

## Mortgage Market Monitor

### Market trends

In the spring months, loans to households for house purchase accelerated, soaring by 3.8% yoy in May. The rebound in the growth rate, evident since March, is partly affected by the annual comparison with the 2020 period that was characterised by the outbreak of the pandemic. However, it should be noted that the jump in loans for purchases of homes is driven by the robust performance of disbursements for new mortgage loan contracts which in the period from March to May exceeded the gross volume for the same months of 2020 by 65% and were 40% higher than same time frame in 2019. With regard to disbursements based on the type of rate, May confirmed the double-digit growth in fixed-rate loans, for the third consecutive month. By contrast, floating-rate disbursements were down.

Alongside the noteworthy volume dynamics, in the spring months there was an increase in the rates on mortgage loans, mainly driven by the fixed rate. The floating rate also rose and, overall, the two rates were aligned in the first five months of 2021. The recovery shown by the fixed rate brought it above the euro area average. It had fallen below this level from April 2020 until February 2021. For the floating rate as well, the spread compared to the Euro area average has been above zero since March.

The Bank Lending Survey reports that in the second quarter banks kept the criteria for offering loans to households for house purchase unchanged. At the same time, the demand for mortgages increased, driven by the expansionary impulse stemming from the outlook for the residential property market, low interest rates and improved consumer confidence. The latter turned positive again after five quarters of negative or no impact.

This is consistent with the results of the latest Istat survey on consumer confidence which, among other things, highlighted a substantial stability in the share of individuals intending to buy a new home in the second quarter. On the other hand, consumers who expressed their willingness to undertake expenses for extraordinary maintenance of the home were constantly growing.

Regarding the real estate market, in 1Q21 property transactions confirmed the recovery started in 3Q20. Indeed, the number of transactions was 17% higher than in 1Q19 with almost 24,000 more sales and purchases. House prices recorded again an increase (+1.7% yoy), the fifth in a row.

According to real estate agents' opinions from the most recent survey conducted between March and April 2021, both 3-month and 2-year expectations for the property market got better; even if they remained negative.

July 2021

Quarterly Note

Research Department

Banking Research

**Elisa Coletti**  
Economist

**Federico Desperati**  
Economist

**Viviana Raimondo**  
Economist

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## Strong increase in disbursements

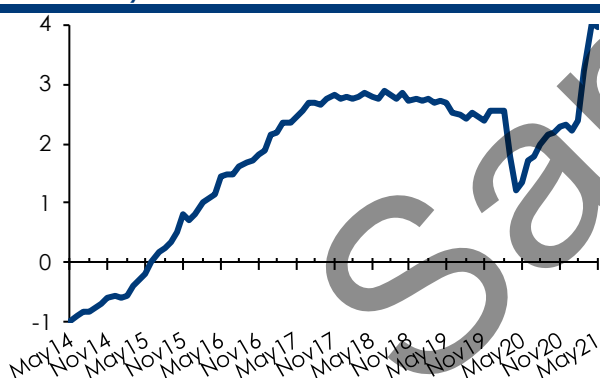
In the spring months, loans to households accelerated, supported in particular by **the significant recovery in mortgage loans for residential homes, which soared by 3.8% yoy in May**. The rebound in the growth rate, evident since March (from 2.5% yoy in February 2021), is partly affected by the annual comparison with the 2020 period that was in turn characterised by the outbreak of the pandemic and its impacts on credit dynamics. However, it should be noted that the jump in loans for purchases of homes is driven by the robust performance of disbursements for new mortgage loan contracts.

Elisa Coletti

Indeed, in terms of gross monthly flows, a series of particularly positive results was recorded from March to May. **The volume of disbursements for new contracts exceeded the level for the same months of 2020 by 65%**, a period during which, as mentioned, there was a slowdown in mortgage loans as a result of the measures implemented to contain COVID-19. However, **flows for March-May 2021 were also higher than in the same months of previous years** (40% higher than same time frame in 2019). The rebound in disbursements for new contracts was more moderate in May, growing by 22.7% yoy after doubling in the previous two months.

