the merger between the BPU Banca Group and the Banca Lombarda e Piemontese Group. However, its history is the result of banking aggregations that have gone on for over a century.

#### **- BPU Banca Group**

In 1869 the "Banca Mutua Popolare della Città e Provincia di Bergamo" was born, which would later be called "Banca Popolare di Bergamo (BPB)". In 1988, the "Società per la Stagionatura e l'Assaggio delle Sete ed Affini" was founded, which became the "Banca Popolare Commercio e Industria (BPCI)". In 1992, BPB merged with Credito Varesino, resulting in the birth of BPB-CV, which, in 1996, acquired Banca Popolari di Ancona (BPA), creating the BPB-CV group. In 2001, BPCI acquired "Banca Carime". Finally, in 2003, the BPB-CV group and BPCI merged, creating the "BPU Banca Group".

## **- Banca Lombarda e Piemontese Group**

The "Credito Agrario Bresciano (CAB)" was established in 1883 and acquired the Banco di San Giorgio (BSG) in 1992. The "Banca San Paolo di Brescia (BSPB)" was founded in 1988 and took over "Banca di Valle Camonica (BVC)" in 1963. A merger between CAB and BSPB in 1998 formed "Banca Lombarda" as the new parent company. The branch network was subsequently reorganized under the Banco di Brescia branding. In 2000, Banca Lombarda purchased the European Regional Bank, rebranding itself as "Gruppo Banca Lombarda e " Piemontese".

## **- The birth of UBI Banca**

On April 1, 2007, the BPU Banca Group and the Banca Lombarda e Piemontese Group merged, resulting in the creation of UBI Banca. It will be the first cooperative bank to be transformed into a joint-stock company, on October 12, 2015, following the reform of the banking sector that forced large cooperative banks to change their corporate form.

On February 20, 2017, UBI Banca completed the incorporation of the 7 Network Banks: Banca Popolare di Bergamo, Banco di Brescia, Banca Regionale Europea, Banca Commercio e Industria, Banca di Valle Camonica, Banca Popolare di Ancona, Banca Carime. This reorganization is called the "Single Bank Project", aimed at greater efficiency and operational centralization.

On May 11, 2017, UBI acquired Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio and Nuova Cassa di Risparmio di Chieti, three banks that had been saved from bankruptcy by the Italian government. The complete incorporation was finalized on February 26, 2018.

In 2019, UBI Banca was the third largest banking group by capitalization, with a market share of more than 7%, 1881 branches in Italy and over 21,800 employees. Prior to the merger with Intesa Sanpaolo, the bank was divided into several divisions, including:

- UBI Top Private Banking
- UBI Corporate & Investment Banking
- UBI Welfare
- UBI GTB
- UBI Leasing
- UBI Factor
- UBI Comunità
- IW Bank

### 3.3. Financial Performance and Key metrics: Intesa Sanpaolo

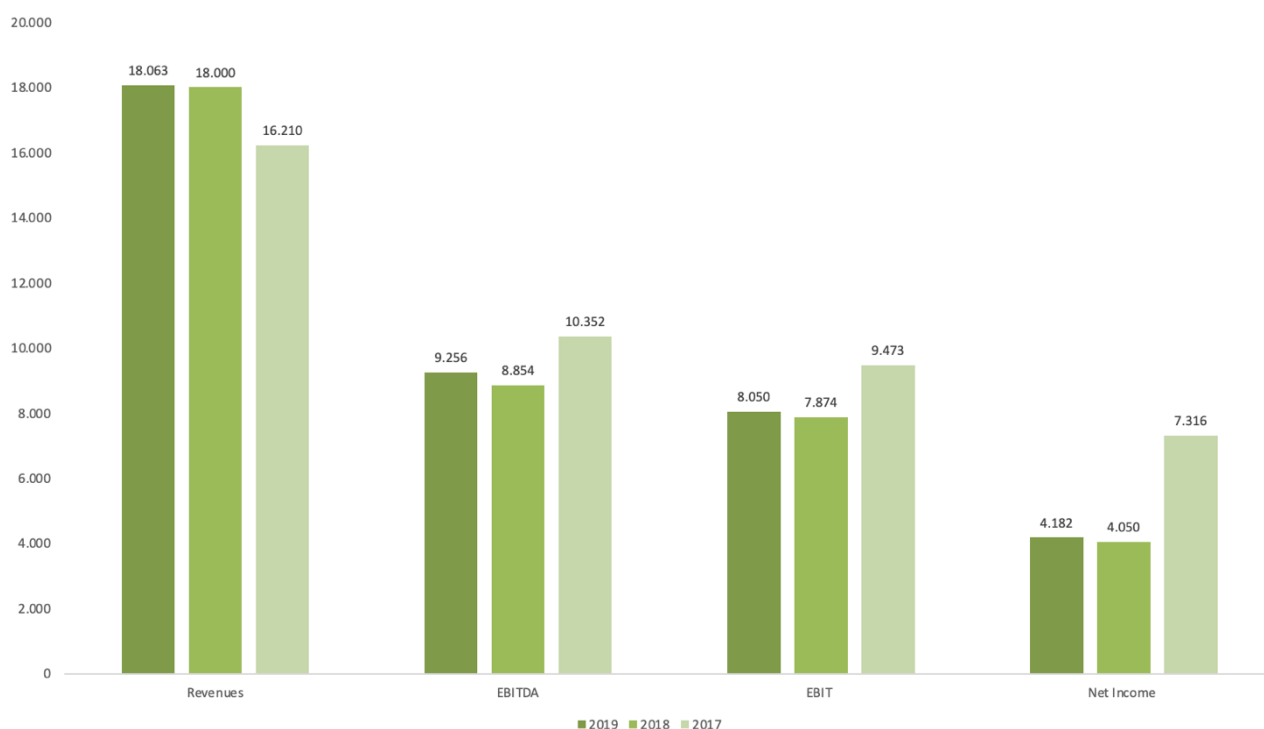
In order to analyse the merger by incorporation between Intesa Sanpaolo and UBI Banca, it is essential to examine the financial and operational evolution of the Intesa Sanpaolo Group in the period prior to the transaction, focusing on the main indicators of profitability, productivity and liquidity.

Specifically, the study will focus on the 2017-2019 period, the years preceding the Voluntary Public Exchange Offer (OPS) on all UBI Banca shares, by Intesa Sanpaolo, announced in February 2020.

During this three-year period, the bank has worked on its strategic positioning, growth and ability to generate shareholder value. It has also strengthened its leadership in the banking sector with a business model focused on sustainable growth, capital strength and operational efficiency.

For the purposes of the analysis, the data of the official consolidated financial statements, published by the bank, in application of Legislative Decree no. 38 of 28 February 2005, and prepared in accordance with the IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and approved by the European Commission, as established by EU Regulation no. 1606 of July 19, 2002, will be used.

In addition, the financial statements reclassified according to the accounting principles adopted by the Refinitiv platform, for the years 2017, 2018 and 2019, will be used.



*Graph 10: Evolution of Revenues, EBITDA, EBIT, and Net Income (2017–2019) of Intesa Sanpaolo*  
*Source: Author's elaboration based on Refinitiv data.*

Revenues achieved in 2018 amounted to €18,000 million, recording an increase of 11% compared to those of 2017, equal to €16,210 million. In order to analyze these results, it is necessary to look at the European and Italian macroeconomic environment in parallel with the business strategies adopted by Intesa Sanpaolo during the period under review. The two-year period 2017-2018 was characterized by a growing economic expansion, with GDP growth in 2017 of 2.8% on the European scene, compared to the previous year, and 1.7% in Italy, mainly due to a recovery in investments and greater confidence in future prospects. This has led to an increase in the demand for credit from households and businesses. The ECB continues to adopt an expansionary monetary policy, with interest rates at historic lows and with Quantitative Easing, increasing liquidity in the financial system. On the other hand, funding, i.e. the cost that a bank has to bear to raise financial resources, is reduced. In this way, access to funds to be lent to businesses and households is facilitated. All this is mainly reflected in the bank's "Interest & Dividend Income", which, in fact, recorded an increase from €10,595 million in 2017 to €11,605 million in 2018, a sign of greater credit provision. In addition, the "Interest & Dividend Income/(Expense) - Net - Finance" increased from 2017 to 2018, from €6,821 million to €7,436 million, showing an improvement in the profitability of loans.

From the point of view of the business strategies adopted by Intesa Sanpaolo, a greater diversification of the business was carried out, with an increase in "Non-interest business revenue", in particular linked to an increase in insurance, wealth management and international expansion. Indeed, there was an increase in "Net Income from Insurance" from €1,282 million in 2017 to €1,426 million in 2018 (+11%). In addition, "Net Commission & Income Fees" increased from €7,428 million to €7,525 million, showing the contribution of wealth management and asset management, which generate fees for the bank. Finally, "Investments & Loans" increased from €679 million to €1,613 million, reflecting gains from investments and international expansion operations.

From 2018 to 2019, there was a further increase in revenues, although minimal. As a matter of facts, both "Interest & Dividend Income" and "Interest & Dividend Income/(Expense) – Net" have suffered a slight reduction. On the other hand, however, there was an increase in "Non-interest business revenues", from €10,564 million to €11,022 million, mainly due to growth in "Investments & Loans" (from €1,613 million to €1,898 million), "Net Commission & Fees Income" (from €7,525 million to €7,536 million) and "Net income from insurance" (from €1,426 million to €1,456 million).

EBITDA (Earnings Before Interests, Taxes, Depreciation, and Amortization) amounted to €10,352 million in 2017. In 2018, however, there was a drop to €8,854 million, with a reduction of 14.5% compared to the previous year. In 2019, EBITDA returned to growth to €9,256 million, with an increase of 4.5% compared to 2018, but still below 2017 levels.

Therefore, despite the increase in revenues from 2017 to 2018, EBITDA has recorded a reduction in these two years. In this regard, observing the trend in operating expenses is necessary to justify these values. Indeed, “Total Operating Expenses” increased from 2017 to 2018, from €6,737 million to €10,126 million. This pronounced change is mainly due to “Other Operating Expense/Income – Net”, which went from (-) €5,009 million in 2017 to (-) €687 million in 2018, following a reduction in “Other Operating Income”, from €5,902 million to €733 million.

According to the financial statements published by Intesa Sanpaolo for 2017, "other operating income" includes the state contribution of €3,500 million received to offset the impact on capital ratios resulting from the acquisition of certain assets, certain liabilities, and specific legal relationships of Banca Popolare di Vicenza and Veneto Banca. Additionally, it includes the public contribution attributable to Intesa Sanpaolo of €938 million to cover integration and rationalization costs related to the acquisition, included in the item “Other Income”.

From 2018 to 2019, EBITDA increased from €8,854 million to €9,256 million. This growth was mainly due to higher revenues and a slight reduction in “total operating expenses”, which fell from €10,126 million in 2018 to €10,013 million in 2019, reflecting an improvement in operating efficiency. This improvement was supported by a reduction in “Selling, General and Administrative Expenses” and more effective management of operating costs, although "Other Operating Expense/(Income)" recorded a slight increase in net costs.

As for EBIT, from 2017 to 2018, there was a reduction from €9,473 million to €7,874 million (-16.9%). This is due to 2018 having a lower EBITDA than 2017, as previously explained, along with a higher value of D&A recorded in 2018 compared to 2017, which had an additional negative impact on EBIT. From 2018 to 2019, an increase from €7,874 million to €8,050 million was observed, mainly due to the growth in EBITDA between the two years. However, the increase in EBIT was partially mitigated by a higher D&A in 2018, compared to the previous year.

Net income experienced a sharp decline between 2017 and 2018, falling by about 45%, from €7,316 million to €4,050 million. This outcome is mainly due to the tax increases in 2018, resulting mainly from the elimination of deferred tax assets recorded in 2017, the introduction of new tax items classified as "Other Taxes" amounting to €658 million, and the absence of extraordinary government contributions that had previously reduced the taxable amount in 2017.

Between 2018 and 2019, Net Income grew slightly from €4,050 million to €4,182 million (+3.3%). The increase in Net Income is mainly attributable to the increase in EBIT. In addition, there was a

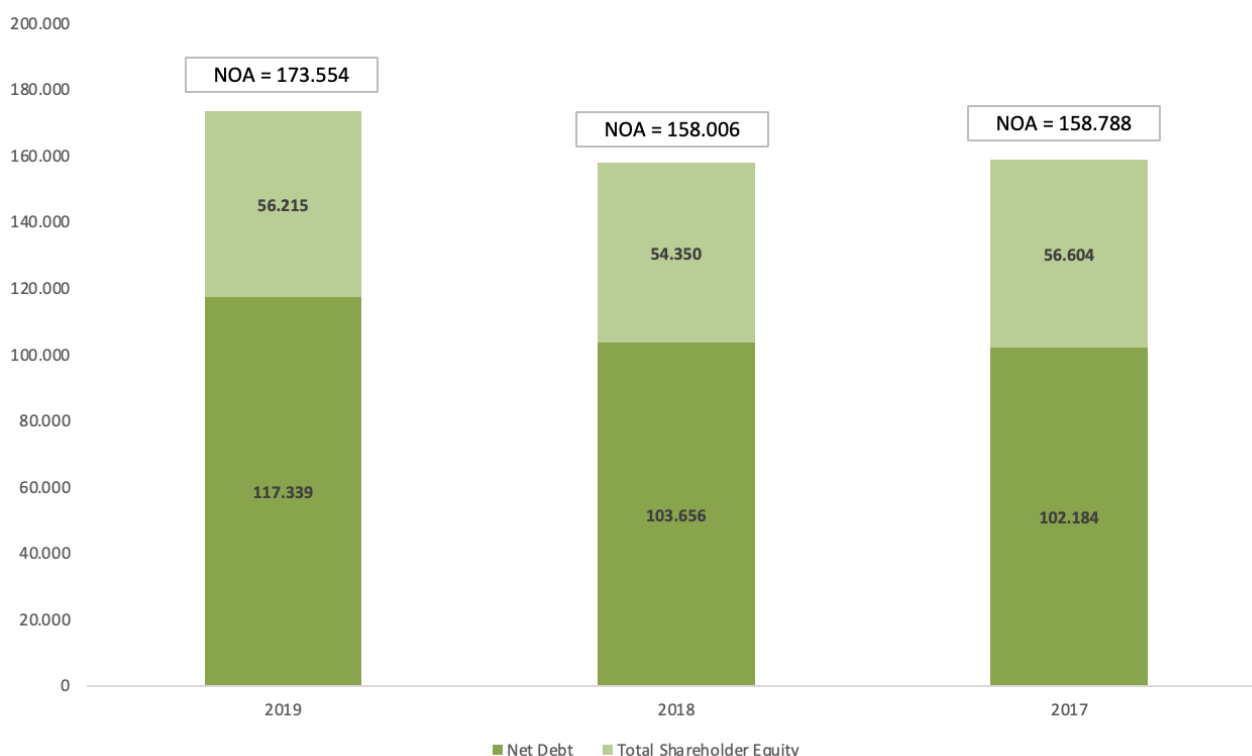
lower negative impact from “Non-Recurring Income/(Expense)”, which contributed to improving the pre-tax result. Taxes have increased slightly, but not to a degree that compensates for operating benefits.

|                                                    | 2019    | 2018    | 2017    |
|----------------------------------------------------|---------|---------|---------|
| <b>Total Debt</b>                                  | 144.179 | 152.152 | 151.986 |
| <b>Cash and Short-Term Deposits due from banks</b> | 26.840  | 48.496  | 49.802  |
| <b>Net Debt</b>                                    | 117.339 | 103.656 | 102.184 |

*Table 2: Net Debt Evolution of Intesa Sanpaolo (2017–2019)*  
*Source: Author's elaboration based on Refinitiv data.*

Net Debt, calculated as "Total Debt" – "Cash and Short-Term Deposits due from banks", increased during the period under analysis, from €102,184 million in 2017, to €103,656 million in 2018, ending with €117,339 million in 2019. The slight increase observed between 2017 and 2018 is due to an increase in "Total Debt", accompanied by an equally slight reduction in "Cash and Short-Term Deposits due from banks". The most significant increase occurred in 2019 and can be attributed to a reduction in "Cash and Short-Term Deposits due from banks", which went from €48,496 million in 2018 to €26,840 million in 2019. This reduction leads to an increase in Net Debt, even though the Total Debt in 2019 is lower than the previous year.

"Cash and Short-Term Deposits due from banks" consists of "Cash & Short-Term Deposits", which remained almost constant over the 2 years, and "Funds with Central Banks", where there was the most significant reduction, as they fell from €44,860 million to €23,045 million (-48.6%). Indeed, Intesa Sanpaolo has reduced its reserves at central banks to reallocate part of its liquidity to HQLA (High-Quality Liquid Assets), according to the Notes to the 2019 official financial statements published by the bank.



*Graph 11: Net Debt and Total Shareholder Equity Composition (2017–2019) of Intesa Sanpaolo*  
*Source: Author's elaboration based on Refinitiv data.*

The chart above shows the trend of Net Debt over the years, as well as the Total Shareholder Equity. The latter, indeed, fell from €56,604 in 2017 to €54,350 in 2018. This reduction is mainly due to the contraction in “retained earnings”, which fell from €7,733 million to €4,059 million. At the same time, “common equity” declined slightly, while “revaluation reserves” remained negative, although they improved somewhat year-on-year. In 2019, Total Shareholder equity increased thanks to a slight recovery in “retained earnings”, and a marginal increase in “common equity”.

Finally, as can be observed, the NOA (Net Operating Asset) decreased slightly from 2017 to 2018, and then increased more significantly in 2019. In this case, the increase in the NOA is not due to a rise in gross debt or equity, but rather a reduction in cash and cash equivalents, which have been reallocated to operating activities.

| Reclassified Cash Flow Statement                                                       |                 |                 |                 |
|----------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|
|                                                                                        | 31-12-2019      | 31-12-2018      | 31-12-2017      |
| <b>Operating Cash Flow - Indirect</b>                                                  |                 |                 |                 |
| Profit/(Loss) - Starting Line - Cash Flow                                              | 4.172,0         | 4.072,0         | 7.354,0         |
| Non-cash Items & Reconciliation Adjustments - Cash Flow                                | 5.641,0         | 3.076,0         | 371,0           |
| Income Tax Expense - Cash Flow - to Reconcile                                          | -160,0          | 889,0           | -262,0          |
| Other Non-Cash Items & Reconciliation Adjustments - Cash Flow - to Reconcile           | 4.292,0         | -2.095,0        | -1.246,0        |
| Depreciation, Depletion & Amortization including Impairment - Cash Flow - to Reconcile | 1.215,0         | 980,0           | 879,0           |
| Impairment - Financial Fixed Assets - Operating - Cash Flow - to Reconcile             | 2.673,0         | 3.478,0         | 3.610,0         |
| Assets Sale - Gain/(Loss) - Cash Flow - to Reconcile                                   | -2.379,0        | -176,0          | -2.610,0        |
| Investment Securities - Gain/(Loss) - Cash Flow                                        | -2.379,0        | -176,0          | -2.610,0        |
| Interest & Dividends - Received - Total - Cash Flow                                    | 9,00            | 12,00           | 39,00           |
| Cash Flow from Operating Activities before Changes in Working Capital                  | 9.822,0         | 7.160,0         | 7.764,0         |
| Working Capital - Increase/(Decrease) - Cash Flow                                      | -5.380,0        | -1.525,0        | -5.639,0        |
| Investment Securities - Decrease/(Increase) - Operating - Cash Flow                    | -12.305         | 1.448,0         | 336,0           |
| Other Assets - Decrease/(Increase) - Cash Flow                                         | 2.584,0         | 729,0           | -866,0          |
| Trading Liabilities - Increase/(Decrease) - Cash Flow                                  | 2.403,0         | 995,0           | -3.697,0        |
| Other Liabilities - Increase/(Decrease) - Total - Cash Flow                            | 1.938,0         | -4.697,0        | -1.412,0        |
| <b>Net Cash Flow from Operating Activities</b>                                         | <b>4.442,0</b>  | <b>5.635,0</b>  | <b>2.125,0</b>  |
| <b>Investing Cash Flow</b>                                                             |                 |                 |                 |
| Capital Expenditures - Net - Cash Flow                                                 | 1.125,0         | 1.910,0         | 1.275,0         |
| Property, Plant & Equipment - Purchased/(Sold) - Net - Cash Flow                       | 157,0           | 112,0           | 391,0           |
| Property, Plant & Equipment - Purchased - Cash Flow                                    | 497,0           | 112,0           | 391,0           |
| Property, Plant & Equipment Sold - Cash Flow                                           | 340,0           |                 |                 |
| Intangible Assets - Purchased/(Sold) - Net - Total - Cash Flow                         | 968,0           | 1.798,0         | 884,0           |
| Intangible Assets - Purchased/Acquired - Cash Flow                                     | 968,0           | 1.798,0         | 884,0           |
| Capital Expenditures - Total                                                           | 1.465,0         | 1.910,0         | 1.275,0         |
| Acquisition & Disposals of Business - Assets - Sold/(Acquired) - Net - Cash Flow       | 0               | 18,00           | 61,00           |
| Acquisition of Business - Cash Flow                                                    |                 | 248,0           |                 |
| Business - Sold - Cash Flow                                                            | 0               | 266,0           | 61,00           |
| Investments excluding Loans - Decrease/(Increase) - Cash Flow                          | -172,0          | -169,0          | 940,0           |
| Investment Securities - Unclassified - Sold/(Purchased) - Net - Total - Cash Flow      | -172,0          | -169,0          | 940,0           |
| Investment Securities - Sold/Matured - Unclassified - Cash Flow                        | 10,00           |                 | 940,0           |
| Investment Securities - Purchased - Unclassified - Cash Flow                           | 182,0           | 169,0           | 0               |
| <b>Net Cash Flow from Investing Activities</b>                                         | <b>-1.297,0</b> | <b>-2.061,0</b> | <b>-274,0</b>   |
| <b>Financing Cash Flow</b>                                                             |                 |                 |                 |
| Dividends Paid - Cash - Total - Cash Flow                                              | 3.494,0         | 3.447,0         | 3.008,0         |
| Dividends - Common - Cash Paid                                                         | 3.494,0         | 3.447,0         | 3.008,0         |
| Stock - Total - Issuance/(Retirement) - Net - Cash Flow                                | -254,0          | 896,0           | 1.821,0         |
| Stock - Issuance/(Retirement) - Net - Excluding Options/Warrants - Cash Flow           | -254,0          | 896,0           | 1.821,0         |
| Stock - Common - Issuance/(Retirement) - Net - Cash Flow                               | -254,0          | 896,0           | 1.821,0         |
| Other Financing Cash Flow - Increase/(Decrease)                                        | -14,00          | -31,00          | 0               |
| <b>Net Cash Flow from Financing Activities</b>                                         | <b>-3.762,0</b> | <b>-2.582,0</b> | <b>-1.187,0</b> |
| <b>Foreign Exchange Effects</b>                                                        |                 |                 |                 |
| Foreign Exchange Effects - Cash Flow                                                   | 12,00           | 5,00            | 3,00            |
| <b>Change in Cash</b>                                                                  |                 |                 |                 |
| <b>Net Change in Cash - Total</b>                                                      | <b>-605,0</b>   | <b>997,0</b>    | <b>667,0</b>    |
| Net Cash from Continuing Operations                                                    | -605,0          | 997,0           | 667,0           |
| Net Cash - Beginning Balance                                                           | 10.350          | 9.353,0         | 8.686,0         |
| Net Cash - Ending Balance                                                              | 9.745,0         | 10.350          | 9.353,0         |
| <b>Supplemental</b>                                                                    |                 |                 |                 |
| Interest & Dividends - Received - Cash Flow - Supplemental                             | 9,00            | 12,00           | 39,00           |
| CF from Optg Activities before Change in WC & Int Payments                             | 9.822,0         | 7.160,0         | 7.764,0         |
| Cash Dividends Paid & Common Stock Buyback - Net                                       | 3.748,0         | 2.551,0         | 1.187,0         |
| Common Stock Buyback - Net                                                             | 254,0           | -896,0          | -1.821,0        |
| Free Cash Flow to Equity                                                               | 3.317,0         | 3.725,0         | 850,0           |
| Free Cash Flow Net of Dividends                                                        | -517,0          | 278,0           | -2.158,0        |
| Free Cash Flow                                                                         | 2.977,0         | 3.725,0         | 850,0           |
| Dividends Provided/Paid - Common                                                       | 2.031,1         | 3.449,4         | 3.419,1         |