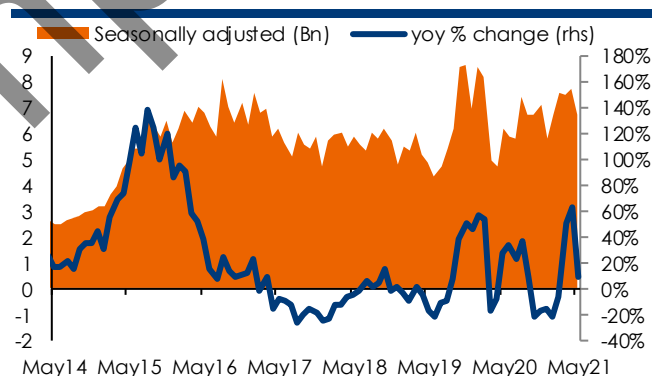
**Renegotiations, on the other hand, continued to decline on average** (-25% yoy in May), as already observed from October 2020 onwards. Therefore, with regard to the **overall gross flow** (including renegotiations and new contracts), the trend, which returned positive from March, was more moderate in May compared to the previous two months (+9% yoy from the average of +57% of March-April), after the decline recorded from October 2020 to February 2021.

Trend in loans to households (yoy % change in stock, adjusted for securitisations)



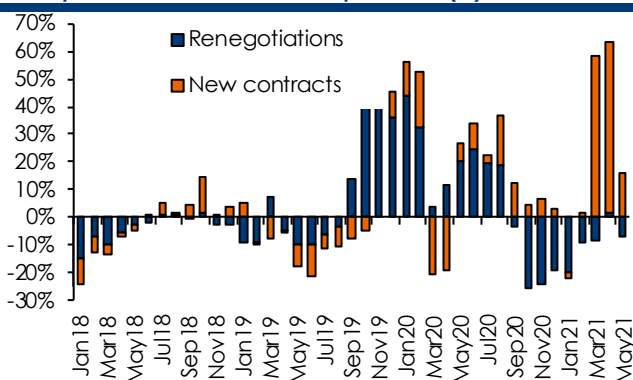
Source: Bank of Italy and ECB

Loans to households for house purchase, gross monthly flows



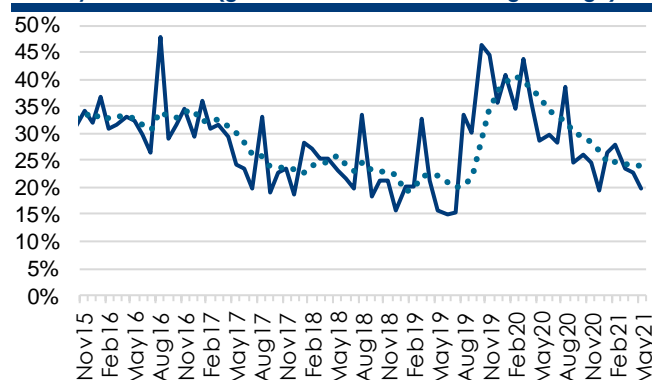
Source: Bank of Italy, Intesa Sanpaolo Research Department calculations

Contribution of renegotiations and new contracts to the growth of monthly loan transactions for house purchases (%)



Source: ECB and Intesa Sanpaolo calculations

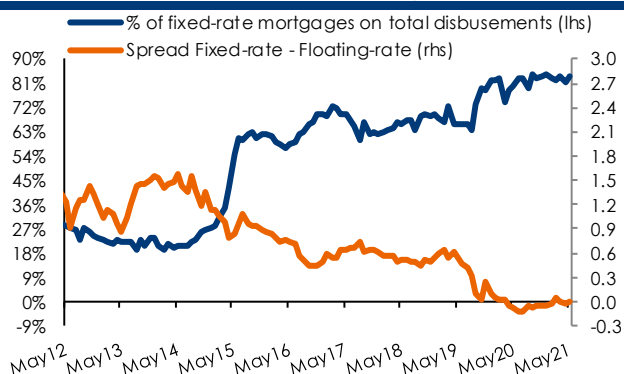
Renegotiations of loans for house purchases as % of total monthly transactions (gross flows and 5-term moving average)



Source: ECB and Intesa Sanpaolo Research Department calculations

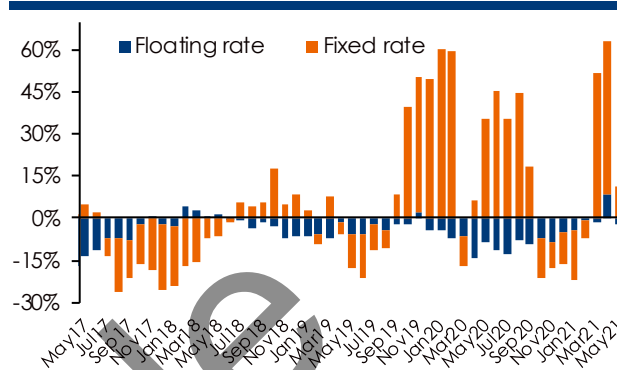
With regard to disbursements based on the type of rate, May **confirmed the double-digit growth in fixed-rate loans, for the third consecutive month**, equal to +14% yoy, after the surge that began in March and continued into April (with a change of 70% yoy in each of those two months). By contrast, **floating-rate disbursements remained weak and were down by 10.7% yoy in May**, following a temporary return to growth in April. As a result, the share of fixed-rate mortgage loans over the total gross disbursements is once again high, at approximately 84% in May.

#### Disbursements of loans for house purchase: fixed-rate as % of the total and spread between fixed and floating rate



Source: Bank of Italy and Intesa Sanpaolo calculations

#### Contribution of fixed-rate and floating-rate flows to the growth of monthly loan transactions for house purchases (%)

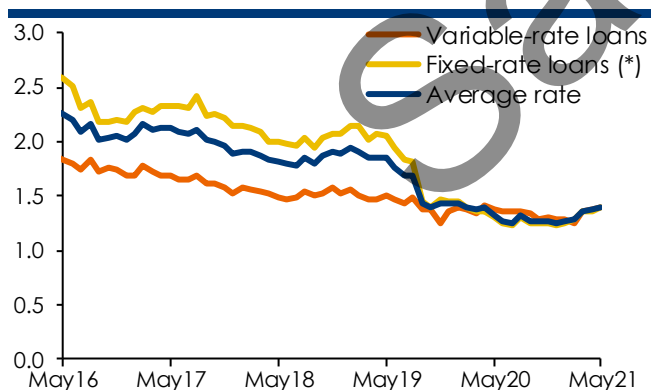


Note: (\*) Initial rate fixation period over 10 years

Source: Bank of Italy

Alongside the noteworthy volume dynamics, in the spring months there was an **increase in the rates on mortgage loans, mainly driven by the fixed rate**, which in May was 1.40%, 16bps higher than at the end of 2020. The floating rate also rose, by 10bps in five months to 1.39% in May, just marginally lower than the fixed rate. Overall, the two rates were aligned in the first five months of 2021. Thus, in May the average rate on flows of loans to households for house purchase was fully in line with the fixed rate at 1.40%, up 15bps on the end of 2020.

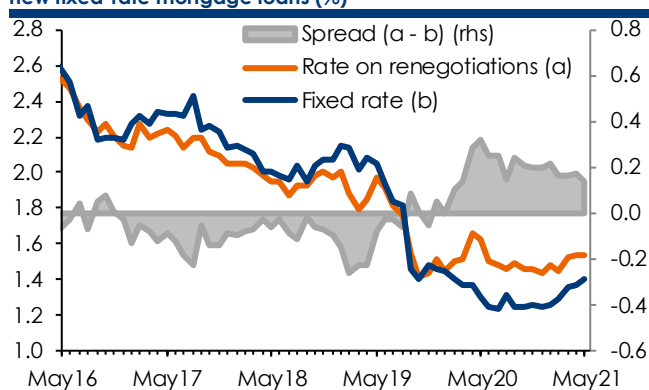
#### Rates on new loans to households for house purchase (%)