Table 3: Reclassified Cash Flow Statement (2017–2019) of Intesa Sanpaolo  
Source: Author's elaboration based on Refinitiv data.

Cash flow from operating activities amounted to €4,442 million in 2019, slightly down compared to 2018 (€5,635 million) but more than doubled compared to 2017 (€2,125 million). This result is due to a combination of factors. The "Profit/Loss – Starting Line" is much higher in 2017, compared to the following years, as was explained earlier in the chapter. In this case, the "Net Income before minority interest" was used to consider the net operating income of the entire group before allocating the share of profit due to the minority shareholders of the subsidiaries. What led to an improvement in operating performance were certainly the "Non-cash items & Reconciliation Adjustments", which, in 2019, reached €5,641 million, almost double compared to 2018 (€3,076 million) and well above 2017 (€371 million). The growth from 2017 to 2018 in "Non-cash items & Reconciliation Adjustments" is mainly due to "Investment Securities - Gain/(Loss) - Cash Flow". From 2018 to 2019, on the other hand, a large impact came from "Other Non-Cash Items & Reconciliation Adjustments", which went from negative values in 2018 to €4,292 million in 2019. Another key element is the behavior of the delta Net Working Capital (NWC), which is consistently negative, indicating that working capital has absorbed liquidity in each period. This implies that the change in operating assets and liabilities generated a decrease in free cash, reducing the contribution of working capital to operating cash flow. In detail, 2019 saw the worst performance of the three-year period, with a net absorption of -€5,380 million. The main culprit is the increase in investment securities, which alone determine an outflow of over 12 billion. This dynamic reflects a reallocation of liquidity, in particular from reserves held at central banks, towards more profitable financial instruments, thus reducing the cash balance but increasing operating assets. In 2018, the delta NWC stood at -1,525 million, with a less marked impact than in 2019. Once more, the rise in assets surpassed the growth in operating liabilities, though with a more balanced composition. In 2017, the delta NWC was similar to that of 2019 (-€5,639 million), mainly driven by the reduction in operating liabilities, in particular "trading liabilities" and "other liabilities", which indicate less support from working capital in cash generation.

Cash Flow from Investing Activities is always negative over the three years, indicating a constant use of liquidity in strategic activities. From 2017 to 2018, the cash flow used for investment activities increased significantly, due mainly to an increase in "Capital Expenditures-Net" from €1,275 million in 2017 to €1,910 million in 2018. Investments in intangible assets grew, probably linked to the technological transformation underway in those years. In 2017, significant net investments were also made in financial instruments of €940 million, a positive item that had helped to contain the overall cash outflow. In 2018, however, this item became negative (-€169 million), suggesting divestments or changes in the composition of the financial portfolio. Finally, in 2018 there was an element absent in 2017: the acquisition of a business for €248 million, which further negatively affected cash flow. In 2019, the cash flow outflow due to investing activities decreased, from -€2,061 million in 2018 to

-€1,297 million. The main reason is a reduction in "Capital Expenditures-Net", showing a slowdown in investments, especially in Intangible Assets. "Business acquisitions", which in 2018 had an impact of 248 million, are not repeated in 2019. "Investments excluding loans" remained negative, but relatively stable: -€169 million in 2018 and -€172 million in 2019.

In the statement relating to Net Cash Flow from Financing Activities between 2017 and 2019, a progressive increase in cash outflows is observed, which went from -1,187 million (2017) to -2,582 million (2018), up to -3,762 million (2019). This indicates that Intesa Sanpaolo has used more and more resources to finance commitments to shareholders and for capital transactions. Dividends paid increased each year, from €3,008 million in 2017 to €3,447 million in 2018, to €3,494 million in 2019. Another significant item is the "Stock - Common - Issuance/(Retirement) - Net," which shows a positive balance in 2017 and 2018, respectively, of 1,821 million and 896 million, indicating capital increases or share issues that have provided cash to the group. On the contrary, in 2019, the value is negative and is equal to - 254 million, as there was the buyback of treasury shares carried out by the Group.

Finally, the Net Change in Cash was positive (cash in) in 2017 and 2018, with a value of €667 million and €997 million respectively, and then became negative in 2019, with -€605 million (cash out). In 2017 and 2018, cash flow from operating activities (+€2,125 million and +€5,635 million, respectively) more than offset the requirements related to investments and dividend payments, leading to an increase in cash and cash equivalents. However, in 2019, despite a good level of operating cash (+€4,442 million), the increase in dividends paid (€3,494 million), the share buyback and the high investment component (-€1,297 million) led to an overall negative balance. Added to this is a limited positive contribution from exchange rate effects (+€12 million), but insufficient to reverse the trend.

| Key Financial Indicators               |            |            |            |
|----------------------------------------|------------|------------|------------|
|                                        | 31-12-2019 | 31-12-2018 | 31-12-2017 |
| <b>Profitability / Return</b>          |            |            |            |
| ROE                                    | 8,1%       | 7,9%       | 14,8%      |
| ROA                                    | 0,5%       | 0,5%       | 1,0%       |
| Return on Earning Assets - %           | 0,7%       | 0,7%       | 1,2%       |
| Operating profit margin - %            | 45%        | 44%        | 58%        |
| Net Margin - %                         | 22,7%      | 22,4%      | 45,4%      |
| <b>Efficiency</b>                      |            |            |            |
| Asset Turnover                         | 2,2%       | 2,3%       | 2,0%       |
| <b>Capital Ratio</b>                   |            |            |            |
| Capital Adequacy - Total (%)           | 17,0%      | 16,5%      | 17,9%      |
| Liquidity Coverage Ratio - Basel 3 - % | 160,6%     | 163,0%     | 176,0%     |
| <b>Financial Strength / Leverage</b>   |            |            |            |
| Total Debt Percentage of Total Capital | 72,0%      | 73,7%      | 72,9%      |
| Total Debt Percentage of Total Equity  | 256,5%     | 280,0%     | 268,5%     |
| NOA/Equity                             | 3,09       | 2,91       | 2,81       |

*Table 4: Key Financial Indicators of Intesa Sanpaolo (2017-2019)*  
*Source: Author's elaboration based on Refinitiv data.*

Regarding Intesa Sanpaolo's Key Financial Indicators, the Profitability ratio, Efficiency ratio, Capital ratio, and Leverage ratio were analyzed to assess the company's performance in the years prior to the merger by acquisition with UBI Banca.

Regarding profitability indicators, it is appropriate to refer to ROE (Return On Equity), which halved from 2017 to 2018, from 14.8% to 7.9%, indicating a reduced ability to generate returns on equity. ROE underwent a slight recovery in 2019, reaching 8.1%, but still showing itself to be much lower than in the first year under analysis. About ROA, a reduction can be observed from 2017 to 2018, going from 1% to 0.5%, a percentage that remains stable in 2019. This result suggests a decline in efficiency in generating profits compared to total assets. The Return on Earning Assets, which unlike the ROA considers only assets that generate interest or income, decreased from 2017 (1.2%) to 2018 (0.7%), and then remained stable in 2019. The Operating Profit Margin fell from 58% in 2017 to 44%, due to the increase in operating expenses recorded in 2018 compared to the previous year. Therefore, despite the increase in revenues, the contraction in EBITDA, and therefore in EBIT, led to a decline in operating margins. The Net Margin recorded a greater decline from 2017 to 2018, compared to the Operating Profit Margin, this is because the reduction in Net Income in the period under analysis was much more marked than that of EBIT, as explained in the previous paragraphs.

Regarding the Efficiency ratios, Asset Turnover remained fairly stable over the three-year period, rising from 2.0% in 2017 to 2.3% in 2018 and then to 2.2% in 2019. Asset Turnover measures Intesa Sanpaolo's operating efficiency in generating revenues compared to total assets. Values between 2.0% and 2.3% are consistent with the banking sector, which is typically characterized by large assets and thin margins.

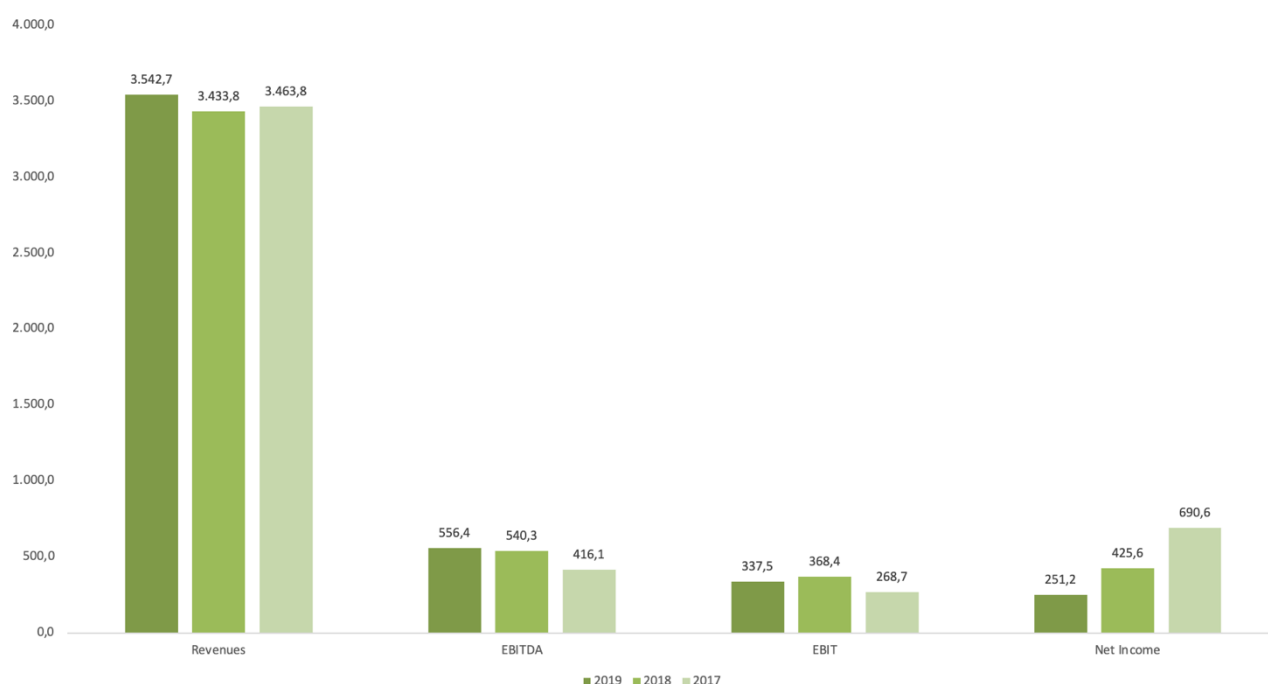
The Capital Adequacy - Total (%) ratio measures Intesa Sanpaolo's capital strength, comparing the total available capital with the risk-weighted assets. With values between 16.5% and 17.9%, the bank shows a high loss-absorbing capacity, far exceeding the Basel III requirements, which are set at 8%.

The Liquidity Coverage Ratio (LCR) indicates the bank's ability to meet its liquidity obligations in a 30-day stress period. Basel III has imposed a minimum threshold of 100% and Intesa Sanpaolo always has values above 160%, showing how the bank maintains a large reserve of High-Quality Liquid Assets (HQLA), a sign of good liquidity in the short term.

The leverage indicators show that the bank has a high level of debt, with the "Total Debt Percentage of Total Capital" stable between 72% and 73%, and the "Total Debt Percentage of Total Equity" equally high. The NOA/Equity ratio for Intesa Sanpaolo is constantly increasing, from 2.81 in 2017 to 3.09 in 2019. This highlights an increasing use of operating leverage, a typical feature of the banking sector, where operating activities, mainly related to the granting of credit, are significantly higher than available equity.

The data indicate a steady improvement in profitability and strong capital stability for Intesa Sanpaolo during the three years from 2017 to 2019. Despite the physiological decline in ROE and ROA compared to the peak of 2017, the institution maintained stable operating and efficiency margins, with Asset Turnover growing slightly. Capital and liquidity ratios remain well above the minimum requirements, while the NOA/Equity indicator confirms the high degree of leverage typical of the banking sector. The results reflect a robust and well-capitalized business model.

### 3.4. Financial Performance and Key metrics: UBI Banca



*Graph 12: Evolution of Revenues, EBITDA, EBIT, and Net Income (2017–2019) of UBI Banca*  
*Source: Author's elaboration based on Refinitiv data.*

UBI Banca's revenues remained relatively stable, in the three-year period 2017-2019, with a slight contraction in 2018 (from €3,463.8 million in 2017 to €3,443.8 million in 2017) and a recovery in 2019 (€3,542.7 million). The main component of revenues is "Non-Interest Business Revenue/(Expense)", with high values of "Fees & Commissions Income", with €1,750.3 million in 2017, €1,785.8 million in 2018 and €1,901.6 million in 2019. Much lower values are recorded for the items "Investments & Loans - Business - Gain/(Loss)", "Net Foreign Exchange Income/(Expense)" and "Net Income/(Expense) from Insurance", which together reach a maximum of 14% of the "Non-Interest Business Revenue/(Expense)". This shows that UBI Banca's business, before the merger, was mainly focused on retail banking and was less diversified than the one of Intesa Sanpaolo, which, on the other hand, recorded strong revenues from financial and insurance activities in the same period. On the other hand, "Interest & Dividend Income/(Expense)" remained fairly stable over the three years, with a value of €1,664.9 million in 2017, before undergoing a slight increase in 2018 with €1,700.6 million and a subsequent decline in 2019, with €1,623.3 million.

Regarding EBITDA, it appeared to be significantly lower than revenues. Indeed, the EBITDA margin, was about 12% in 2017 and about 16% in 2018 and 2019. Therefore, a large part of the bank's revenues was absorbed by operating costs. In fact, these expenses are notably high, particularly in the category of "Selling, General & Administrative Expenses, " with the largest portion attributed to "Labor & Related Expenses, including Stock-Based Compensation within Selling, General &

Administrative Expenses. Overall, EBITDA values and revenue figures remain quite stable, with the most significant growth occurring between 2017 (€416.1 million) and 2018 (€540.3 million), before reaching €556.4 million in 2019. This growth is justified by a more efficient management of operating costs, rather than an increase in revenues.

EBIT follows the trend of EBITDA, with an increase between 2017 and 2018, from €268.7 million to €368.4 million. However, it suffered a reduction in 2019, to €337.5 million, following an increase in non-cash components (D&A) between 2018 and 2019.

Net income for 2017 and 2018 is higher than EBIT, going from €690.6 million in 2017 to €425.6 million in 2018 and then rising to €251.2 million in 2019. In 2017, the high value of Income is mainly due to the item "Other Non-Operating Income/Expense", which amounted to €640.8 million, and then returned to €0 million in 2018 and 2019. This item is attributed to UBI Banca's purchase of three struggling banks (Banca Adriatica, Banca Tirrenica, and Nuova Banca Etruria) at a price lower than their book value. This bad will was recognized in the income statement as "Other Non-Operating Income," with a positive sign (UBI Banca, 2018).

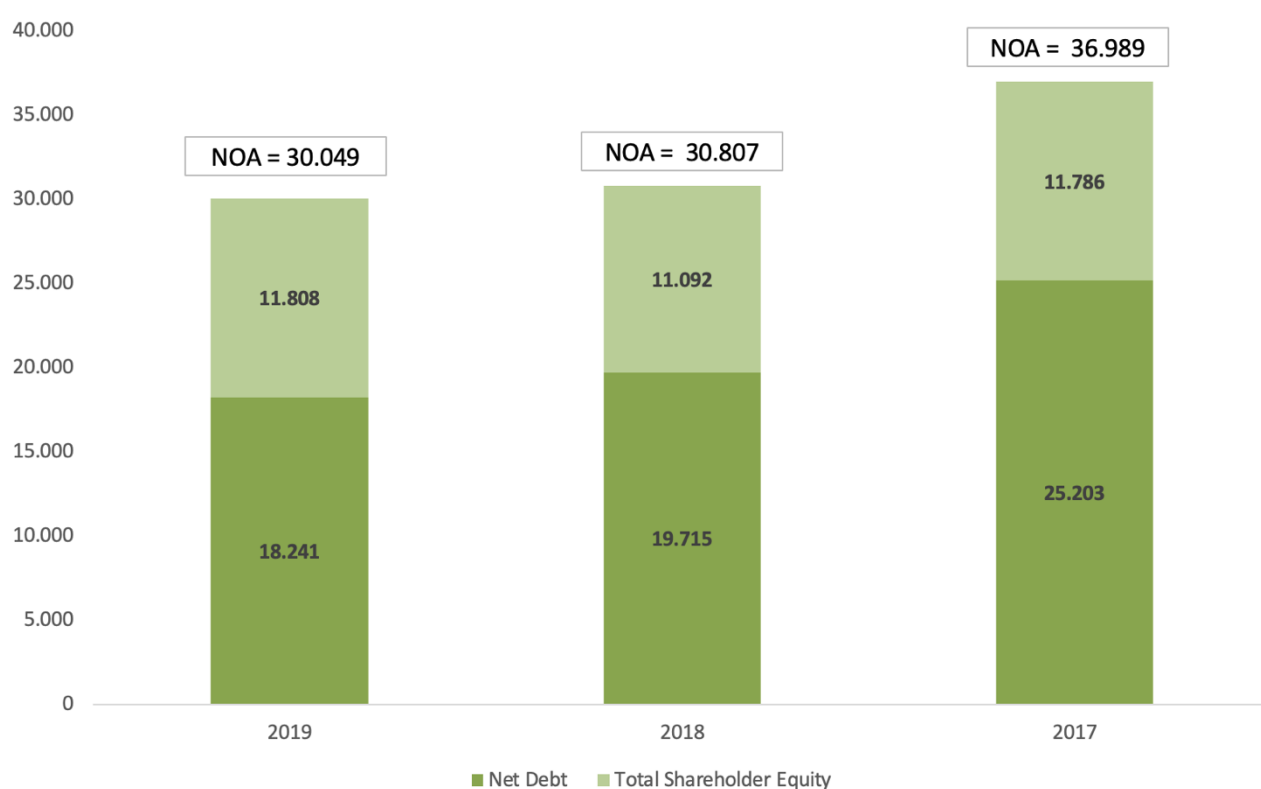
In 2018, the high Net Income is mainly due to negative "Income Taxes", an indication of a tax benefit. This is a result of the amendment to the legislation introduced by Budget Law No. 145 on December 30, 2018, which modified the tax deductibility regime for expected losses on receivables stemming from the initial application of IFRS 9. Under the original legislation, these negative income components were entirely deductible in 2018. However, with the new provision, the deductibility was lowered to 10% for the year 2018, while the remaining 90% became deductible incrementally over the subsequent nine years (UBI Banca, 2019).

|                                                      | 2019   | 2018    | 2017   |
|------------------------------------------------------|--------|---------|--------|
| <b>Total Debt</b>                                    | 29.380 | 29.400  | 26.015 |
| <b>Cash &amp; Short-Term Deposits Due from Banks</b> | 11.139 | 9.684,8 | 811,6  |
| <b>Net Debt</b>                                      | 18.241 | 19.715  | 25.203 |

*Table 5: Net Debt Evolution of UBI Banca (2017–2019)*  
*Source: Author's elaboration based on Refinitiv data.*

Net Debt, calculated as "Total Debt" – "Cash and Short-Term Deposits due from banks", decreased during the period under analysis, from €25,203 million in 2017, to €19,715 million in 2018, ending with €18,241 million in 2019. These results stem from a gradual increase in available liquidity, under the heading of "Cash and Short-Term Deposits due from banks". In particular, this increase is primarily due to participation in the ECB's TLTRO2 program, whose funds, received at preferential rates, was partly maintained as cash at the European Central Bank, resulting in a direct impact on the

item “Funds with Central' Banks”. Regarding Total Debt, an increase occurred between 2017 and 2018, driven by the rise in "Short-Term Debt & Current Portion of Long-Term Debt", particularly "Securities Sold under Repurchase Agreements". This refers to transactions where the bank temporarily sells securities to another bank, with a commitment to repurchase them later at a predetermined price. These instruments, which were completely absent in 2017, grew to over €3.2 billion in 2019, significantly contributing to the rise in overall debt while maintaining stable long-term debt. On the other hand, total Debt between 2018 and 2019 remains rather stable.