Note: (\*) Initial rate fixation period over 10 years

Source: Bank of Italy

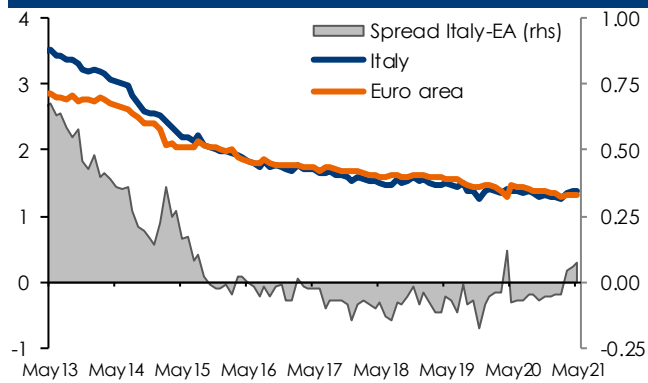
#### Average rate on renegotiations compared to the average rate on new fixed-rate mortgage loans (%)



Source: Source: ECB and Intesa Sanpaolo Research Department calculations

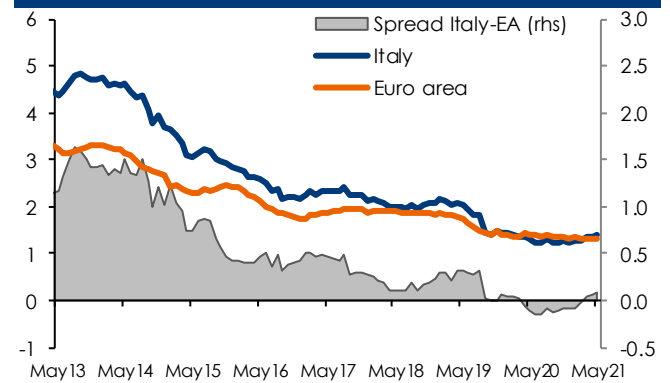
The recovery shown by the fixed rate brought it above the euro area average. It had fallen below this level from April 2020 until February 2021. In May **the spread compared to the Eurozone fixed rate was 9bps**, after returning to positive territory by 4bps in March. For the floating rate as well, the spread compared to the Euro area average has been above zero since March, equal to 7bps in May.

Rates on new floating-rate loans for house purchase: comparison between Italy and the Euro area (%)



Source: ECB and Intesa Sanpaolo Research Department calculations

Rates on new fixed-rate loans for house purchase: comparison between Italy and the Euro area (%)



Source: ECB and Intesa Sanpaolo Research Department calculations

Finally, also in the spring months, with an average value of 1.53%, **the interest rate on renegotiations was above the fixed rate but the gap narrowed further**: 14bps in May compared to 22bps recorded at the beginning of 2021.

Sample

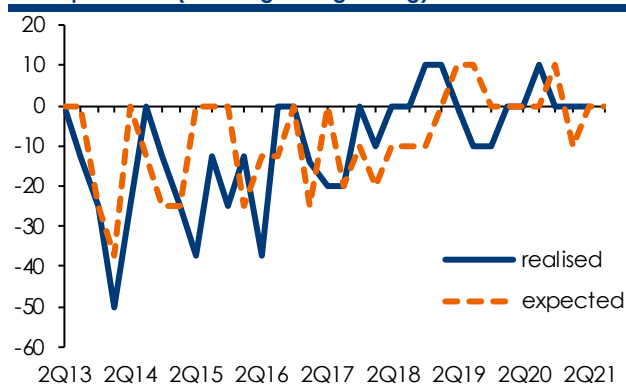
## Demand for mortgage loans from households still on the upswing

The quarterly Bank Lending Survey (BLS)<sup>1</sup> reports that in 2Q21 participating banks kept all individual terms and conditions for household loan approvals unchanged. At the same time, lower risk tolerance was the only factor that slightly tightened supply. Banks are planning to maintain the same lending criteria for the third quarter of this year as well.

Viviana Raimondo

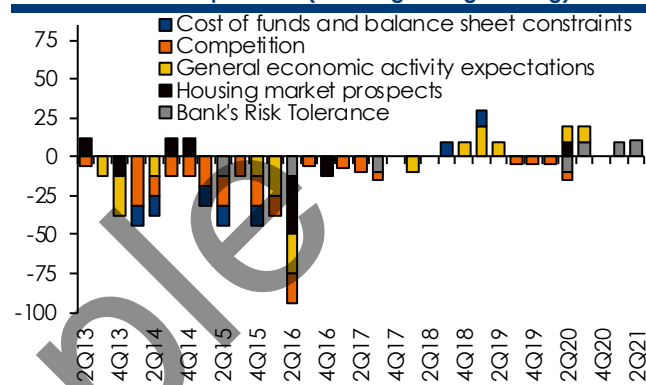
The BLS reported that the number of loan applications that were rejected out of the total number of applications submitted by Italian households has increased. This figure had been down or unchanged since 1Q19.

### Change in standards applied to households requesting loans for house purchases (net %: tightening-easing)



Source: Bank of Italy, Quarterly Bank Lending Survey (BLS)

### Relative importance of the factors which influenced lending conditions for house purchase (net %: tightening - easing)



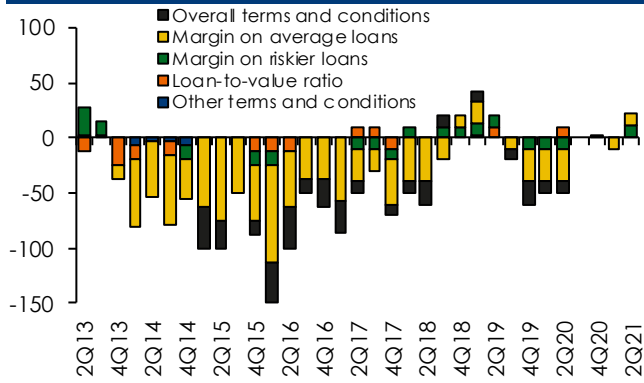
Source: Bank of Italy, Quarterly Bank Lending Survey (BLS)

In the second quarter, applications by households to banks for mortgages increased (+22.2% net) and this dynamic is expected to remain unchanged in 3Q21 as well. With demand deemed to generally be on the rise, the key drivers included an expansionary impulse stemming from the outlook for the residential property market (+22.2% net), the particularly low interest rates (+11.1%) and consumer confidence (+11.1%). The latter turned positive again after five quarters of negative or no impact. The increase in consumer confidence was also reflected in the monthly Istat survey. By contrast, debt refinancing/renegotiation had a negative impact on demand (-11.1%).

<sup>1</sup> The quarterly Bank Lending Survey (BLS) that was concluded on 29 June 2021, collected the views of banks on the trend in the standards for granting loans to businesses and households and the evolution of the demand for credit in 2Q21 and the outlook for 3Q21. 10 banks among the leading banking groups in Italy participated in the survey, representing over two thirds of the loans market.

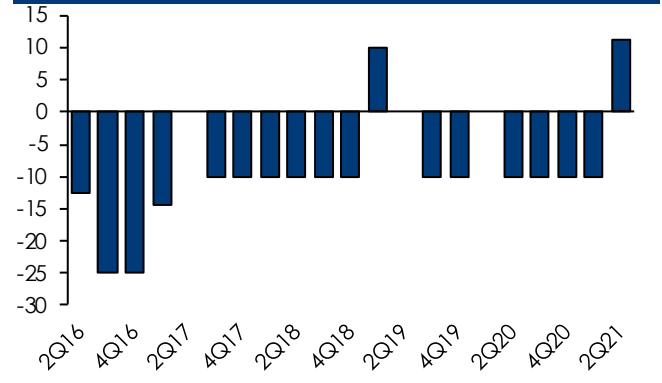
<sup>2</sup> The replies are summarised by the "net percentage", i.e., the difference between the percentage of replies indicating a change in a certain direction (a tightening of standards or an increase in demand) and the percentage of replies signalling a change in the opposite direction (an easing of standards or a decrease in demand).