*Graph 13: Net Debt and Total Shareholder Equity Composition (2017–2019) of UBI Banca*  
*Source: Author's elaboration based on Refinitiv data.*

The chart above depicts the trend of Net Debt over the years, along with the "Total Shareholder Equity." The latter remains relatively stable, experiencing a slight decline in 2018 before rebounding in 2019. This downturn is primarily attributed to the reduction in retained earnings in 2018, which subsequently increased once more in 2019. Finally, as shown, the NOA (Net Operating Asset) has decreased over the years, from €36,989 million in 2017 to €30,807 million in 2018 and €30,049 million in 2019. This decrease is primarily due to the reduction in Net Debt, associated with the increase in cash and cash equivalents.

| Reclassified Cash Flow Statement                                                       |               |               |                 |
|----------------------------------------------------------------------------------------|---------------|---------------|-----------------|
|                                                                                        | 31-12-2019    | 31-12-2018    | 31-12-2017      |
| <b>Operating Cash Flow - Indirect</b>                                                  |               |               |                 |
| Profit/(Loss) - Starting Line - Cash Flow                                              | 285,1         | 451,5         | 717,0           |
| Non-cash Items & Reconciliation Adjustments - Cash Flow                                | 958,7         | 671,8         | 351,8           |
| Income Tax Expense - Cash Flow - to Reconcile                                          | 82,13         | -104,5        | -32,35          |
| Other Non-Cash Items & Reconciliation Adjustments - Cash Flow - to Reconcile           | 154,5         | -20,05        | -630,2          |
| Depreciation, Depletion & Amortization including Impairment - Cash Flow - to Reconcile | 235,2         | 166,5         | 156,7           |
| Loan Loss Provision including Impairment - Increase/(Decrease) - Cash Flow             | 769,4         | 638,3         | 862,3           |
| Assets Sale - Gain/(Loss) - Cash Flow - to Reconcile                                   | 15,43         | 10,33         | 0,42            |
| Investment Securities - Gain/(Loss) - Cash Flow                                        | 15,43         | 10,33         | 0,42            |
| Financial Assets - Unrealized Gain/(Loss) - Cash Flow - to Reconcile                   | -297,9        | -18,78        | -5,03           |
| Interest & Dividends - Received - Total - Cash Flow                                    | 8,51          | 24,78         | 13,68           |
| Cash Flow from Operating Activities before Changes in Working Capital                  | 1.252,2       | 1.148,0       | 1.082,5         |
| Working Capital - Increase/(Decrease) - Cash Flow                                      | -757,4        | -705,5        | -3.692,2        |
| Lending & Deposits - Due from Banks - Long-Term - Decrease/(Increase) - Cash Flow      |               |               | -3.109,1        |
| Investment Securities - Decrease/(Increase) - Operating - Cash Flow                    | -1.160,6      | 2.013,1       | -2.335,8        |
| Loans - Customer - Decrease/(Increase) - Cash Flow                                     |               |               | 2.505,1         |
| Other Assets - Decrease/(Increase) - Cash Flow                                         | -58,87        | -1.455,1      | 563,4           |
| Deposits - Increase/(Decrease) - Total - Cash Flow                                     |               |               | -269,6          |
| Deposits - Due to Banks & Financial Institutions - Increase/(Decrease) - Cash Flow     |               |               | 2.377,1         |
| Deposits - Customers - Increase/(Decrease) - Cash Flow                                 |               |               | -2.646,7        |
| Trading Liabilities - Increase/(Decrease) - Cash Flow                                  | 144,3         | -0,68         | -450,0          |
| Other Liabilities - Increase/(Decrease) - Total - Cash Flow                            | 317,7         | -1.262,8      | -596,3          |
| <b>Net Cash Flow from Operating Activities</b>                                         | <b>494,8</b>  | <b>442,5</b>  | <b>-2.609,7</b> |
| <b>Investing Cash Flow</b>                                                             |               |               |                 |
| Capital Expenditures - Net - Cash Flow                                                 | 335,7         | 323,6         | 129,9           |
| Property, Plant & Equipment - Purchased/(Sold) - Net - Cash Flow                       | 248,2         | 245,8         | 70,24           |
| Property, Plant & Equipment - Purchased - Cash Flow                                    | 261,5         | 247,8         | 71,14           |
| Property, Plant & Equipment Sold - Cash Flow                                           | 13,25         | 2,00          | 0,90            |
| Intangible Assets - Purchased/(Sold) - Net - Total - Cash Flow                         | 87,51         | 77,77         | 59,69           |
| Intangible Assets - Purchased/Acquired - Cash Flow                                     | 88,02         | 77,90         | 60,17           |
| Intangible Assets - Sold - Cash Flow                                                   | 0,52          | 0,13          | 0,47            |
| Capital Expenditures - Total                                                           | 349,5         | 325,7         | 131,3           |
| Acquisition & Disposals of Business - Assets - Sold/(Acquired) - Net - Cash Flow       | 0             | 0             | 1.476,2         |
| Acquisition of Business - Cash Flow                                                    | 0             | 0             | -1.435,3        |
| Business - Sold - Cash Flow                                                            | 0             | 0             | 40,86           |
| Investments excluding Loans - Decrease/(Increase) - Cash Flow                          | -29,40        | 0             | 1.283,3         |
| Investment Securities - Unclassified - Sold/(Purchased) - Net - Total - Cash Flow      | -29,40        | 0             | 1.283,3         |
| Investment Securities - Sold/Matured - Unclassified - Cash Flow                        | 6,55          | 0             | 2.278,7         |
| Investment Securities - Purchased - Unclassified - Cash Flow                           | 35,95         |               | 995,4           |
| <b>Net Cash Flow from Investing Activities</b>                                         | <b>-365,1</b> | <b>-323,6</b> | <b>2.629,6</b>  |
| <b>Financing Cash Flow</b>                                                             |               |               |                 |
| Dividends Paid - Cash - Total - Cash Flow                                              | 167,2         | 170,1         | 129,4           |
| Dividends - Common - Cash Paid                                                         | 167,2         | 170,1         | 129,4           |
| Stock - Total - Issuance/(Retirement) - Net - Cash Flow                                | -3,04         | -15,26        | 401,7           |
| Stock - Issuance/(Retirement) - Net - Excluding Options/Warrants - Cash Flow           | -3,04         | -15,26        | 401,7           |
| Stock - Common - Issuance/(Retirement) - Net - Cash Flow                               | -3,04         | -15,26        | 401,7           |
| Other Financing Cash Flow - Increase/(Decrease)                                        |               | -9,90         |                 |
| <b>Net Cash Flow from Financing Activities</b>                                         | <b>-170,2</b> | <b>-195,3</b> | <b>272,3</b>    |
| <b>Change in Cash</b>                                                                  |               |               |                 |
| <b>Net Change in Cash - Total</b>                                                      | <b>-40,50</b> | <b>-76,33</b> | <b>292,2</b>    |
| Net Cash from Continuing Operations                                                    | -40,50        | -76,33        | 292,2           |
| Net Cash - Beginning Balance                                                           | 735,3         | 811,6         | 519,4           |
| Net Cash - Ending Balance                                                              | 694,8         | 735,3         | 811,6           |
| <b>Supplemental</b>                                                                    |               |               |                 |
| Interest & Dividends - Received - Cash Flow - Supplemental                             | 8,51          | 24,78         | 13,68           |
| CF from Optg Activities before Change in WC & Int Payments                             | 1.252,2       | 1.148,0       | 1.082,5         |
| Cash Dividends Paid & Common Stock Buyback - Net                                       | 170,2         | 185,4         | -272,3          |
| Common Stock Buyback - Net                                                             | 3,04          | 15,26         | -401,7          |
| Free Cash Flow to Equity                                                               | 159,1         | 119,0         | -2.739,6        |
| Free Cash Flow Net of Dividends                                                        | -21,83        | -53,30        | -2.870,4        |
| Free Cash Flow                                                                         | 145,3         | 116,8         | -2.741,0        |
| Dividends Provided/Paid - Common                                                       | 147,6         | 136,4         |                 |

Table 6: Reclassified Cash Flow Statement (2017–2019) of UBI Banca  
Source: Author's elaboration based on Refinitiv data.

Over the three years under analysis, Cash Flow from Operating Activities showed a fluctuating trend, with a clear improvement between 2017 and the following two years. Indeed, in 2017, the result is negative with a value of -2,609.7 million, an indication that the bank is unable, even temporarily, to meet payments with its own resources liquidity. The "Profit/(Loss) - Starting Line" decreased over

time, as seen above, but not to the point of affecting the increasing trend of operating cash flow. An important role was certainly played by "Non-cash Items & Reconciliation Adjustments", which doubled from 2017 to 2018, and increased by about 30% from 2018 to 2019. Among the key items influencing the result were "income tax expenses", which were negative in 2017 and 2018, as the company recorded non-cash tax adjustments and incurred actual outlays exceeding the accounting tax burden, particularly in 2018 due to the extraordinary benefit associated with the application of IFRS 9. On the contrary, in 2019 results are positive. "Depreciation, Depletion & Amortization including Impairment" and "Other Non-Cash Items & Reconciliation Adjustments" also had a significant impact. The former has always generated a positive effect on cash flow, as these are non-cash costs related to depreciation, amortization and write-downs, related primarily to the closure of branches and the management of real estate assets. On the other hand, the second item showed a high variability: in 2017 it was significantly negative due to extraordinary accounting components, including provisions and non-recurring transactions. In 2018, the effect was still negative, though to a lesser extent. These adjustments, although not of a monetary nature, strongly impacted the difference between net profit and cash generated by operations, making it necessary to carry out an adequate qualitative analysis to correctly interpret the trend in cash flow. "Financial Assets - Unrealized Gain/(Loss)", on the other hand, have always had negative values, with a particularly high value in 2019 (-297.9 million), an indication of an unrealized loss linked to the reduction in the value of financial assets. Fundamental to the analysis of operating cash flow is the delta Net Working Capital (NWC), which is constantly negative, indicating that working capital has absorbed liquidity in each year. This implies that the change in operating assets and liabilities generated a decrease in free cash, reducing the contribution of working capital to operating cash flow. In detail, 2017 marked the lowest performance of the three-year period, with a net absorption of €-3,692.2 million, primarily due to the item "Lending & Deposits - Due from Banks - Long-Term - Decrease/(Increase)", which amounted to - € 3,109.1, and subsequently dropped to zero in the following two years. Additionally, the item "Investment Securities - Decrease/(Increase) - Operating - Cash Flow" was also significantly negative at -€2,335.8 million. The NWC deltas between 2018 and 2019 remained relatively stable, though still negative, due to "Other Assets - Decrease/(Increase) - Cash Flow" and "Other Liabilities - Increase/(Decrease) - Total - Cash Flow" for 2018, as well as "Investment Securities - Decrease/(Increase) - Operating - Cash Flow" for 2019.

Cash Flow from Investing Activities was very high in 2017 (+€2,629.6 million), before turning negative in 2018 (-€323.6 million) and 2019 (-€365.1 million). "Capital Expenditures – Net" has increased over the years, mainly due to increased investments in Property, Plant & Equipment and Intangible Assets. The substantial difference, however, between 2017 and the following two years

lies in the items "Acquisition & Disposals of Business - Assets - Sold/(Acquired) - Net" and "Investments excluding Loans - Decrease/(Increase)". Regarding the first item, it is important to note that in 2017, UBI Banca completed the acquisition of Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio, and Nuova Cassa di Risparmio di Chieti, three financial institutions rescued from bankruptcy by the Italian government. The transaction finalized in 2018 resulted in a significant cash outflow, as indicated by the item "Acquisition of Business - Cash Flow, " which reflects a negative value of -1,435.3 million euros. Regarding "Investments excluding Loans - Decrease/(Increase)", securities were sold for €2,278.7 million and purchased for €995.4 million, transactions that impacted the final value of cash flow from investing activities in 2017.

With regard to Net Cash Flow from Financing Activities, a positive value can be observed for 2017 (+ 272.3 million) and negative for the following two years (-195.3 million in 2018 and -170.2 million in 2019). "Dividends paid" increased from 2017 to 2018, only to suffer a slight reduction in 2019. In addition, in 2017 there was also a new issue of shares, in execution of a capital increase completed in July 2017 (UBI Banca, 2017)<sup>34</sup>.

In 2017, the Net Change in Cash was positive, amounting to €292.2 million, primarily due to Net Cash from Investing Activities and the issuance of new shares. Despite facing negative operating cash flow for the year, which signaled challenges in generating liquidity from daily operations, investment transactions, particularly the sale of securities and the capital increase, resulted in a positive balance in cash and cash equivalents. In 2018, although the operating cash flow was positive, the company reported negative cash flow overall. This was mainly a result of investments in capital expenditures (Capex) and negative financial cash flow, which encompassed dividend payments and share buybacks. Despite a strong operating result, these transactions decreased available liquidity, culminating in a negative Net Change in Cash of -€76.3 million. In 2019, the situation was analogous, featuring a negative Net Change in Cash of -40.5 million euros. While the operating cash flow remained positive, investments and financial payments, including dividends and share buybacks, negatively impacted cash, leading to an overall reduction in cash equivalents.

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<sup>34</sup> [https://archivio.ubibanca.it/bin/ncms0/ubibanca-documents/file.RigAlle\\_UBI%20Banca\\_Bilancio%20di%20esercizio%2020172.pdf](https://archivio.ubibanca.it/bin/ncms0/ubibanca-documents/file.RigAlle_UBI%20Banca_Bilancio%20di%20esercizio%2020172.pdf)

| Key Financial Indicators               |            |            |            |
|----------------------------------------|------------|------------|------------|
|                                        | 31-12-2019 | 31-12-2018 | 31-12-2017 |
| <b>Profitability / Return</b>          |            |            |            |
| ROE                                    | 2,2%       | 3,7%       | 6,7%       |
| ROA                                    | 0,2%       | 0,4%       | 0,6%       |
| Return on Earning Assets - %           | 0,2%       | 0,4%       | 0,6%       |
| Operating profit margin - %            | 10%        | 11%        | 8%         |
| Net Margin - %                         | 8,1%       | 13,2%      | 20,7%      |
| <b>Efficiency</b>                      |            |            |            |
| Asset Turnover                         | 2,8%       | 2,7%       | 2,7%       |
| <b>Capital Ratio</b>                   |            |            |            |
| Capital Adequacy - Total (%)           | 15,9%      | 13,8%      | 14,1%      |
| Leverage Ratio - Basel 3 - %           | 5,4%       | 5,5%       |            |
| <b>Financial Strength / Leverage</b>   |            |            |            |
| Total Debt Percentage of Total Capital | 71,3%      | 72,6%      | 68,8%      |
| Total Debt Percentage of Total Equity  | 248,8%     | 265,1%     | 220,7%     |
| NOA/Equity                             | 2,54       | 2,78       | 3,14       |

*Table 7: Key Financial Indicators of UBI Banca (2017-2019)*  
*Source: Author's elaboration based on Refinitiv data.*

Financial indicators for UBI Banca were analyzed to evaluate the bank's performance leading up to its acquisition by Intesa Sanpaolo.

When discussing profitability indicators, it's essential to highlight the ROE (Return On Equity), which fell roughly 40% between 2017 and 2018, from 6.7% to 3.7%. It continued to drop in 2019, reaching 2.2%, reflecting a reduced capacity to generate returns on equity. This is primarily due to a decrease in net income, as shareholder equity has remained relatively constant over the three years analyzed. Also, with regard to ROA, a reduction can be observed over the three-year period, going from 0.6% in 2017 to 0.4% in 2018 and finally to 0.2% in 2019. This result suggests a decline in efficiency in generating profits compared to total assets. Once more, the decrease is attributed to Net Income, taking into account the stability of Total Assets. The Return on Earning Assets matched the ROA for all three years, indicating that the bank has no unprofitable assets; in other words, all of its assets generate income. In 2017, the Operating Profit Margin was 8%, increasing to 10% in 2018 due to higher EBIT, but then reverted to 10% in 2019 as operating profits declined. In contrast, the Net Margin saw a notable drop from a reduction in Net Income. Overall, UBI Banca's profitability significantly weakened during this timeframe, as evidenced by decreases in both return on assets and equity, indicating poor performance resulting from inadequate resource management in subsequent periods years.

Concerning efficiency ratios, Asset Turnover showed consistent performance throughout the three years, rising from 2.7% in both 2017 and 2018 to 2.8% in 2019. This metric evaluates how effectively a company generates revenue in relation to its total assets. Additionally, regarding Intesa Sanpaolo, these figures correspond with the trends seen in the banking sector, which generally features substantial assets paired with slim profits margins.

The “Capital Adequacy - Total (%)” indicator assesses capital strength by measuring the ratio of total available capital to risk-weighted assets. With Basel III requirements established at 8%, the bank demonstrates a strong capacity to absorb losses, as its performance greatly surpasses this benchmark.

The “Leverage Ratio - Basel 3 - %” has remained steady at approximately 5.5%, although the figure for 2017 is unavailable. This indicator assesses the bank's soundness, or its capacity to endure losses during economic downturns. The consistent value suggests that the bank has successfully maintained its balance leverage.

From the leverage indicators, it can be seen that the bank exhibits a high level of debt, with the "Total Debt Percentage of Total Capital" increasing from 2017 over the next two years and the "Total Debt Percentage of Total Equity" remaining equally high. As a result of the reduction in the NOA, the NOA/Equity ratio for UBI Banca decreased from 3.14 in 2017 to 2.54 in 2019.

In conclusion, the analysis of UBI Banca's main financial indicators shows a certain stability in the years prior to the merger with Intesa Sanpaolo, with signs of reduced profitability and greater financial leverage. The decline in ROE and ROA signifies a drop in profit generation efficiency, primarily because of the fall in Net Income. While Asset Turnover has improved, indicating solid operating efficiency, the Net Margin has experienced a notable decrease. Indicators of capital strength, such as the Capital Adequacy Ratio, remain well above the Basel III minimum, underscoring a robust capacity to absorb losses. Lastly, the enhanced NOA/Equity ratio, resulting from reduced operating activities, lowered leverage usage, but the overall high debt level suggests a leveraged management approach that may assist the bank during this transitional phase.

## Chapter 4: THE MERGER PROCESS

### 4.1. Strategic Rationale Behind the Transaction

#### 4.1.1. Why UBI Banca? Strategic rationales and expected impacts according to Intesa Sanpaolo

On February 17, 2020, Intesa Sanpaolo decided to launch a Voluntary Public Exchange Offer (OPS) on the total ordinary shares of UBI Banca, in order to increase value creation, increase its market share in Italy and consolidate its position in the European context.

A key reason for selecting UBI Banca as the focus of the merger is its recognition as a solid, well-managed, and ISP-compatible institution bank. As a matter of facts, the two banks had similar business models, as well as compatible values and corporate culture. Both contributed to the Italian economy and promoted sustainable and inclusive growth. All these factors, according to Intesa Sanpaolo, could facilitate integration.

Indeed, during an interview with the Group's internal web TV, the CEO of Intesa Sanpaolo, Carlo Messina said: "When more than a year ago, we defined the potential growth options for our Group, particularly in terms of positioning ourselves as a European leader. Starting from the possible concentration opportunities within our country, it became clear that selecting a bank with significant talent, as well as strong value alignments with the Intesa Sanpaolo group, could be the best choice for building a shared path of success and value creation. The people of Intesa Sanpaolo and UBI have always shared core values such as sustainability and ethics, along with ESG considerations at the heart of their operations groups (Intesa Sanpaolo, 2021)<sup>35</sup>".

Therefore, among the main strategic objectives there was (Intesa Sanpaolo, 2020)<sup>36</sup>:

- Territorial expansion and greater economies of scale;
- Increased profitability thanks to the integration of high value-added activities, such as wealth management;
- Generational turnover and targeted hiring, without social impacts;
- Alignment of credit practices and risk management with Intesa standards;
- Maintaining the financial solidity of the group even after the merger;

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<sup>35</sup> <https://group.intesasanpaolo.com/it/newsroom/tutte-le-news/news/2021/fusione-ubi-intervista-ceo-carlo-messina>

<sup>36</sup> [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/ubi/20200218\\_Leader\\_Europeo\\_Presentazione\\_it.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/ubi/20200218_Leader_Europeo_Presentazione_it.pdf)

- Acceleration of the de-risking process of UBI Banca, with improvement in asset quality at no cost to shareholders.

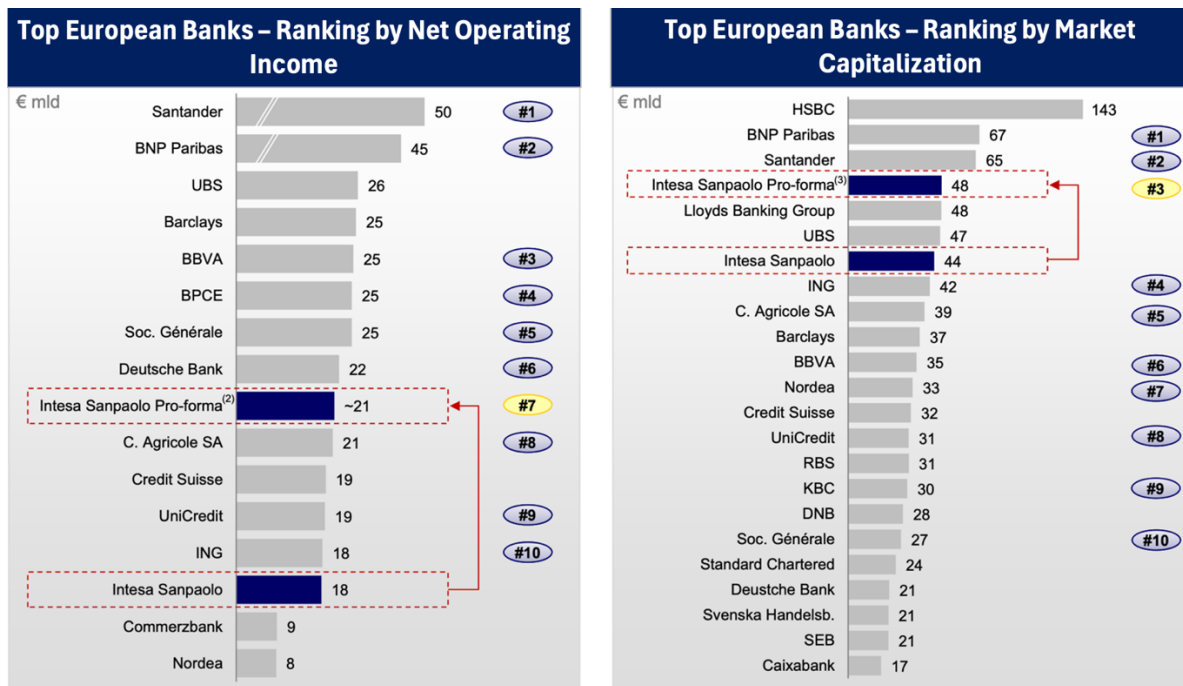
According to Intesa Sanpaolo, there will be the following economic and financial consequences related to the merger:

1. Sustainable profits will grow and value will be created through €730 million of annual pre-tax synergies without social costs. This will allow the company to increase investments related to growth, mainly linked to digitalisation and innovation. Of the €730m, €510m are cost synergies, while the remaining €220m are revenue synergies.
2. The customer base is expected to grow by approximately 3 million, enhancing the ability to connect with clients across all Italian regions. The range of products and services will also be bolstered through investments in digitization, product innovation, and time-to-market. Additionally, € 10 billion in credit disbursements per year is planned for the three-year period from 2021 to 2023 to support the Italian real economy through a strengthened connection to the local economy.
3. The net result is expected to reach more than 6 billion, from 2022.
4. For shareholders, high and sustainable dividends are expected, with a Dividend per Share (DPS) of €0.2 in 2020 and more than €0.2 in 2021. At the same time, the intention is to maintain a Common Equity Tier 1 ratio<sup>37</sup> > 13, in line with the estimates of the 2018-2021 Business Plan<sup>38</sup>.
5. The position in Europe will be strengthened, with an increase in terms of revenue generation, from 18 billion to 21 billion euros, thanks to a business model focused on Wealth Management and Protection. As can be seen from the image below, Intesa Sanpaolo is expected to move from 10th to 7th place in the European ranking, for Net Operating Income. While, with regard to stock market capitalization, the pro-forma effect brings the bank from 44 to 48 billion euros, reaching 3rd place after HSBC and BNP Paribas.

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<sup>37</sup> The CET1 (Common Tier Equity 1 ratio) is the ratio between the primary capital and the total of risk-weighted assets, a coefficient that is used to assess and quantify the soundness of a bank. According to the rules of the European Central Bank, the Cet 1 ratio must be above 8%.

<sup>38</sup> The 2018–2021 Business Plan is a strategic document of Intesa Sanpaolo that defines financial objectives and operational guidelines for the period 2018–2021.



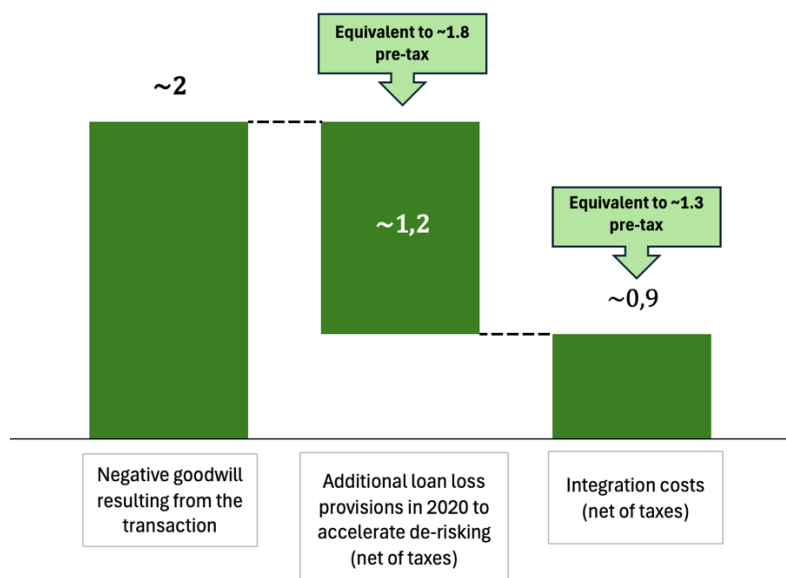
Graph 14: Intesa Sanpaolo's European Positioning Before and After the Merger with UBI

Source: Intesa Sanpaolo. (2020). Leader europeo: Presentazione dell'operazione UBI. <https://group.intesasanpaolo.com>

Regarding the Italian market, a strengthening of leadership and market share is anticipated, with earnings per share expected to rise by 6%, compared to that of 2019 for ISP.

6. Intesa Sanpaolo has improved its capacity to draw in new talent and provide career advancement opportunities for its employees, treating human capital as a key strategic asset. Additionally, it has supported a sustainable generational shift by executing a plan that enabled about 5,000 employees to leave voluntarily, while bringing in one young worker for every two departures, all without any adverse social effects.
7. The Group has reaffirmed its dedication to environmental and social sustainability, positioning itself as a forerunner in fostering a more inclusive economic framework. A key initiative is the creation of an "Impact Bank" located in Brescia and Bergamo, which focuses on bolstering local development, advancing the circular economy, and improving regional excellence while honoring local values diversity.
8. The negative goodwill of €2bn, given by the difference between the book value of UBI Banca's assets and the price that ISP was willing to pay for the purchase of the shares, is intended to be used to:
  - Impairment losses on non-performing loans
  - Cover integration costs

This would also have been possible thanks to the sale of a portfolio worth 4 billion euros of gross non-performing loans, belonging to UBI Banca. This would have allowed the gross NPL ratio to be below 4%, based on EBA rules<sup>39</sup>.



Graph 15: Allocation of negative goodwill

Source: Author's elaboration based on data from Intesa Sanpaolo's presentation "European Leader" (2020)  
[https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/ubi/20200218\\_Leader\\_Europeo\\_Presentazione\\_it.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/ubi/20200218_Leader_Europeo_Presentazione_it.pdf)

The OPS launched by Intesa Sanpaolo on UBI Banca was considered by analysts, rating agencies and business houses as an operation capable of creating value for the shareholders of both banks, leading to the creation of one of the largest banking groups in Europe. Indeed, Ubi-Intesa would be the leader in Italy with market shares ranging to 21% in the loans and deposits segment, 23% in asset management and 19% in life insurance. With annual synergies estimated at around €730 million, the new group would generate a net profit of more than €6 billion from 2022, according to Intesa's plans. In particular, Fitch believes that with the merger, there are "higher probabilities" that Ubi could become part of a "stronger group" and that it could, therefore, enjoy support from Intesa, which benefits from higher ratings. In the stand-alone hypothesis, however, Ubi's rating would reflect a "weak although improving" asset quality, a "weak" profitability, and an "acceptable" capitalization that however, "remains exposed to non-performing loans and domestic sovereign risk" (Il Sole 24 Ore, 2020)<sup>40</sup>.

<sup>39</sup> The EBA is an EU agency tasked with implementing a standard set of rules to regulate and supervise the banking sector in all EU countries.

<sup>40</sup> <https://www.ilsole24ore.com/art/cosi-puo-nascere-big-internazionale-ADOzmXB>

## **4.2. Merger Timeline and the Public Exchange Offer**

### **4.2.1. Public Exchange Offer**

On February 17, 2020, the Board of Directors of Intesa Sanpaolo informed the market of its intention to launch a voluntary public exchange offer (OPS) on all the ordinary shares of UBI Banca, with two main objectives: the delisting of UBI Banca, and the subsequent merger. For UBI Banca shareholders participating in the transaction, an exchange ratio of 1.70x is envisaged, i.e. for every 10 UBI shares held, ISP offers 17 newly issued ordinary shares. The exchange ratio implied a value of €4.254 per UBI share, for a total value of approximately €4.9 billion. Therefore, a premium of 28% compared to the average price of UBI on 14 February 2020 and 39% compared to the average of the previous 6 months.

When communicating the offer, ISP officially stated, "the bidder (Intesa Sanpaolo) has determined to promote the offer in order to further consolidate, through the contribution of customers and the network of the Issuer (Ubi Banca), its leadership in the Italian banking sector, where it operates successfully in all market segments".

The offer was conditional on achieving 66.67% of UBI Banca's share capital, with the possibility of derogation from ISP at its sole discretion if it acquired at least 50% + 1 share of UBI Banca's share capital.

In the event of the offer's completion, all shareholders of UBI Banca who have tendered to the Offer during the Acceptance Period will receive the Consideration equal to 1.7000 ISP Shares for each UBI Share held by them and tendered to the Offer and, therefore, will become shareholders of ISP. The shares will be allocated on the payment date.

In addition, "the Group's dividend policy resulting from the transaction is updated accordingly, providing for the distribution of an amount of cash dividends corresponding to a pay-out ratio equal to 75% of the net result for the year 2020 (excluding from profit the contribution of negative goodwill<sup>5</sup> not allocated to cover integration charges and the reduction of the risk profile) and 70% for the year 2021, always subject to the indications that will be provided by the ECB regarding the distribution of dividends after 1 October next".

The delisting and the subsequent merger are then planned, although they have not yet been finalized at the time of submitting the "Offer Document. " Additionally, ISP refers to extraordinary transactions including:

- Sale of bank branches to BPER and insurance branches to Unipol
- Measures to accelerate the de-risking of the Issuer's assets, by selling approximately 4 billion euros of the Issuer's non-performing loans at a price consistent with the book value as of the date of the sale.

If, despite completing the Offer, Intesa Sanpaolo does not obtain full acceptance from UBI shareholders, different scenarios are envisaged depending on the percentage of share capital acquired.

**- Participation of less than 90%:**

If there are insufficient acceptances to surpass the 90% threshold, resulting in a scarcity of free float, Borsa Italiana could order the delisting of UBI ordinary shares (delisting). Intesa Sanpaolo does not undertake to restore sufficient free float and shareholders who have not joined, would find themselves with illiquid securities, no longer tradable on the regulated market.

**- Participation between 90% and 95%:**

If Intesa acquires a stake greater than 90% but less than 95%, the obligation to purchase would be triggered pursuant to Article 108, paragraph 2 of the TUF. Consequently, the remaining UBI shareholders could request the forced sale of their shares at a price determined by CONSOB or equal to that of the Public Exchange Offer, whichever applies.

**- Participation of at least 95%:**

If a stake exceeding 95% is reached, Intesa could activate the joint squeeze-out procedure (art. 108, paragraph 1 and art. 111 of the TUF), forcing the residual shareholders to sell the remaining shares. The purchase price will be determined by the same rules previously mentioned for the purchase obligation.

**- Transactions subsequent to the Offer:**

In all the cases described above, Intesa has declared its intention to proceed with the merger with UBI Banca, contingent upon achieving the delisting. Even without an immediate merger, extraordinary operations will still be implemented, such as the sale of business units to BPER and Unipol, as well as the de-risking of about 4 billion in non-performing loans. These transactions, aimed at integrating and enhancing the efficiency of the new banking group, could impact the value of the remaining

shares, potentially resulting in penalties for shareholders who have not participated in the Public Exchange Offer (Intesa Sanpaolo, 2020, pp. 57–64)<sup>41</sup>.

The Acceptance Period, agreed with Borsa Italiana, pursuant to Article 40, paragraph 2, of the Issuers' Regulation, will begin at 8:30 a.m. (Italian time) on July 6th, 2020 and will end at 5:30 p.m. (Italian time) on July 28th, 2020 (inclusive), unless the Acceptance Period is extended in accordance with applicable law.

Subsequently, on March 6, 2020, the draft of the "Offer Document" was submitted to Consob.

On April 27, 2020, the Intesa Sanpaolo shareholders' meeting approved the delegation to the board for a share capital increase to service the prior Public Exchange Offer for all the ordinary shares of UBI Banca. The delegation will then be exercised by the Board, on June 16 of the same year. This is a capital increase with the exclusion of pre-emption rights, as permitted by Article 2441 of the Italian Civil Code, considering that the new shares are reserved for those who decide to participate in the Public Exchange Offer and not for the shareholders of Intesa Sanpaolo. To establish the value of the new shares, PwC was asked to prepare an appraisal report, using March 31, 2020, as the reference date.

In May 2020, UBI Banca challenged the Public Exchange Offer, sending a complaint to CONSOB, for a conditional clause, known as the "MAC" (Material Adverse Change) clause. This clause is intended to protect the buyer in the event of unforeseen events, that may alter the assets of the property, such as in the case of COVID19. According to Victor Massiah, CEO of Ubi Banca, "the offer is and must be irrevocable and the legal system does not tolerate that the management autonomy of Ubi Banca, the market trend and the choices of investors are unduly reduced or distorted by an offer that does not have irrevocable characteristics". As can be understood from the words of the CEO, an accusation is made against Intesa Sanpaolo for not having clarified the possible waiver of this clause, creating uncertainty about the actual implementation of the transaction. Intesa Sanpaolo responded to the accusations, stating that there is an "obvious contradiction between presenting the MAC condition as having been fulfilled – which would render Intesa Sanpaolo's exchange offer ineffective – and considering the effects of the Covid-19 epidemic as having no impact on the evolution of UBI's industrial plan". Therefore, Intesa Sanpaolo believed that UBI was contradictory because, on the one hand, it claimed that the pandemic had not caused negative impacts on the

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<sup>41</sup> <https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/ubi/Documento%20di%20Offerta.pdf>

industrial plan. Still, on the other hand, the bank disputed the clause that serves precisely to protect these unforeseen situations (La Stampa, 2020)<sup>42</sup>.

On June 5, 2020, the European Central Bank (ECB) authorized to acquire Sanpaolo Intesa acquisition of control of UBI Banca in the event of reaching a stake of 50% + 1 share. At the same time, Intesa Sanpaolo stated that it will not consider the effects of the COVID-19 pandemic as an obstacle to the effectiveness of the offer, clarifying UBI Banca's uncertainties relating to the MAC clause (Il Sole 24 Ore, 2020)<sup>43</sup>.

On 8 June 2020, Intesa Sanpaolo received prior authorization from the Bank of Italy for the indirect acquisition of a controlling stake in the companies of the UBI Banca Group, including Pramerica SGR S.p.A. (as well as a qualifying shareholding in Polis Fondi SGR S.p.A.), in accordance with Article 15 of Legislative Decree No. 58 of 24 February 1998 ("TUF"). Additionally, this acquisition included UBI Leasing S.p.A., UBI Factor S.p.A., and Prestitalia S.p.A., pursuant to Articles 19 and 110 of Legislative Decree No. 385 of 1 September 1993 ("TUB") (Intesa Sanpaolo, 2020)<sup>44</sup>

On 9 June 2020, the Italian Competition Authority (AGCM) stated that it could not authorize the transaction, as the offer would have led Intesa Sanpaolo to strengthen its dominant position in various markets and, therefore, would have been able to reduce "substantially and durably competition" (Il Fatto Quotidiano, 2020)<sup>45</sup>.

It is important to note that Intesa Sanpaolo had already anticipated a potential rejection of the transaction by the AGCM, to the extent that it entered into an agreement with BPER Banca, which stipulated the sale of 400-500 bank branches to BPER Banca. The agreement encompassed only the banking network (subsidiaries and associated assets and liabilities, excluding complete business units). The sale price was determined to be 0.55 x CET1 Capital allocated to the sold branches. The geographical locations of the branches were chosen by Intesa Sanpaolo independently. In addition, ISP had signed a further binding agreement with the UnipolSai Assicurazioni Group for the cash sale of certain insurance activities, relating to the branches that are part of the Agreement with BPER Banca.

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<sup>42</sup> <https://www.lastampa.it/cuneo/2020/05/21/news/anche-l-emergenza-coronavirus-entra-in-gioco-nell-offerta-di-intesa-sanpaolo-per-ubi-1.38870811/>

<sup>43</sup> <https://www.ilsole24ore.com/art/la-bce-da-via-libera-matrimonio-intesa-ubi-ADmSbqV>

<sup>44</sup> [https://group.intesasnpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/comunicati-stampa-it/2020/06/20200608\\_BdI\\_UBI\\_it.pdf](https://group.intesasnpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/comunicati-stampa-it/2020/06/20200608_BdI_UBI_it.pdf)

<sup>45</sup> <https://www.ilfattoquotidiano.it/2020/06/09/intesa-sanpaolo-antitrust-fusione-con-ubi-non-autorizzabile-rafforza-posizione-dominante/5829216/>

Despite these agreements, the AGCM considered the proposal insufficient and called for stricter structural measures in order to counter possible anti-competitive effects. Therefore, the sale of over 500 bank branches was requested, a higher number than initially proposed. In addition, the disposals will have to take place in geographical areas with greater competitive criticalities, as ordered by the AGCM. Finally, BPER Banca will not be the only operator that will participate in the sale, but there will be other independent operators that will acquire control of the branches (Autorità Garante della Concorrenza e del Mercato, 2020)<sup>46</sup>.

On June 17, 2020, Intesa Sanpaolo received prior authorization from the Italian Insurance Supervisory Authority (IVASS) for the indirect acquisition of a controlling stake in BancAssurance Popolari, as well as qualifying shareholdings in Aviva Vita and Lombarda Vita. This authorization was the final requirement needed for CONSOB to approve the "Offer Document" (Intesa Sanpaolo, 2020)<sup>47</sup>.

On June 25, 2020, CONSOB officially approved the "Offer Document" and authorised the publication of the Prospectus, making the Public Exchange Offer operational. This approval confirmed that the offer complied with the requirements of transparency and fairness towards the market and shareholders (Intesa Sanpaolo, 2020)<sup>48</sup>.

Despite the approval by CONSOB, on July 3, 2020, the Board of Directors of UBI Banca, chaired by Letizia Moratti, unanimously rejected the offer, considering it not "congruous, from a financial point of view" (Wall Street Italia, 2020)<sup>49</sup>. The reasons for this decision were as follows:

- The offer was entirely in shares, and there was no cash payment. Therefore, UBI shareholders would have to assume the operation's risks without immediate guarantees and obtain a marginal stake in the new group, around 10%;
- The exchange ratio underestimated UBI Banca compared to its real asset value and growth potential;

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<sup>46</sup> <https://www.agcm.it/media/comunicati-stampa/2020/7/Autorizzata-con-condizioni-l-acquisizione-di-Ubi-Banca-da-parte-di-Intesa-Sanpaolo>

<sup>47</sup> <https://group.intesasanpaolo.com/it/newsroom/tutte-le-news/news/2020/ivass-autorizza-assicurazioni-cssf-pramerica>

<sup>48</sup> <https://group.intesasanpaolo.com/it/newsroom/tutte-le-news/news/2020/dichiarazioni-ceo-approvazione-consob-ops-ubi>

<sup>49</sup> <https://www.wallstreetitalia.com/ops-intesa-ubi-banca-cda/#:~:text=Per%20gli%20azionisti%20di%20Ubi%20Banca%20accettare,dal%20consiglio%20d'amministrazione%20di%20Ubi%20Banca%2C%20riunitosi>

- UBI Banca already has strong capital solidity and good prospects for future independent growth;
- The success of the operation was linked to external conditions;
- Shareholders who refuse the OPS would still be protected by current legislation (in particular in the event of delisting or squeeze-out);
- Intesa Sanpaolo was also accused of wanting to eliminate a competitor instead of wanting to strengthen itself at the European level.

On July 16, 2020, the Italian Competition Authority (AGCM) authorized the acquisition of control of UBI Banca by Intesa Sanpaolo, making the sale of 549 bank branches by the bank binding. Of these, 532 branches were included in a banking branch sold to BPER Banca (as already outlined in a preliminary agreement), and 17 additional branches were located in the provinces of Chieti, Isernia, Matera, and Vibo Valentia, which ISP has committed to sell to third parties parties.

On July 17, 2020, the Board of Directors of Intesa Sanpaolo, meeting in extraordinary session, decided to increase the value of the offer, adding a cash consideration of 0.57 euros per share, in addition to 1.7 ordinary shares of Intesa Sanpaolo. Considering the official price of Intesa Sanpaolo shares, as of February 14, which amounted to 2.502 euros, the overall valuation of UBI shares amounted to 4.824 euros per share, including a premium of 44.7% over the market price. Therefore, Intesa Sanpaolo would have paid a total cash consideration of 652 million euros, of which 80 million were intended for the Foundations in support of local communities and 310 million to families and entrepreneurs in the area. Carlo Messina expressed himself on the decision taken, stating that he "wanted to give maximum attention to the difficult situation of these communities, also with a view to avoiding divisive effects, albeit unintentional, that have arisen between stakeholders who have declared, even in more recent phases, in favor of the offer compared to those who have expressed themselves against". He continued by saying that: "The decision taken by Intesa Sanpaolo will make it possible – in a phase of serious economic and social difficulty, particularly pronounced in Ubi's reference territories – to allocate liquidity to families, businesses, institutions and foundations that are shareholders of Ubi. We are putting in place significant support for the communities we intend to include in the new banking reality, so that we can strengthen the entire operation overall" (Il Sole 24 Ore, 2020)<sup>50</sup>.

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<sup>50</sup> <https://www.ilsole24ore.com/art/ubi-intesa-sanpaolo-alza-prezzo-dell-offerta-AD78zze>

On July 27, 2020, CONSOB announced an extension of the acceptance period, originally set to end on July 28, now extended to July 30, 2020. This extension was intended to give UBI Banca's shareholders the opportunity to make a well-informed decision, particularly following Intesa Sanpaolo's addition of a cash component to the previously established exchange rate.

The subscription period to the OPS ended on 30 July 2020, and according to the provisional results, the threshold of 90.21% of acceptances was reached.

On August 3, 2020, the Board of Directors of Intesa Sanpaolo officially recognized the outcome of the offer, declaring that all the conditions required to make the transaction valid had been met.

On August 5, 2020, the tenderers received 17 shares of Intesa Sanpaolo for every 10 UBI Banca shares and a cash consideration of 0.57 per share.

Having achieved an adhesion between 90% and 95%, as previously explained, the purchase obligation was triggered, under Article 108 of the TUF. Consequently, Intesa Sanpaolo was required to purchase the remaining shares if requested by the other shareholders. Following the completion of this transaction, on September 15, 2020, Intesa Sanpaolo attained 98.89% of the share capital of UBI Banca.

On September 18, 2020, the Board of Directors of Intesa Sanpaolo approved the list for the renewal of the Board of Directors of UBI Banca which will be presented for appointment to the Shareholders' Meeting, convened on October 15, 2020.

After Intesa Sanpaolo exercised its purchase obligation and increased its share capital to over 95%, it completed the squeeze-out, acquiring all outstanding shares ultimately achieving 100% ownership of UBI Banca. Therefore, on October 5, 2020, the delisting of UBI shares took place, as officially required by Borsa Italiana. (Il Sole 24 Ore, 2020)<sup>51</sup>.

On October 15, 2020, UBI Banca held an ordinary shareholders' meeting to appoint the new Board of Directors for the three-year period 2020-2022.

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<sup>51</sup> <https://www.ilsole24ore.com/art/ops-ubi-intesa-prepara-delisting-AD2gJwo>

#### 4.2.2. The Merger

The Boards of Directors of Intesa Sanpaolo and UBI Banca prepared the merger plan in accordance with Articles 2501-ter and 2505 of the Italian Civil Code. On 29 January 2021, the European Central Bank (ECB) authorized the merger. Consequently, the merger plan was filed on February 1, 2021, with the Bergamo Companies Register for the company being merged, and on February 2, 2021, with the Turin Companies Register for the absorbing company, in compliance with Article 2501-ter of the Civil Code.

The Merger Plan presupposed various premises (Intesa Sanpaolo, 2021)<sup>52</sup>:

- The acquisition of control of UBI Banca from Intesa Sanpaolo had taken place through an Offer to Purchase and Exchange by ISP, and at the time of the effectiveness of the Merger, the bank held approximately 99.2% of the share capital of UBI;
- As part of the acquisition transaction, the integration of the Merging Company into Intesa Sanpaolo was envisaged to achieve the objectives of efficiency and rationalization;
- The merger follows the partial demerger of UBI in favour of Fideuram - Intesa Sanpaolo Private Banking S.p.A., in abbreviated form Fideuram S.p.A. and Intesa Sanpaolo Private Banking S.p.A. This demerger, formally implemented with a notarial deed on March 26, 2021 and with legal effect from April 12, 2021, was aimed at rationalizing the post-transaction structure of the banking group, improving the efficiency and integration of the activities transferred within the business units already operating in private banking.
- For the merger to be effective, the registration's effectiveness was necessary to obtain the required authorizations.

The merger deed was drawn up on 26 March 2021. It stipulated that the merger would take place (Intesa Sanpaolo, 2021)<sup>53</sup>:

- with the cancellation of the shares representing the entire share capital of the Merging Company, without a capital increase of the Absorbing Company, and without the issuance of new shares to facilitate the Merger;
- with the legal effects of the Merger commencing from the date established in this Merger deed, and with the transactions of the Merging Company being reflected in the financial statements of the Absorbing Company, including for tax purposes, starting from 1 January of the current year until the date on which the legal effects of the Merger take effect;

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<sup>52</sup> [https://group.intesasanpaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/delibere\\_consiliari\\_2021/20210408\\_Atto\\_fusione\\_UBI\\_ISP\\_it.pdf](https://group.intesasanpaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/delibere_consiliari_2021/20210408_Atto_fusione_UBI_ISP_it.pdf)

<sup>53</sup> [https://group.intesasanpaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/delibere\\_consiliari\\_2021/20210408\\_Atto\\_fusione\\_UBI\\_ISP\\_it.pdf](https://group.intesasanpaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/delibere_consiliari_2021/20210408_Atto_fusione_UBI_ISP_it.pdf)

- without provision for special treatment for specific categories of shareholders or holders of securities other than shares in the Companies Participating in the Merging Party;
- without provision of particular advantages in favor of the individuals responsible for the administration of the Companies Participating in the Merger;
- without changes to the bylaws of the Absorbing Company.

On February 22, 2021, Intesa Sanpaolo sold 455 branches from UBI Banca to BPER Banca, as directed by the antitrust authorities.

On March 23, 2021, the Board of Directors of Intesa Sanpaolo officially approved the merger by incorporation of UBI Banca and the merger became legally effective as of April 12, 2021. From this date, the merger had legal effect vis-à-vis third parties. With regard to accounting and tax effects, they would have taken effect retroactively from January 1, 2021.

On June 21, 2021, 31 more branches from Intesa Sanpaolo were sold to BPER Banca, and July 12, was considered the final day of the entire merger process.

### **4.3. Market and Investor Responses**

#### **4.3.1. Event Study Analysis: Cumulative Abnormal Return on the Day of the Public Exchange Offer Announcement**

In order to understand the market's reaction to the announcement of the Public Exchange Offer launched by Intesa Sanpaolo on the ordinary shares of UBI Banca, this thesis will apply the event study methodology. In this way, it is possible to assess whether and how the market reacted to the relevant news, through the measurement of Abnormal Returns and Cumulative Abnormal Returns (CAR) for UBI Banca securities, in the days immediately before and after the announcement of the transaction, which took place on February 17, 2020.

To determine the parameters necessary for the analysis, a regression was conducted using the FTSE MIB as a representative market index. The estimation period for calculating expected returns was set at 100 days before the event, while the event window considered the period of  $\pm 10$  days from the date of the announcement of the offer. UBI Banca's daily returns were used in the regression against the FTSE MIB's returns.

| Regression Statistics |             |  |  |  |  |  |  |
|-----------------------|-------------|--|--|--|--|--|--|
| Multiple R            | 0,550332766 |  |  |  |  |  |  |
| R Square              | 0,302866154 |  |  |  |  |  |  |
| Adjusted R Square     | 0,295205342 |  |  |  |  |  |  |
| Standard Error        | 0,016417014 |  |  |  |  |  |  |
| Observations          | 93          |  |  |  |  |  |  |

| ANOVA      |    |             |             |            |                |  |  |
|------------|----|-------------|-------------|------------|----------------|--|--|
|            | df | SS          | MS          | F          | Significance F |  |  |
| Regression | 1  | 0,010655266 | 0,010655266 | 39,5344741 | 1,09982E-08    |  |  |
| Residual   | 91 | 0,024526169 | 0,000269518 |            |                |  |  |
| Total      | 92 | 0,035181435 |             |            |                |  |  |

|           | Coefficients | Standard Error | t Stat      | P-Value     | Lower 95%    | Upper 95%   | Lower 95,0%  | Upper 95,0% |
|-----------|--------------|----------------|-------------|-------------|--------------|-------------|--------------|-------------|
| Intercept | 0,001187279  | 0,001722001    | 0,689476597 | 0,492277817 | -0,002233264 | 0,004607823 | -0,002233264 | 0,00460782  |
|           | 1,168236917  | 0,185798816    | 6,287644559 | 1,09982E-08 | 0,799170393  | 1,537303442 | 0,799170393  | 1,53730344  |

Table 8: Linear Regression Results between Daily Returns of UBI Banca and the FTSE MIB Index  
Source: Author's elaboration based on data from Investing.com

From the results it can be observed that the intercept is equal to 0.00119. This means that when the return of the FTSE MIB is zero, the expected return of UBI Banca is slightly negative, although from the P-value it can be seen that the result is not statistically significant. The Beta is 1.168 and it is statistically significant. Therefore, for every 1% increase in FTSE MIB yields, UBI Banca's expected return increases by 1.168%. The  $R^2$  is 0.3, implying that around 30% of the variability in UBI Banca's returns can be attributed to FTSE MIB returns. The Abnormal Returns were then used to calculate the *Cumulative Abnormal Returns* (CAR), in order to observe whether the effect of the event accumulates positively or negatively over time. Finally, the standard deviation of Abnormal Returns was calculated to obtain the standard error, which is necessary for the Abnormal Returns t-test.

| Date       | UBI Banca closing price | Returns UBI Banca (Y) | FTSE MIB closing price | Returns FTSE MIB (X) | Event Time | Expected returns | Abnormal Returns | CAR        | AR-t test  |
|------------|-------------------------|-----------------------|------------------------|----------------------|------------|------------------|------------------|------------|------------|
| 03.02.2020 | 2,708                   | 0,000739098           | 23.460,01              | 0,009595891          | -10        | 0,012397553      | -0,011658455     | -0,0116585 | -1,022381  |
| 04.02.2020 | 2,814                   | 0,039143279           | 23.844,85              | 0,016404085          | -9         | 0,020351137      | 0,018792142      | 0,00713369 | 1,64796522 |
| 05.02.2020 | 2,855                   | 0,014570007           | 24.236,63              | 0,016430382          | -8         | 0,020381859      | -0,005811851     | 0,00132184 | -0,5096667 |
| 06.02.2020 | 2,933                   | 0,02732049            | 24.490,35              | 0,010468452          | -7         | 0,013416912      | 0,013903579      | 0,01522541 | 1,2192657  |
| 07.02.2020 | 2,975                   | 0,014319809           | 24.478,32              | -0,000491214         | -6         | 0,000613425      | 0,013706384      | 0,0289318  | 1,20197282 |
| 10.02.2020 | 2,994                   | 0,006386555           | 24.507,70              | 0,001200246          | -5         | 0,002589451      | 0,003797104      | 0,0327289  | 0,33298466 |
| 11.02.2020 | 3,12                    | 0,042084168           | 24.688,89              | 0,007393187          | -4         | 0,009824273      | 0,032259895      | 0,0649888  | 2,82901149 |
| 12.02.2020 | 3,279                   | 0,050961538           | 24.861,28              | 0,006982493          | -3         | 0,009344485      | 0,041617053      | 0,10660585 | 3,64958162 |
| 13.02.2020 | 3,34                    | 0,018603233           | 24.892,15              | 0,00124169           | -2         | 0,002637867      | 0,015965365      | 0,12257122 | 1,40007279 |
| 14.02.2020 | 3,309                   | -0,009281437          | 24.867,01              | -0,001009957         | -1         | 7,41045E-06      | -0,009288848     | 0,11328237 | -0,8145797 |
| 17.02.2020 | 3,491                   | 0,055001511           | 25.120,54              | 0,010195436          | 0          | 0,013097964      | 0,041903547      | 0,15518592 | 3,67470555 |
| 18.02.2020 | 4,313                   | 0,235462618           | 25.223,51              | 0,004099036          | 1          | 0,005975925      | 0,229486693      | 0,38467261 | 20,1246931 |
| 19.02.2020 | 4,323                   | 0,002318572           | 25.477,55              | 0,010071556          | 2          | 0,012953243      | -0,010634672     | 0,37403794 | -0,9326009 |
| 20.02.2020 | 4,23                    | -0,021512838          | 25.080,16              | -0,015597654         | 3          | -0,017034475     | -0,004478363     | 0,36955957 | -0,3927273 |
| 21.02.2020 | 4,214                   | -0,003782506          | 24.773,15              | -0,01224115          | 4          | -0,013113284     | 0,009330778      | 0,37889035 | 0,81825678 |
| 24.02.2020 | 3,938                   | -0,065495966          | 23.427,19              | -0,054331403         | 5          | -0,062284671     | -0,003211294     | 0,37567906 | -0,2816125 |
| 25.02.2020 | 3,901                   | -0,009395632          | 23.090,44              | -0,014374323         | 6          | -0,015605336     | 0,006209703      | 0,38188876 | 0,54455607 |
| 26.02.2020 | 3,972                   | 0,018200461           | 23.422,54              | 0,014382576          | 7          | 0,017989535      | 0,000210926      | 0,38209969 | 0,01849704 |
| 27.02.2020 | 3,82                    | -0,038267875          | 22.799,37              | -0,026605569         | 8          | -0,029894328     | -0,008373547     | 0,37372614 | -0,734313  |
| 28.02.2020 | 3,717                   | -0,026963351          | 21.984,21              | -0,03575362          | 9          | -0,040581419     | 0,013618068      | 0,38734421 | 1,19422802 |
| 02.03.2020 | 3,515                   | -0,054344902          | 21.655,09              | -0,014970745         | 10         | -0,016302097     | -0,038042804     | 0,3493014  | -3,3361401 |

Table 9: Abnormal and Cumulative Abnormal Returns (CAR) for UBI Banca Around the Announcement of the Intesa Sanpaolo Offer

Source: Author's elaboration based on data from Investing.com

The analysis showed a strongly positive impact on UBI Banca shares. Indeed, on February 17, 2020 ( $t = 0$ ), the closing price of UBI shares rose from 3.309, recorded the previous day, to 3.491. The Abnormal Return is equal to 4.19%, a statistically significant result with a t-value of 3.82.

The market response was further strengthened on the following day, i.e. February 18, 2020 ( $t = +1$ ), with an Abnormal Return of +22.95% and a t-test above 20, confirming investors' enthusiasm. As a matter of facts, the closing price rises from 3.491 to 4.313. The CAR of +38.47% indicates that in just two days (days 0 and +1) UBI shares have gained almost 40% in abnormal terms, i.e. above expectations based on market trends (FTSE MIB).

It is worth noting that the prices of UBI Banca shares showed increasing yields even before the announcement, as evidenced by an overall growth of approximately 29% from January 31, 2020 to February 17, 2020, which then reached 59.4% with the further increase on February 18, 2020. Similarly, Intesa Sanpaolo also experienced growth prior to the announcement, with a positive increase of 15% from January 31, 2020, to February 17, 2020, while a growth of 2% was recorded following the announcement.

Finally, the FTSE MIB was also influenced by the announcement of the offer. This was reflected in a 0.41% increase at the close of trading on February 18, 2020. A further positive variation of approximately 1% was recorded on the following day, February 19, before the index began a downward trend mainly driven by the outbreak of the Covid-19 emergency.

## Chapter 5: TRANSACTION VALUATION

### 5.1. Methodological Approach: Discounted Cash Flow (DCF) and Multiples Analysis

A combined approach based on Discounted Cash Flow (DCF) and market Multiple Analysis was adopted for the business valuation following the merger between Intesa Sanpaolo and UBI Banca. This approach estimated the post-merger value of the aggregate entity and compared it with the sum of the pre-merger values of the two banks to determine the actual value creation and the possible presence of synergies.

#### 5.1.1. Valuation Using the Discounted Cash Flow (DCF) Method

As the main evaluation model, this study uses the DCF Model. As previously mentioned in the first chapter, this model determines the value of the company by calculating the present value of the expected future cash flows (Free Cash Flow - FCF), which are discounted at the WACC, depending on the capital structure, risk, and nature of the cash flows. The time horizon for the valuation will be five years, starting in 2021 as the base year and extending until 2026. After this period, the Terminal Value will be calculated, assuming the company will continue operating indefinitely.

The DCF model allows the calculation of the Enterprise Value according to the following formula:

$$EV = \frac{FCF1}{(1 + WACC)^1} + \frac{FCF2}{(1 + WACC)^2} + \frac{FCF3}{(1 + WACC)^3} + \dots + \frac{FCFn + TV}{(1 + WACC)^n}$$

In the case under analysis, the FCF1 is represented by the FCF of 2021 (base year), which will be given by:

$$FCF = EBIT - Taxes + Depreciation and Amortization - CAPEX - \Delta NWC$$

#### Free Cash Flow 2021A

To determine the Free Cash Flow (FCF) for the base year (2021), this study utilizes Intesa Sanpaolo's consolidated financial statements from that year. It is essential to consider that the merger between Intesa Sanpaolo and UBI Banca became legally effective on April 12, 2021. As a result, the consolidated financial statements of Intesa Sanpaolo as of December 31, 2021, incorporate UBI Banca's contributions only from April 12 onward. Thus, to accurately evaluate cash flows for the base year, pro-forma values must be estimated to reflect a scenario where the merger took place on January 1, 2021. This entails estimating UBI Banca's contributions for the months leading up to April 12, 2021, using UBI Banca's financial statements for 2020, which is the latest year with relevant data. These values will then be adjusted by a ratio of 102/365, accounting for the days from January 1 to April 12, 2021. The adjusted figures will be combined with Intesa Sanpaolo's consolidated data to provide a clearer picture of the group's economic and financial status in 2021. It is crucial to emphasize that the pro-forma calculations do not factor in any synergies anticipated from the merger; therefore, the

values only represent each entity's standalone operations, omitting synergy benefits. Furthermore, Intesa Sanpaolo's consolidated financial statements as of December 31, 2021, which reflect UBI Banca's performance post-merger, have already factored in information related to the sale of branches to BPER Banca. This sale, completed on July 31, 2020, resulted in excluding revenues and costs associated with the sold branches from UBI Banca's results. Therefore, while establishing the pro-forma data for post-merger evaluation, no additional adjustments are necessary to exclude these revenues or expenses, as they are already accounted for in the consolidated financial statements.

In 2021, Intesa Sanpaolo's "Revenues from Business Activities" amounted to 20,935 million euros, according to the consolidated Income Statement published by the bank. Considering that, in 2020, UBI Banca produced revenues of €3,446.2 million, UBI Banca's contribution to Intesa San Paolo's results in 2021 can be estimated by multiplying €3,446.2 by 102/365, which will be €963 million. Therefore, the Pro-forma 2021 Revenues estimate will equal 20,935 + 963, or 21,898 million euros.

Through the same reasoning, it is possible to consider a pro-forma EBITDA of 9,263.5 million euros, given by the sum of the EBITDA provided by Intesa Sanpaolo's 2021 consolidated Income Statement, equal to 9,875 million euros, and  $102/365 * (-2,188.3 \text{ million euros})$ , i.e. the EBITDA achieved by UBI Banca in 2020, multiplied by the period necessary to assess its impact on Intesa Sanpaolo's results. In this case, Ubi Banca's EBITDA is negative, due to very high "Operating Expenses" that exceed the "Revenues from Business Activities"; this is reflected in an estimated pro-forma EBITDA lower than that recorded in the consolidated financial statements of Intesa Sanpaolo, even if the impact is not particularly pronounced. Similarly, the pro-forma EBIT is calculated at €7,535.5 million, which will then be used to calculate the FCF for 2021.

At this point, an average tax rate of 27.5% is applied, corresponding to the IRES (Imposta sui Redditi delle Società), which is a tax rate applicable to financial intermediaries in Italy and which will be used for all the years estimated in the DCF model. It includes an additional IRES of 3.5% compared to the standard rate of 24% usually applied to other corporations (Camera dei Deputati)<sup>54</sup>. The tax rate reflects the actual tax burden of the group and will be used to calculate the NOPAT. Indeed, the latter is given by  $EBIT * (1 - \text{tax rate})$ , and in this case it will be equal to 5,463.2 million euros in 2021.

At this point, pro-forma D&A will be added again to the NOPAT, amounting to 1728 million euros, as these are accounting costs that do not represent an actual cash outflow. Subsequently, the pro-forma

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<sup>54</sup> <https://temi.camera.it/leg19/post/la-fiscalit-delle-banche-e-degli-altri-intermediari-ifs.html#:~:text=Agli%20intermediari%20finanziari%20si%20applica,generalit%C3%A0%20delle%20societ%C3%A0%20di%20capitali>

CAPEX of €1751.8 million is subtracted from the result obtained so far, and the  $\Delta$ NWC, amounting to €1778 million, is then subtracted. As a matter of fact, these represent investments necessary to maintain and grow operating activity and influence available liquidity.

After subtracting Capex and  $\Delta$ NWC, the Free Cash Flow (FCF) for 2021 is obtained, amounting to €3661.4 million, which represents the liquidity available to the company after covering operating costs, necessary investments and changes in working capital. This value is very important for investors, as it indicates the company's ability to generate operating liquidity, which can be used to reduce debt, distribute dividends, make other acquisitions, or reinvest in the business.

### **Free Cash Flow 2022E-2026E**

As noted earlier, the DCF model evaluation spans a 5-year period, specifically 2022-2026. In the initial four years, the forecasts are drawn from the 2022-2025 Business Plan, which received approval from Intesa Sanpaolo's Board of Directors on February 2021. For 2026, however, the cash flow was projected by applying an inertial drag to the 2025 figures, guided by forecasts related to the macroeconomic scenario, and did not consider the impact of any additional managerial actions.

With regard to revenues, the 2022-2025 Business Plan envisages a CAGR of +2.3%. Therefore, starting from the pro-forma revenues of 2021, previously estimated, an annual growth in revenues of 2.3% was expected, which led to €22,401.7 million in estimated revenues in 2022, €22,916.9 million in 2023, €23,444 million in 2024, and €23,983.2 million. In 2026, a year outside the business plan, it is assumed that growth will continue at a constant rate of 2.3%, leading to estimated revenues of €24,534.8 million.

For the cost estimate, reference was made to the Cost/Income ratio, which according to the 2022-2025 Business Plan, is estimated at 46.6% in 2025. Therefore, considering that in 2021 the Cost/Income ratio was 57.7%, based on the estimated pro-forma data, it is assumed that over the 4 years there should be a growth of 11.3%, or about 2.8% per year. In this way, the Cost/Income ratio for the years under analysis was estimated, leading to expected Total Costs of €12,292.5 million in 2022, €11,927.9 million in 2023, €11,540.2 million in 2024, €11,128.2 million in 2025 and €10,691.2 million in 2026.

Therefore, following the merger with UBI Banca, Intesa Sanpaolo is expected to steadily increase revenues and reduce operating costs. The Group's strategy is, indeed, based on the integration of operational, digital, and commercial synergies aimed at strengthening profitability and overall efficiency. The aim is to increase revenues supported by a higher incidence of net commissions, linked

to the strengthening of the offer in wealth management, protection & advisory services. In addition, the expansion of the insurance business, particularly in the P&C business, represents a further growth driver (Intesa Sanpaolo, 2020)<sup>55</sup>.

In terms of cost reduction, the Group has started a major optimisation of the operating structure, aimed at containing expenses and improving internal efficiency. The plan provides for around 2 billion euros in savings, partially reinvested for future growth. Digital transformation also played a central role: over 5 billion euros were allocated to investments in technology, with particular attention to the development of the digital bank Isybank. The latter is expected to generate operational synergies and potential profitability increases estimated at around 200 million euros by 2025 (Intesa Sanpaolo, 2020)<sup>56</sup>.

In addition, the synergies deriving from the integration of UBI Banca have generated significant economic and managerial benefits. These include economies of scale, process rationalization, greater bargaining power in the market and integration of information systems, which allow for greater operational efficiency and cost reduction.

These estimates are based on the assumption of operational improvements linked to post-merger synergies, digital efficiencies and rationalization of the structure. As a result, EBITDA would have increased, with an expansion of the EBITDA margin from 45.1% to 56.4%, assuming an increasing level of operating efficiency.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) in the period 2022E–2026E was estimated as the difference between expected operating revenues and expected total costs. Considering that the projections indicate a constant growth in revenues accompanied by a progressive reduction in operating costs, as a result of post-merger synergies, EBITDA is increasing, from €10,109.2 million in 2022E, to €10,989.0 million in 2023E, €11,903.9 million in 2024E, €12,855.0 million in 2025E, up to €13,843.6 million in 2026E.

EBIT (Earnings Before Interest and Taxes), on the other hand, was derived by subtracting D&A, which are also forecasted, from estimated EBITDA. The D&A item was projected for each year as 7% of revenues, a percentage obtained by calculating the historical average of the D&A/revenues ratio in the five-year period prior to the analysis (2017-2021), assuming a relative stability of the

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<sup>55</sup> [https://group.intesasanpaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/ubi/20200218\\_Loader\\_Europeo\\_Presentazione\\_it.pdf](https://group.intesasanpaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/ubi/20200218_Loader_Europeo_Presentazione_it.pdf)

<sup>56</sup> [https://group.intesasanpaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/ubi/20200218\\_Loader\\_Europeo\\_Presentazione\\_it.pdf](https://group.intesasanpaolo.com/content/dam/portalgroupp/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/ubi/20200218_Loader_Europeo_Presentazione_it.pdf)

dynamics of depreciation and amortization in the medium term. In light of these assumptions, EBIT is also growing: €8,541.1 million in 2022E, €9,384.8 million in 2023E, €10,262.8 million in 2024E, €11,176.2 million in 2025E, up to €12,126.2 million in 2026E, reflecting a potential improvement in net operating profitability in the medium term.

For the calculation of the NOPAT, a constant tax rate of 27% was used, as previously explained. Therefore, the formula  $EBIT * (1 - \text{tax rate})$  led to the following NOPAT results: €6,192.3 million in 2022, €6,804 million in 2023, €7,440.5 million in 2024, €8,102.7 million in 2025 and €8,791.5 million in 2026. At this point, D&A has been added to the NOPAT, for the previously mentioned values. CAPEX was then subtracted, estimated at 8.07% of revenues based on the historical average calculated for the years 2017-2021. Similarly, the NWC delta was calculated at 36.15% of revenues. At this point, Free Cash Flow was calculated, equal to €94.6 million in 2022, €566 million in 2023, €1,059.1 million in 2024, €1,574.5 million in 2025 and €2,113.1 million in 2026.

### **The discount rate “WACC” and the growth rate "g"**

Free Cash Flows must be discounted at a rate that reflects current market valuations, the time value of money and the specific risks of the asset. In this case, the discount rate used for the valuation of FCF was determined in accordance with the methodological criteria adopted by Intesa Sanpaolo in the 2021 Consolidated Financial Statements.

Usually, the discount rate considers the cost of equity ( $K_e$ ) and the cost of debt ( $K_d$ ), which are enclosed in the calculation of the WACC (Weighted Average Cost of Capital). In the specific case of a banking company, such as Intesa Sanpaolo, it is possible to adopt an "equity side" approach, considering only the cost of equity ( $K_e$ ), since cash flows already include components deriving from financial assets and liabilities (Intesa Sanpaolo, 2022, p. 342).

The cost of capital was estimated using the Capital Asset Pricing Model (CAPM), which takes into account the sum of:

- risk-free rate,
- an equity risk premium,
- a country-specific risk premium (CRP),
- and a Beta coefficient, which represents the systematic risk of an asset relative to the market.

Differentiated discount rates were considered to discount cash flows, as permitted by IAS 36. In particular, about the risk-free rate, the average monthly yield (December 2021) of 10-year German

Bunds was used for the FCF of the explicit horizon (2022–2026); for Terminal Value, the average return expected over 10 years, up to 2026, was used.

The country risk premium (CRP), equal to approximately 180 bps, has been differentiated between explicit horizon and Terminal Value:

- for the explicit horizon (2022-2026), the average BTP-Bund spread for December 2021 was considered;
- for Terminal Value, the average annual BTP-Bund spread estimated at 2026 was used.

The equity risk premium was determined on the basis of a long-term historical average (1928–2021), estimated in real terms, and subsequently adjusted for the inflation differential between the US and the euro area to ensure the stability and reliability of the estimates.

Finally, the Beta coefficient was estimated using market data, using a set of comparable companies in terms of sector and level of risk as a reference.

The 2021 consolidated financial statements of Intesa Sanpaolo (p. 342)<sup>57</sup>, estimate the discount rates, based on the above, for the single CGUs (Cash Generating Units). However, for the purposes of assessing the Enterprise Value of the entire Intesa Sanpaolo Group using the Discounted Cash Flow (DCF) model, an arithmetic average of the discount rates has been adopted. The resulting values are:

- 7.22% for the period 2022–2026
- 8.98% for Terminal Value

The growth rate "g" used for the perpetuity projection of cash flows (Terminal Value) was determined, as indicated in the 2021 Consolidated Financial Statements of Intesa Sanpaolo (p. 342)<sup>58</sup>, assuming the more conservative value between the average growth rate expected in the plan period and the average GDP growth rate in the countries where the flows are generated. This approach is consistent with the provisions of IAS 36, and aims to ensure sustainable and realistic estimates in the long term. Based on this methodology, the "g" rate has been set at 1.52%.

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<sup>57</sup> [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/bilanci-relazioni-it/2021/Bilanci\\_\\_2021.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/bilanci-relazioni-it/2021/Bilanci__2021.pdf)

<sup>58</sup> [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/bilanci-relazioni-it/2021/Bilanci\\_\\_2021.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/bilanci-relazioni-it/2021/Bilanci__2021.pdf)

## Terminal Value

Terminal Value (TV), i.e. the present value of cash flows generated beyond the explicit projection period (2026), was calculated by applying the Gordon-Shapiro method, consistent with standard practices in corporate valuation. This approach provides that the perpetual value is determined according to the formula:

$$TV = \frac{FCF_{2026}}{Ke - g}$$

where:

- “FCF2026” represents the estimated Free Cash Flow for the last year of the plan (2026)
- “g” is the perpetual growth rate (equal to 1.52%),
- “Ke” is the discount rate for Terminal Value (equal to 8.98%).

Applying these parameters, the Terminal Value obtained is €28,325.7 million. Thus, it represents the expected economic value of future cash generation beyond the explicit period, discounted on the basis of prudential assumptions consistent with the macroeconomic context of reference.

All estimated future cash flows in 2022–2026 and Terminal Value have been discounted to 2021 using  $Ke = 7.22\%$  as the discount rate. The sum of the discounted cash flows thus provides an estimate of the Enterprise Value (EV) of €27,778.5 million.

The 2021 Net Financial Position (NFP) of -€20,962 million was deducted from the Enterprise Value to calculate the Equity Value. The NFP is derived from "Total Debt" minus "Cash & Short-Term Deposits Due from Banks." Due to the negative NFP, the Equity Value exceeds the Enterprise Value, totaling €48,740.5 million.

To calculate the theoretical price per share, the Equity Value was divided by the number of ordinary shares outstanding as of December 31, 2021. As of that date, 19,430.46 million ordinary shares had been issued, marking a significant increase from previous years, primarily due to the capital increase for the UBI Banca acquisition. In the context of the Public Exchange Offer initiated in 2020, Intesa Sanpaolo issued around 1.9 billion new shares to fund the acquisition of UBI Banca (Intesa Sanpaolo, 2020, p. 4). The theoretical price per share, determined through the DCF method, stands at 2.51 euros.

On December 31, 2021, Intesa Sanpaolo's share price was €2.27. Yet, by early January 2022, the stock started to increase, indicating enhanced investor confidence and a gradual stabilization of the

macroeconomic environment. Remarkably, on January 12, 2022, the price rose to €2.54, nearing the value estimated by fundamental analysis.

The entire valuation process, utilizing the Discounted Cash Flow (DCF) method, is outlined in the table below.

| Discounted Cash Flow Model                      |                 |                |                |                |                |                |                |
|-------------------------------------------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                                 | 2021A Pro-forma | 2022E          | 2023E          | 2024E          | 2025E          | 2026E          | Onwards        |
| <b>Revenue from Business Activities - Total</b> | <b>21898</b>    | <b>22401,7</b> | <b>22916,9</b> | <b>23444,0</b> | <b>23983,2</b> | <b>24534,8</b> |                |
| <i>Revenues growth</i>                          |                 | 2,3%           | 2,3%           | 2,3%           | 2,3%           | 2,3%           |                |
| Total costs                                     | 12634,6         | 12292,5        | 11927,9        | 11540,2        | 11128,2        | 10691,2        |                |
| Cost/Income                                     | 57,7%           | 54,9%          | 52,0%          | 49,2%          | 46,4%          | 43,6%          |                |
| <i>EBITDA margin</i>                            | 42,3%           | 45,1%          | 48,0%          | 50,8%          | 53,6%          | 56,4%          |                |
| <b>EBITDA</b>                                   | <b>9263,5</b>   | <b>10109,2</b> | <b>10989,0</b> | <b>11903,9</b> | <b>12855,0</b> | <b>13843,6</b> |                |
| <i>EBITDA growth</i>                            |                 | 9%             | 9%             | 8%             | 8%             | 8%             |                |
| D&A                                             | 1728            | 1568,1         | 1604,2         | 1641,1         | 1678,8         | 1717,4         |                |
| <i>growth of D&amp;A as a % of sales</i>        |                 | 7%             | 7%             | 7%             | 7%             | 7%             |                |
| <b>EBIT</b>                                     | <b>7535,5</b>   | <b>8541,1</b>  | <b>9384,8</b>  | <b>10262,8</b> | <b>11176,2</b> | <b>12126,2</b> |                |
| <i>Tax rate</i>                                 | 27,5%           | 27,5%          | 27,5%          | 27,5%          | 27,5%          | 27,5%          |                |
| <b>NOPAT</b>                                    | <b>5463,2</b>   | <b>6192,3</b>  | <b>6804,0</b>  | <b>7440,5</b>  | <b>8102,7</b>  | <b>8791,5</b>  |                |
| <b>(+/-)D&amp;A</b>                             | <b>1728,0</b>   | <b>1568,1</b>  | <b>1604,2</b>  | <b>1641,1</b>  | <b>1678,8</b>  | <b>1717,4</b>  |                |
| <b>(-/+ )Cash from Net Working Capital</b>      | <b>1778</b>     | <b>5858,0</b>  | <b>5992,8</b>  | <b>6130,6</b>  | <b>6271,6</b>  | <b>6415,9</b>  |                |
| <i>growth of delta NWC as a % of sales</i>      |                 | 26,15%         | 26,15%         | 26,15%         | 26,15%         | 26,15%         |                |
| <b>(-)CAPEX</b>                                 | <b>1751,8</b>   | <b>1807,8</b>  | <b>1849,4</b>  | <b>1891,9</b>  | <b>1935,4</b>  | <b>1980,0</b>  |                |
| <i>growth of CAPEX as a % of Revenues</i>       |                 | 8,07%          | 8,07%          | 8,07%          | 8,07%          | 8,07%          |                |
| <b>U-FCF</b>                                    | <b>3661,4</b>   | <b>94,6</b>    | <b>566,0</b>   | <b>1059,1</b>  | <b>1574,5</b>  | <b>2113,1</b>  | <b>28325,7</b> |
| <i>g</i>                                        | 1,52%           |                |                |                |                |                |                |
| <i>Ke</i>                                       | 7,22%           |                |                |                |                |                |                |
| <i>Ke TV</i>                                    | 8,98%           |                |                |                |                |                |                |
| Present value U-FCF                             | 3661,4          | 88,2           | 492,4          | 859,3          | 1191,6         | 1491,6         | 19994,1        |
| <b>Enterprise Value</b>                         | <b>27778,5</b>  |                |                |                |                |                |                |
| NFP (2021)                                      | -20.962         |                |                |                |                |                |                |
| <b>Equity Value</b>                             | <b>48740,5</b>  |                |                |                |                |                |                |
| n° of shares                                    | 19.430,46       |                |                |                |                |                |                |
| <b>Estimated price</b>                          | <b>2,51</b>     |                |                |                |                |                |                |
| <b>Market Price (30/12/2021)</b>                | <b>2,27</b>     |                |                |                |                |                |                |

Table 10: Discounted Cash Flow Valuation Model for Intesa Sanpaolo Post-Merger  
Source: Author's elaboration based on Refinitiv data.

### 5.1.2. Valuation Using Multiples Analysis

The Multiples Analysis will be used as a control method to validate the results obtained from the application of the DCF Model to evaluate Intesa Sanpaolo as at December 31, 2021, following the merger with UBI Banca. In this regard, a sample of comparable banks with the post-merger Intesa Sanpaolo has been identified, considering the specificities of the banking sector and the

characteristics of the merger with UBI Banca. For this purpose, the Zephyr platform was used, which allowed the application of the following filters to refine the search:

- Deal type: Merger, Acquisition
- Country: European Union
- Deal status: completed
- Nace Rev.2<sup>59</sup>: Other Monetary Intermediation (6419)
- Period: from January 1, 2015 to April 2025 (last 10 years)
- Current Market Cap (bn Euros): min 35, max 75

These filters enabled the selection of a sample of comparable banks, which is necessary for analyzing multiples and evaluating Intesa Sanpaolo's economic value after the merger.

The study uses multiple asset-sides, which do not consider the company's leverage or financial structure. Indeed, according to the asset-side approach, the multiple is given by the ratio between the Enterprise Value (EV) and an "unlevered" performance measure, i.e. not influenced by the financial structure. In particular, the multiples that will be considered are EV/Sales and EV/EBITDA.

The operations identified for the analysis of multiples are:

- BNP Paribas SA, based in Paris, has acquired the remaining 25% of the share capital of BNP Paribas Fortis SA/NV, a Belgian banking institution based in Brussels. The transaction, completed on November 13, 2015, had a total value of 3,509.95 million US dollars. The transaction took place as part of a privatisation, with the Government of Belgium as the seller, and involved the transfer of the Belgian bank under total control by the French group, which already held a 75% stake. The transaction's target, BNP Paribas Fortis, was active in a broad spectrum of financial services, including retail and corporate banking, brokerage, financial advisory, and investment banking, which was in line with the buyer's activities. The transaction structure was defined as a patent sale. It represented an example of vertical integration within a large European banking group, allowing the BNP Paribas group to further streamline its operations and strategy in the Benelux area. In the year of the acquisition, BNP Paribas SA had an Enterprise Value of €22,775.31 million, revenues from sales of €41,789 million and EBITDA of €13,540 million. It was therefore possible to derive the multiples necessary for the analysis: EV/Sales equal to 0.54x and EV/EBITDA equal to 1.68x.

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<sup>59</sup> Statistical classification of economic activities in the European Community

- Tree Inversiones Inmobiliarias Socimi SA was 100% acquired by the Spanish banking group Banco Bilbao Vizcaya Argentaria SA (BBVA), on June 15, 2022. The transaction, completed in Spain, had as its counterparty the selling party Merlin Properties SOCIMI SA, also active in the non-residential real estate investment sector. The declared value of the transaction amounts to approximately \$2,071 million, while the modeled enterprise value is estimated at \$2,816 million. The transaction, in euro currency, concerned an asset completely dedicated to non-residential real estate investments, a strategic area for the diversification of BBVA's portfolio, historically focused on banking and asset management services. In the year of the acquisition, Banco Bilbao Vizcaya Argentaria SA (BBVA) had an Enterprise Value of €25,937.49 million, revenues from sales of €27,927 million and EBITDA of €13,658 million. As a result, EV/Sales is 0.93x and EV/EBITDA is 1.9x.
  
- On December 31, 2019, the acquisition of 100% of Deutsche Bank AG's Derivatives Unit by the French banking group BNP Paribas SA was finalised. The transaction, completed in Germany, involved a business unit specializing in the brokerage of certificates and warrants, previously held by Deutsche Bank AG. The declared value of the transaction amounts to approximately \$561.7 million. The transaction, denominated in euros, represents an example of sector consolidation in the investment services sector, particularly in the structured products sector, further strengthening BNP Paribas' position in the European market. In the year of the acquisition, BNP Paribas SA had an Enterprise Value of €60,909.86 million, revenues from sales of €42,393 million and EBITDA of €15,733 million. As a result, EV/Sales is 1.44x and EV/EBITDA is 3.87x.
  
- On October 13, 2023, the German Deutsche Bank AG finalized the acquisition of 100% of Numis Corporation Plc, a British company active in brokerage and financial advisory services. The transaction, which took place in the United Kingdom, was structured as a public takeover through an arrangement scheme, with a recommended offer. The value of the transaction is approximately \$499.4 million, fully paid in cash through internal resources (cash reserves) and dividend payments. The transaction represents an emblematic case of Deutsche Bank's strategic expansion in the high value-added financial services segment in the Anglo-Saxon market. In the year of the acquisition, BNP Paribas SA had an Enterprise Value of €68,496.56 million, revenues from sales of €28,868 million and EBITDA of €8,457 million. As a result, EV/Sales is 2.37x and EV/EBITDA is 8.1x.

- On December 31, 2023, CaixaBank S.A. acquired the remaining 51% of the capital of Bankia Mapfre Vida S.A. de Seguros y Reaseguros, based in Madrid, which specialises in life, property and reinsurance insurance services. The buyer, CaixaBank, one of Spain's leading banking institutions based in Valencia, already held a 49% stake and, with this transaction, achieved full ownership of the target company. The seller was Mapfre Tech S.A., which is active in insurance and financial services and based in Majadahonda. The transaction was valued at \$357.7 million, while the total value of the estimated target is \$701.4 million. In the year of the acquisition, CaixaBank S.A. had an Enterprise Value of €46,942.94 million, sales revenues of €15,653 million and EBITDA of €7,437 million. As a result, EV/Sales is 3x and EV/EBITDA is 6.31x.
- On April 11, 2023, the acquisition by Banco Santander S.A., based in Santander-Cantabria (Spain), took place, increasing its stake in Banco Santander Mexico S.A. Institución de Banca Múltiple Grupo Financiero Santander México (Mexico) from 96.24% to 99.84% of the share capital. The transaction had a total declared value of 344.472 million US dollars. The transaction was financed in cash and took place as part of a strategy to strengthen the Santander group's presence in the Mexican market, one of the most important for the group in Latin America. The modeled value of the target company was estimated at \$6.13 billion, while the total value of the target, including the entire equity stake, was calculated at over \$9.56 billion. In the year of the acquisition, Banco Santander S.A. had an Enterprise Value of €138,140.98 million, revenues from sales of €58,533 million and EBITDA of €21,646 million. As a result, EV/Sales is 2.36x and EV/EBITDA is 6.38x.

The table below shows how the multiples analysis was conducted, applying the EV/Sales and EV/EBITDA multiples to the six selected acquiring banks to estimate an Enterprise Value range comparable to that of Intesa Sanpaolo.

| Multiples Analysis                 |          |            |            |        |        |               |          |           |  |
|------------------------------------|----------|------------|------------|--------|--------|---------------|----------|-----------|--|
| Company                            | Date     | Market Cap | EV         | Sales  | EBITDA | EBITDA margin | EV/Sales | EV/EBITDA |  |
| BNP PARIBAS SA                     | 13/11/15 | 65.088,31  | 22.775,31  | 41.789 | 13.540 | 32,4%         | 0,54x    | 1,68x     |  |
| BNP PARIBAS SA                     | 31/12/19 | 66.026,86  | 60.909,86  | 42.393 | 15.733 | 37,1%         | 1,44x    | 3,87x     |  |
| BANCO BILBAO VIZCAYA ARGENTARIA SA | 15/06/22 | 35.982,49  | 25.937,49  | 27.927 | 13.658 | 48,9%         | 0,93x    | 1,9x      |  |
| BANCO SANTANDER SA                 | 11/04/23 | 61.167,98  | 138.140,98 | 58.533 | 21.646 | 37,0%         | 2,36x    | 6,38x     |  |
| DEUTSCHE BANK AG                   | 13/10/23 | 25.225,56  | 68.496,56  | 28.868 | 8.457  | 29,3%         | 2,37x    | 8,1x      |  |
| CAIXABANK SA                       | 31/12/23 | 27.952,94  | 46.942,94  | 15.653 | 7.437  | 47,5%         | 3x       | 6,31x     |  |
| Average Value                      |          |            |            |        |        |               | 1,77x    | 4,71x     |  |
| Median                             |          |            |            |        |        |               | 1,90x    | 5,09x     |  |

Table 11: Multiples Analysis for Intesa Sanpaolo Post-Merger  
Source: Author's elaboration based on Refinitiv data.

In 2021, Intesa Sanpaolo had "Revenues from Business Activities" of 20,935 million euros and an EBITDA of 9,875 million euros. About the EV/Sales multiple, the values of comparable banks are 0.54x for BNB Paribas SA (2015), 1.44x for BNP Paribas SA (2019), 0.93x for Banco Bilbao Vizcaya Argentaria SA, 2.36x for Banco Santander SA, 2.37x for Deutsche Bank AG and 3x for Caixabank SA. From these values, an average of 1.77x and a median of 1.90x can be obtained.

By multiplying the average EV/Sales multiple by Intesa Sanpaolo's revenues as of December 31, 2021, the bank's Enterprise Value amounts to €37,054.95 million. At this point, it is necessary to subtract Intesa Sanpaolo's Net Financial Position, which amounted to -€20,962 million, as of December 31, 2021, to obtain an Equity Value of €58,017 million. The Equity Value divided by the number of shares outstanding, which equals €19,430.46 million, gives an estimated price of a single share of €2.99.

For the EV/EBITDA multiple, the comparable bank values are 1.68x for BNP Paribas SA (2015), 3.87x for BNP Paribas SA (2019), 1.9x for Banco Bilbao Vizcaya Argentaria SA, 6.38x for Banco Santander SA, 8.1x for Deutsche Bank AG, and 6.31x for Caixabank SA. These values can obtain an average of 4.71x and a median of 5.09x.

Multiplying the average value of the EV/EBITDA multiple by Intesa Sanpaolo's EBITDA as at December 31, 2021, the bank's Enterprise Value amounts to €46,511.25 million. At this point, it is necessary to subtract Intesa Sanpaolo's Net Financial Position, which amounted to -€20,962 million, as at December 31, 2021, to obtain an Equity Value of €67,473 million. The Equity Value divided by the number of shares outstanding, which equals €19,430.46 million, gives an estimated price of a single share of €3.47.

In conclusion, the estimated price per share through the Discounted Cash Flow (DCF) is €2.51. In comparison, using the multiple analysis yields a value of €2.99 with the EV/Sales multiple, and a value of €3.47 with the EV/EBITDA multiple. Although the values obtained through multiples are slightly higher than those derived from the DCF, the overall result is consistent and within a reasonable range of convergence, thus confirming the reliability of the valuation carried out using the discounted cash flow method. The explanation behind these results may be related to the fact that the DCF is based on conservative estimates and assumptions regarding future cash flow growth and applying a relatively high discount rate, which tends to compress the present value. Conversely, multiples reflect the market valuations of comparable companies, which may incorporate more optimistic expectations or favorable sector conditions that are not fully integrated into the assumptions of the DCF model.

## 5.2 Post-Merger Synergies

In the context of M&A transactions, the aggregate value of the new entity resulting from the combination may include an "extra value" from synergies. The term synergies refers to the economic benefits that can be obtained from the integration of two entities, often linked to cost reduction (e.g. operational optimization, staff cuts, economies of scale) or increased revenues (e.g. cross-selling, expansion of the customer base, strengthening of the network). Such benefits would not be achievable by individual companies operating independently. In the specific case of the merger between Intesa Sanpaolo and UBI Banca, it is necessary to demonstrate that the economic value of the post-merger group is actually higher than the sum of the values of the two banks considered as autonomous entities, i.e. pre-merger. This excess value is attributed to the presence of synergies and can be estimated through the following formula:

$$WSynergies = WIntesa\ Sanpaolo\ post\ fusione - WIntesa\ Sanpaolo\ stand-alone - WUbi\ Banca\ stand-alone$$

The multiple method was used to determine the Enterprise Value (EV) of the two stand-alone entities, Intesa Sanpaolo and UBI Banca. The same comparable banks previously selected for the post-merger value estimation were considered to ensure methodological consistency. For each comparable bank, the values of the EV/Sales and EV/EBITDA multiples from the year before their M&A transaction were considered, to reflect a business situation similar to that of Intesa and UBI in 2020. Based on the multiples collected, the average values of 1.79x for the EV/Sales multiple and 4.88x for the EV/EBITDA multiple were estimated.

In 2020, Intesa San Paolo recorded revenues of €18,654 million and an EBITDA of €7,056 million. To these values, the previously mentioned multiples were applied. In particular, the EV/Sales multiple of 1.79x returns an EV for Intesa Sanpaolo of €33,390.66 million, while applying the EV/EBITDA multiple results in an EV of €34,442.15 million. Averaging, we get an EV of €33,916.4 million.

On the other hand, UBI Banca had a negative EBITDA in 2020. Therefore, to calculate the Enterprise Value (EV), reference was made exclusively to the EV/Sales multiple to avoid distortions in the valuation. In this case, the EV obtained is €6,168.6 million.

|                                                |                |
|------------------------------------------------|----------------|
| Intesa Sanpaolo stand-alone                    | 33916,4        |
| UBI Banca stand-alone                          | 6168,6         |
| <b>Sum of stand-alone values</b>               | <b>40085,0</b> |
| <hr/>                                          |                |
| <b>Intesa post-merger (multiples analysis)</b> | <b>41783,1</b> |
| <b>Estimated Synergies</b>                     | <b>1698,1</b>  |

*Table 12: Calculation of Estimated Synergies through Multiples Analysis  
Source: Author's elaboration based on Refinitiv data.*

The value of Intesa Sanpaolo after merging with UBI Banca, previously calculated using the market multiples method, resulted in the following outcomes:

- Applying the EV/Sales multiple, an Enterprise Value of €37,054.95 million was obtained.
- Applying the EV/EBITDA multiple, an Enterprise Value of €46,511.25 million was obtained.

Calculating the average between the two values, an average post-merger Enterprise Value of €41,783.1 million is obtained.

Regarding the stand-alone values of the two pre-merger entities:

- Intesa Sanpaolo's Enterprise Value in 2020, calculated on the basis of multiples, is equal to 33,916.4 million euro.
- The Enterprise Value of UBI Banca, also in 2020, is equal to 6,168.6 million euros.

The sum of the two stand-alone values therefore leads to a total of 40,085.0 million euros.

When the average post-merger value (€41,783.1 million) is compared with the sum of the stand-alone values (€40,085.0 million), a positive difference of €1,698.1 million is obtained.

This value represents the estimate of the synergies incorporated into the post-merger value observable in 2021, resulting from the merger between Intesa Sanpaolo and UBI Banca.

### **5.2.1. Comparison Between Initial Estimate and Actual Results**

Following the merger between Intesa Sanpaolo and UBI Banca, Intesa's management has estimated the realization of annual pre-tax synergies of approximately 680 million euros by 2023. These synergies derive mainly from three operational areas:

- Reduction in personnel expenses (~340 million euros);

- Reduction in administrative expenses (~€170 million);
- Net increase in revenues (~220 million euros, given by the difference between ~320 million in revenue synergies and ~100 million in synergies).

In addition, the plan envisages further synergies of around 50 million euros to be achieved in 2024, thanks to improved funding, product innovation, and credit risk management.

Therefore, the total operating synergies when fully operational (from 2024 onwards) are estimated at around €730 million per year. These estimates also include benefits deriving from the efficiency of the operating structure, the realignment of productivity and the commercial integration of UBI Banca's product companies (Intesa Sanpaolo, 2020, p. 19)<sup>60</sup>.

Starting from the fully operational synergies expected for 2024, estimated at 730 million euros per year, the economic value of these synergies can be assessed using the Discounted Cash Flow (DCF) method.

In particular, considering that the operating synergies will reach full capacity starting from 2024, the perpetual value of the synergies has been calculated using the following formula:

$$\text{Perpetuity Value} = \frac{\text{Synergies}_{2024}}{K_e - g}$$

For the purposes of this calculation, the values of the cost of equity ( $K_e$ ) and the growth rate ( $g$ ) already determined in the previous post-merger DCF valuation are used, i.e. a  $K_e$  of 7.22% and a growth rate  $g$  of 1.52%.

The Perpetuity Value is therefore equal to 12,818.3 million euros, and represents the value of synergies starting from 2024, i.e., when full operating capacity is expected to be reached.

However, since the objective is to estimate the value of synergies in 2021, it is necessary to discount this value by considering a three-year time interval ( $n = 3$ ) and using the cost of equity ( $K_e = 7.22\%$ ) already determined previously. The present value of the resulting synergies is approximately 12,251.1 million euros.

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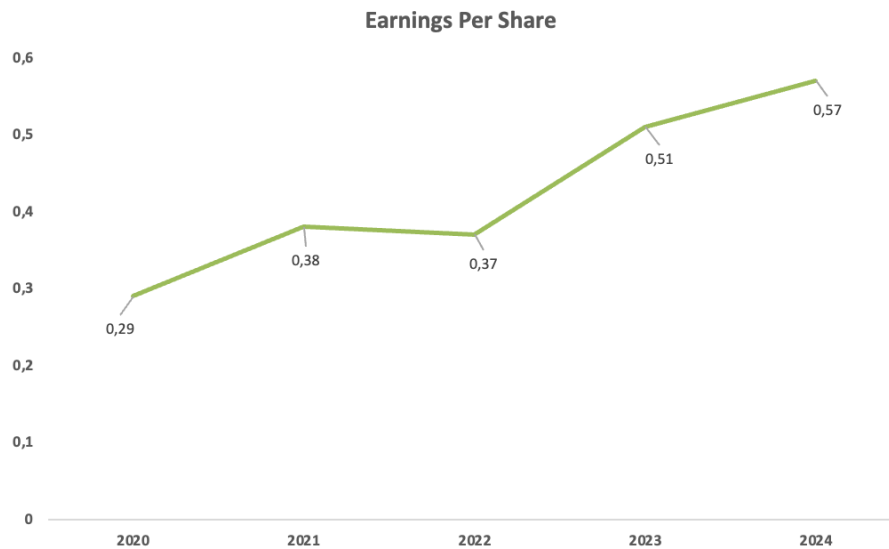
<sup>60</sup> [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/ubi/20200218\\_Leader\\_Europeo\\_Presentazione\\_it.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/ubi/20200218_Leader_Europeo_Presentazione_it.pdf)

Therefore, to summarize, the calculation of synergies obtained as the difference between the sum of the stand-alone values of Intesa Sanpaolo and UBI Banca and the post-merger value estimated through multiple analysis showed a value of embedded synergies of approximately 1.7 billion euros in 2021. On the other hand, applying the Discounted Cash Flow method to the operating synergies expected when fully operational led to an estimate of a discounted value of synergies of approximately 12.2 billion euros. The difference between the two results may stem from the fact that, in 2021, the integration process was still ongoing and the benefits derived from operational synergies had not yet fully manifested. As envisaged in Intesa Sanpaolo's business plan, indeed, the full achievement of synergies was expected by 2023-2024. To confirm this, the analysis of actual economic and financial data shows that, starting from 2022, Intesa Sanpaolo has recorded a progressive improvement in the main performance indicators. In particular, Enterprise Value grew from around €23.5 billion in 2021 to over €127.5 billion in 2023, reaching around €199.2 billion in 2024. At the same time, revenues increased from around €20.9 billion in 2021 to €24.6 billion in 2023 and €26.6 billion in 2024. EBITDA also showed significant growth, rising from €9.8 billion in 2021 to €13.8 billion in 2023 and around €15.2 billion in 2024. This trend confirms that, although not immediately visible in 2021, the expected benefits of the merger have been progressively realized over the following three years, being consistent with the value creation estimates formulated during the evaluation phase.

### **5.3. Effect on key financial metrics**

#### **5.3.1. Earnings per share (EPS)**

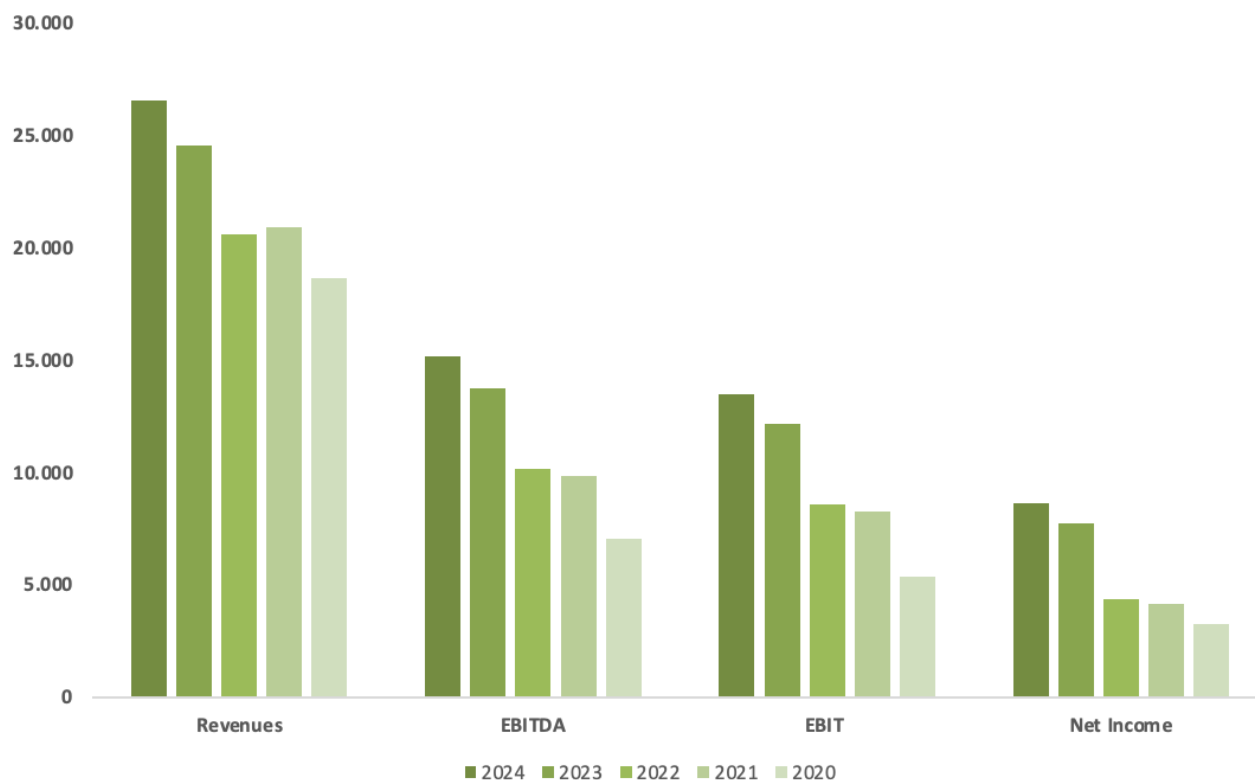
As noted by the Corporate Finance Institute (CFI), an increase in Earnings Per Share (EPS) serves as a key indicator of successful synergy realization after a merger or acquisition (M&A). Specifically, when constructing the post-transaction pro forma EPS, it's essential to consider not just the combined financial outcomes of both companies, but also the anticipated advantages from operational synergies, including cost savings, enhanced process efficiency, and revenue growth. Thus, a rise in EPS relative to pre-merger figures indicates that the expected synergies are indeed leading to better profitability per share, thereby adding value for shareholders.



*Graph 16: Earnings Per Share (EPS) Trend from 2020 to 2024*  
*Source: Author's elaboration based on Refinitiv data.*

For Intesa Sanpaolo, an examination of the Earnings Per Share (EPS) from 2020 to 2024 demonstrates a consistent rise in profitability per share, consistent with value creation expectations linked to its merger with UBI Banca. The chart shows that EPS increased from 0.29 in 2020 to 0.38 in 2021, while remaining fairly stable at 0.37 in 2022. However, beginning in 2023, there is a significant jump, with EPS rising to 0.51 and reaching 0.57 in 2024. This trajectory suggests a gradual harnessing of operational synergies from the merger, leading to improved efficiency, stronger profit generation, and ultimately greater value for shareholders. Importantly, the growth noted from 2023 onward aligns with the timeline for fully realizing the synergies anticipated by Intesa Sanpaolo's management, thus validating the forecasts made during the transaction. In conclusion, the evolution of EPS serves as concrete evidence of the merger's capacity to create additional value through the realization of expected synergies.

### 3.3.2. Effects on Income Statement items



*Graph 17: Evolution of Revenues, EBITDA, EBIT, and Net Income (2020–2024)*

*Source: Author's elaboration based on Refinitiv data.*

Examining the progression of Intesa Sanpaolo's key economic and financial metrics after the merger with UBI Banca reveals a steady enhancement in performance, affirming the realization of anticipated synergies. The graph illustrates that from 2020 to 2024, there was notable growth across all primary income statement categories: revenues rose from approximately €18.7 billion to about €26.6 billion (+42%), EBITDA climbed from around €7.1 billion to roughly €15.2 billion (+114%), EBIT increased from about €5.4 billion to around €13.5 billion (+150%), and net profit surged from around €3 billion to about €8.7 billion (+190%). These results demonstrate how, after the merger, the group has managed to rationalize costs, lowering overall operating expenses, while primarily accelerating revenue growth, which is crucial for enhancing profitability.

As a matter of fact, the increase in revenues was significantly higher than the cost reduction alone, highlighting the strong contribution of revenue synergies obtained from the expansion of the customer base, the integration of products and the expansion of commercial activities.

In addition, the positive trend in EBITDA and EBIT shows a progressive improvement in operating margins. At the same time, the increase in net profit highlights how the merger has generated a

structural effect on the Group's ability to generate sustainable profits over time. The growth path observed until 2024 therefore confirms that the synergies envisaged in the transaction phase have materialized and have contributed significantly to the improvement of overall performance.

### 3.3.3. Profitability, Efficiency, and Financial Strength Indicators

| Key Financial Indicators               |          |          |          |          |          |
|----------------------------------------|----------|----------|----------|----------|----------|
|                                        | 31/12/24 | 31/12/23 | 31/12/22 | 31/12/21 | 31/12/20 |
| <b>Profitability / Return</b>          |          |          |          |          |          |
| ROE                                    | 15,4%    | 14,1%    | 7,9%     | 7,2%     | 3,9%     |
| ROA                                    | 0,9%     | 0,8%     | 0,4%     | 0,4%     | 0,2%     |
| Return on Earning Assets - %           | 1,0%     | 0,9%     | 0,5%     | 0,5%     | 0,5%     |
| Operating profit margin - %            | 51%      | 49%      | 42%      | 40%      | 29%      |
| Net Margin - %                         | 32,6%    | 31,5%    | 21,4%    | 19,3%    | 11,5%    |
| <b>Efficiency</b>                      |          |          |          |          |          |
| Asset Turnover                         | 2,85%    | 2,55%    | 2,11%    | 1,96%    | 1,86%    |
| <b>Capital Ratio</b>                   |          |          |          |          |          |
| Capital Adequacy - Total (%)           | 19,0%    | 19,2%    | 19,0%    | 18,9%    | 19,2%    |
| Liquidity Coverage Ratio - Basel 3 - % | 154,8%   | 168,1%   | 181,9%   | 184,5%   | 159,1%   |
| <b>Financial Strength / Leverage</b>   |          |          |          |          |          |
| Total Debt Percentage of Total Capital | 73,6%    | 73,6%    | 68,2%    | 66,1%    | 65,9%    |
| Total Debt Percentage of Total Equity  | 278,1%   | 279,4%   | 214,9%   | 195,4%   | 193,1%   |

Table 13: Key Financial Indicators of Intesa Sanpaolo (2020–2024)

Source: Author's elaboration based on Refinitiv data

The analysis of profitability, efficiency and financial solidity indicators also confirms the effectiveness of the merger between Intesa Sanpaolo and UBI Banca. From the point of view of profitability, there is a marked improvement in all the main indicators: ROE goes from 3.9% in 2020 to 15.4% estimated for 2024, while ROA grows from 0.2% to 0.9% in the same period. These improvements highlight the Group's strengthened capacity to generate profits relative to its equity and total assets, in line with the positive impacts expected from realizing synergies. The Operating Margin went from 29% in 2020 to 51% in 2024, while the Net Margin grew from 11.5% to 32.6%. The data unmistakably reveals that the merger not only boosted revenues but also enhanced operational efficiency, leading to a substantial increase in profitability for shareholders. In terms of efficiency, Asset Turnover rose from 1.86 to 2.85 from 2020 to 2024. This shows that Intesa Sanpaolo is generating increased revenue per euro invested in assets, signifying enhanced resource management. Regarding capital ratios, Total Capital Adequacy has remained robust and stable at around 19%, while the Liquidity Coverage Ratio has consistently exceeded the minimum regulatory threshold, highlighting the group's strong liquidity management capability stress. Finally, concerning leverage, both Total Debt as a Percentage of Total Capital and Total Debt as a Percentage of Total Equity rose after the merger, reflecting the integration of UBI and the management of liabilities

associated with the transaction. Nonetheless, these ratios are still in line with those typical of major European banking groups and do not compromise the overall stability of the institution.

In summary, the performance of the key indicators confirms that the integration has led to a structural strengthening of the Intesa Sanpaolo Group's profitability, efficiency, and solidity in the medium term, in line with the expectations of value creation through synergies.

### 3.3.4. Stock price trend



*Graph 16: Intesa Sanpaolo Share Price Trend (2021–2024)*

*Source: Author's elaboration based on Refinitiv data.*

The analysis of Intesa Sanpaolo's stock performance following its merger with UBI Banca reinforces the operation's value creation. Since 2021, the first full year post-merger, the shares have exhibited stability, remaining at relatively constant levels. However, starting in mid-2023, the share price rose steadily, surpassing €4.8 per share in 2024. This represents more than double the figures seen in 2021. The ongoing rise in the stock price indicates investors' trust in the new integrated group's potential to achieve operating synergies and enhance profitability. Notably, the price increase aligns with the rise in key financial metrics, such as revenues, EBITDA, net income, and earnings per share (EPS), observed during the same period. Thus, the growth in Intesa Sanpaolo's market value post-merger underscores not only the realization of anticipated synergies but also the institution's capacity to convert them into increased market confidence and shareholder value creation.

## **Chapter 6: QUALITATIVE METHOD**

### **6.1. Qualitative validation of the analysis**

This section aims to integrate the analysis carried out in the previous chapters through a qualitative contribution, which seeks to deepen and validate the results obtained from a direct and internal perspective. In particular, the aim is to enhance the point of view of a professional who has closely followed the merger between Intesa Sanpaolo and UBI Banca, offering experiential feedback on the strategic, operational and financial dynamics of the transaction.

The interview was conducted with Luca Finazzi, current Head of the Planning & Control Department of the CFO Area of Intesa Sanpaolo, who at the time of the merger held the role of Deputy of the same Department. Thanks to his direct involvement in the planning, monitoring and evaluation of post-integration synergies, his contribution is particularly relevant to understanding the scope of the transaction, the objectives pursued and the main underlying strategic drivers.

During the interview, central topics were explored in depth, such as the reasons that led to a domestic merger being preferred over a cross-border transaction, the balance between cost and revenue synergies, consistency with the Group's long-term strategy, as well as the critical issues faced due to the extraordinary context linked to the COVID-19 pandemic. Additionally, the approach adopted to monitor post-merger value creation and the indicators used by Management Control to verify the achievement of the objectives were discussed.

Finally, the interview made it possible to compare the empirical evidence that emerged from the DCF and multiple analysis conducted in Chapter 5 with the perspective of those who operationally managed the integration process, largely confirming the solidity of the approach adopted and the validity of the results obtained. This comparison enriched the overall analysis, providing a deeper and more contextualized reading of the merger, as well as a further element of reflection on the sustainability of the competitive advantage generated by the transaction.

### **6.2. Intesa Sanpaolo point of view: intervista al Responsabile Planning & Control**

The following interview was conducted with Luca Finazzi, Head of the Planning & Control Department of the CFO Area of Intesa Sanpaolo, who at the time of the merger with UBI Banca held the role of Deputy of the same Department.

The interview took place on May 27, 2025, in Italian. The contents have been transcribed in full for academic purposes, with the explicit consent of the interviewee to publication within this thesis.

- **Interviewer:** What is your current role within Intesa Sanpaolo and what position did you hold at the time of the merger with UBI Banca?
- **Interviewee:** I am responsible for the Planning & Control Department within the CFO Area. At the time of the merger I was Deputy of this Directorate
- **Interviewer:** The analysis of pre-merger data shows that between 2017 and 2019 Intesa Sanpaolo had already started a solid growth path, with a progressive increase in revenues, a greater diversification of sources of income and an improvement in operating efficiency. In this context, do you think that the merger with UBI was designed primarily to consolidate an already acquired leadership or to accelerate further growth that was already underway?
- **Interviewee:** The merger of UBI was designed to accelerate the improvement of all the industrial KPIs of the IntesaSanpaolo Group, also through the strengthening of its leadership on the Italian market. In particular, UBI was an interesting bank from several points of view: 1) concentrated on the areas of Italy with the highest GDP/per capita 2) strong solidity of its balance sheet 3) high credit quality 4) cultural proximity with the IntesaSanpaolo Group 5) high quality of management. The transaction, therefore, represented almost a "natural" growth of the Intesa Sanpaolo Group, totally consistent with our BancaAssicurazione strategy to support the country.
- **Interviewer:** What were, in your opinion, the main strategic objectives pursued by Intesa Sanpaolo through the merger with UBI Banca? In particular, why was a domestic bank like UBI, with strong territorial roots but a less international presence, chosen instead of focusing on a cross-border transaction? What specific competitive advantage did Intesa expect to gain from this integration?
- **Interviewee:** The acquisition of UBI was intended to accelerate the group's growth path, strengthening its presence in the most attractive geographical areas of the country. In addition, it was possible to achieve strong revenue synergies through the distribution of the IntesaSanpaolo Group's products (Asset Management, Insurance, etc.) on a wider customer base, increasing the scale effect of the Group's factories. These revenue synergies were accompanied by significant cost synergies that made the transaction particularly interesting and fully consistent with the Group's growth path. IntesaSanpaolo's strategy provides for the evaluation of extraordinary transactions that are able to create value for all stakeholders and shareholder remuneration. UBI was able to meet these objectives and strengthen the Group's

national leadership. If international transactions with the same characteristics should arise, we will certainly consider them, but international expansion "for its own sake" is not part of the Group's strategic guidelines.

- **Interviewer:** Overall, do you think the synergies generated by the merger were more attributable to cost reductions or revenue increases? According to your experience, has the goal of achieving fully operational synergies of 730 million euros by 2024, as envisaged in the business plan, actually been achieved?
- **Interviewee:** As in all mergers, cost synergies are higher in the short to medium term, while revenue synergies are longer to achieve and its effects are also more difficult to measure. Within the Management Control department, we have punctually monitored the cost and revenue synergies achieved and the results are absolutely in line with expectations. In this particular case, however, it should be noted that the operation was launched a few days before the lockdowns and the integration activities took place in full COVID-19 management. The very particular economic dynamics of 2020-2021, as well as the rise in rates and the other macro-economic and geo-political shocks of 2022 and 2023, with the obvious impacts on the balance sheets of all banks, do not make a like-for-like comparison particularly easy. Only 5 years have passed, but from an economic point of view the situation is very different from the time when the merger process began.
- **Interviewer:** In my analysis, I estimated the value of a single share of Intesa Sanpaolo post-merger as at December 31, 2021 using two methodologies: the Discounted Cash Flow (DCF) model, for which I applied a WACC and a growth rate  $g$  obtained from the data in Intesa's 2021 financial statements; and the analysis of multiples (EV/Sales and EV/EBITDA), built based on a sample of six European banks selected for their size comparability and proximity of similar M&A transactions. The results obtained show a lower value per share with the DCF method than with multiples. In your experience, do you think that this combined approach is suitable for assessing the post-merger value of the case under analysis?
- **Interviewee:** I'm not an expert on such assessments, but they both seem to me to be very valid approaches. When using a benchmark approach (especially international), it must always be considered that the situations (and therefore the evaluations) are never perfectly comparable, as they have national and individual company specificities that are difficult to replicate. Furthermore, as mentioned, the period in which the merger was announced and then the merger activities began, was characterized by extraordinary events that impacted the economic values of all companies, as well as our personal lives.

- **Interviewer:** In my analysis, I calculated the value of the synergies deriving from the merger between Intesa Sanpaolo and UBI Banca following two approaches: on the one hand, as the difference between the post-merger value estimated with the multiples method and the sum of the stand-alone values of the two banks; on the other hand, starting from the operational synergies expected when fully operational in 2024 (equal to 730 million euros) and discounting their value to 2021 through the DCF. However, the result obtained through capitalizing on future synergies is significantly higher than that obtained using the EV difference method. In addition, in 2021 the main economic indicators (such as Revenues, EBITDA, EBIT and Net Income) were not yet particularly performing, but starting from 2022 there is a clear improvement, in line with expectations. In your opinion, what factors have influenced this delay in the implementation of synergies?
- **Interviewee:** As mentioned, 2020 and 2021 are particular years: COVID-19 has forced all of us to a "different" life with impacts on our personal as well as work habits. This also had an impact on UBI's integration activities into the IntesaSanpaolo Group. The following years then saw an economic and interest rate dynamic that strongly impacted the entire banking sector. Having said all this, the monitoring carried out has never shown a substantial delay in achieving the declared synergies.
- **Interviewer:** What internal indicators did you follow to monitor value creation and the actual realization of post-merger synergies?
- **Interviewee:** Within the Management Control department, we have developed dedicated monitoring on the achievement of synergies deriving from the merger and, therefore, on the consequent creation of value. The financial and operational indicators used are many, all in line with the "ordinary" monitoring and control activities carried out on the Group
- **Interviewer:** Looking at the results achieved between 2022 and 2024 (e.g. increase in EV, net profit, EPS), do you think that Intesa Sanpaolo has managed to translate the merger into a sustainable competitive advantage?
- **Interviewee:** The merger fits perfectly into the IntesaSanpaolo Group's strategy, aimed at creating sustainable leadership over time and creating value for all Group stakeholders. As we predicted at the launch, the acquisition of UBI was certainly an important step in the Group's growth path and the improvement of all indicators is proof of this.

## Conclusion

The merger between Intesa Sanpaolo and UBI Banca represents one of the most significant banking consolidation operations in the recent Italian context, not only for its size, but above all for the strategic and systemic implications it has generated. This thesis aimed to critically analyze, through a multidimensional approach, the entire operation, from strategic motivations to financial evaluation, and up to the empirical verification of the value actually created.

The results of the analysis show that the merger was supported by a strategic rationale that is fully consistent with the trends underway in the European banking sector: the search for economies of scale, rationalisation of the commercial network, consolidation of leadership in the domestic market and capital strengthening. The methodology adopted involved the joint use of the Discounted Cash Flow (DCF) model and multiple analysis, tools that made it possible to develop a robust assessment of post-transaction value creation. These models showed a positive impact both in terms of expected growth in cash flows and improvement in the profitability and financial solidity indicators of the new banking group.

A central focus of the paper was dedicated to the analysis of synergies, considered the main industrial driver of the transaction. In the preliminary phase, the data revealed a deviation in the assessed synergies compared to the official estimates, with lower results than the forecasts communicated to the market. However, it is important to underline that this gap has been strongly influenced by the impact of the COVID-19 pandemic, which has led to a postponement of the implementation timeline, especially with regard to revenue synergies deriving from cross-selling and commercial expansion. The health emergency has, indeed, imposed new operational priorities and slowed down some phases of the integration process. Nevertheless, as also confirmed by the interview in Chapter 6, synergies have been fully achieved in the medium term, particularly on the cost side, thanks to the rationalization of the network, the integration of information systems and the optimization of the organizational structure.

In addition, there was a gradual convergence towards revenue synergies, thanks to the extension of the commercial offer to former UBI customers and the increase in cross-selling in the wealth management and insurance segments. Confirming the positive results of the merger, the stock market also reacted positively. As shown by the graph included in the fifth chapter, about the trend in the price of shares, between the end of 2021 and 2024, the year in which Intesa Sanpaolo estimated the realization of synergies, the bank's share price maintained a substantially stable and then increasing trend, demonstrating investor confidence in the solidity of the industrial project. The retention of

share value, in an uncertain economic environment, suggests that the initial market expectations have been met, reinforcing the credibility of the business plan presented at the time of the merger.

This progress was also accompanied by an overall improvement in economic results, with sustained growth in net profit, ROE and capital strength, as evidenced by the consolidated post-merger financial statements. The performance of the stock on the stock exchange, although affected by macroeconomic fluctuations, benefited in the medium term from investors' confidence in the group's ability to extract value from the transaction. The gradual appreciation of the Intesa Sanpaolo share price and the recovery of market capitalisation were tangible signs of the success of the transaction.

To complete the quantitative analysis, the qualitative contribution that emerged from the interview with the Head of the Planning & Control Department of the CFO Area at Intesa Sanpaolo offered direct and informed confirmation of the transaction's validity. The interviewee highlighted how the synergies envisaged in the planning phase have been achieved in almost all of them, despite the operational difficulties introduced by the pandemic context, which has forced the group to recalibrate the execution times. He also emphasized the importance of a long-term strategic vision, grounded in the consistency between industrial objectives and control tools, as well as the crucial role of oversight within the Planning and Control structure in ensuring timely progress verification.

## **Implications**

This thesis aims to evaluate a concrete case of bank merger quantitatively, the one between Intesa Sanpaolo and UBI Banca, through an analysis aimed at measuring the value generated by synergies. The approach adopted, which integrates valuation models (DCF and multiples) with a direct qualitative comparison through interviews, offers an innovative and structured reading of value creation in M&A transactions.

It emerged that, despite the initial difficulties due to the COVID-19 pandemic, the two banks involved have complied in the medium term with the strategic assumptions identified by the literature for the success of mergers: territorial complementarity, operational synergies and cultural integration. The analysis of synergies, in particular, showed a concrete ability to generate efficiency and value, confirming the effectiveness of the business plan prepared.

This work can be a useful tool for managers, analysts and consultants, offering a solid methodological basis for estimating and verifying ex post the creation of value in bank consolidation transactions. It also contributes to the academic debate on the role of synergies in mergers, stressing the importance

of an integrated and realistic approach that takes into account not only the numbers, but also the underlying organisational dynamics.

### **Limitations**

Although the strategic prerequisites for the merger were clearly identifiable *ex ante*, the actual realisation of synergies is exposed to a number of exogenous variables, which cannot always be controlled. The analysis showed an initial discrepancy between estimated synergies and achieved synergies, partly attributable to the COVID-19 pandemic crisis, which changed operational priorities and slowed down the execution of some measures envisaged in the integration plan.

A significant methodological limitation is related to the use of the multiple methods to estimate the value of synergies. In particular, for each comparable bank considered in the analysis, multiples were selected in the year in which their respective M&A transaction took place, with the aim of capturing the specific conditions of the individual banks at the time of the transaction. However, this approach involved comparing data from different years, making consistent time alignment more difficult. In the specific case of Intesa Sanpaolo and UBI Banca, the merger took place in the middle of the pandemic phase, while many of the comparable transactions of reference took place in normal economic periods, not affected by exogenous shocks. This temporal asymmetry partly compromises the homogeneity of the analysis and reduces the accuracy of the estimates, as it does not fully take into account the economic and financial distortions induced by COVID-19.

In addition, the full effect of synergies tends to emerge in the medium to long term, and although this analysis covers the four years following the merger, it is still possible that some of the long-term benefits, particularly in terms of revenue synergies, have not yet fully materialized. Furthermore, the quantitative assessment remains strongly influenced by assumptions regarding the financial conditions of the banks, regulatory developments, and strategic continuity—factors that inherently introduce a degree of uncertainty into the evaluation.

Finally, as in any M&A process, the effective creation of value also depends on the group's management ability to translate the strategic vision into coherent and timely operational actions. Any organisational difficulties, cultural resistance or internal misalignments may represent an obstacle to the full realisation of the envisaged synergies, reducing the overall effectiveness of the operation.

## **Future studies**

In the coming years, it will be useful to conduct further studies to verify whether the planned synergies have been fully realized and in which areas the greatest impact has been achieved. Extending the analysis over time will provide a more comprehensive view of the effects of the merger, allowing a distinction to be made between short-term outcomes and long-term structural benefits.

It will also be interesting to compare the Intesa Sanpaolo-UBI case with other bank consolidation operations in Italy and Europe, to assess whether there are recurring patterns or enabling conditions common to success. Further research could investigate the relationship between post-merger governance quality, organizational culture, and economic performance.

Finally, it would be useful to apply alternative valuation methods – e.g. analysis of the change in real EPS over time or more advanced event study techniques – to further validate and refine the conclusions of this thesis, contributing to the development of a more robust framework for measuring the value generated by synergies in bank mergers.

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