**Terms and conditions applied to loans to households for house purchase (net %: tightening - easing)**



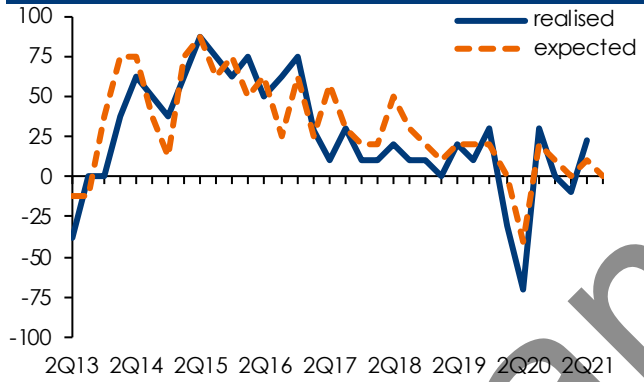
Source: Bank of Italy, Quarterly Bank Lending Survey (BLS)

**Percentage of rejected mortgage loan applications over the total submitted (net %: increase - decrease)**



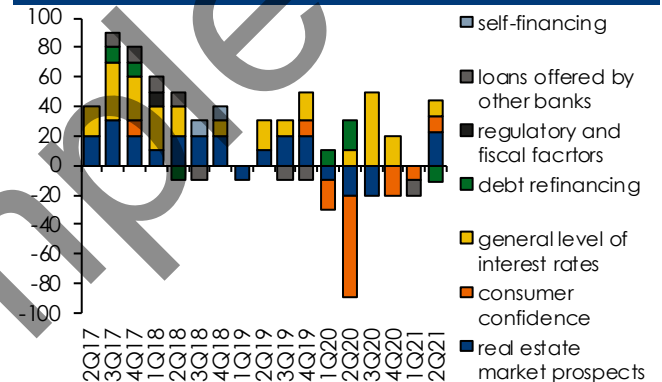
Source: Bank of Italy, Quarterly Bank Lending Survey (BLS)

**Change in the demand for loans requested by households for house purchases (net %: increase-decrease)**



Source: Bank of Italy, Quarterly Bank Lending Survey (BLS)

**Relative importance of factors contributing to the demand for loans for house purchase (net %: increase - decrease)**



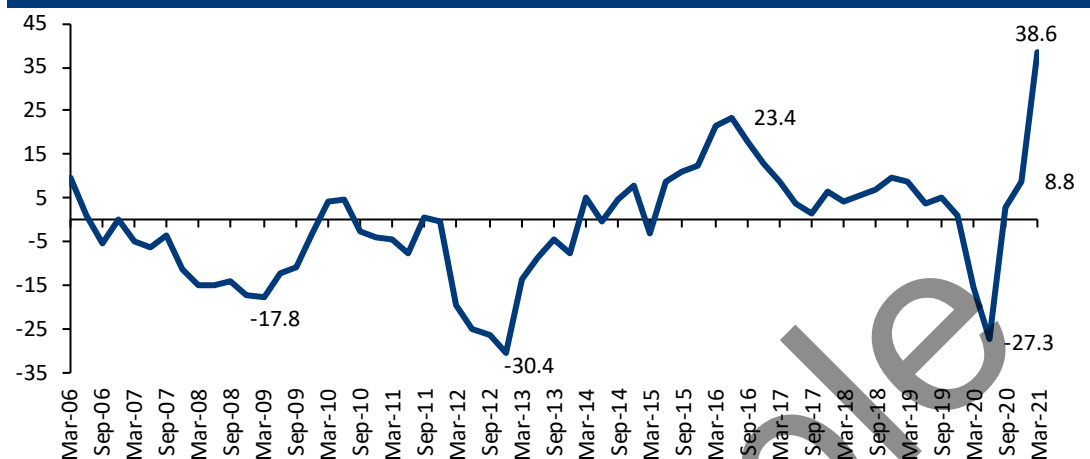
Source: Bank of Italy, Quarterly Bank Lending Survey (BLS)

## The recovery of the residential sector continues

In 1Q21, the number of transactions of residential real properties confirmed the recovery that began in 3Q20. Obviously, due to the base effect after the sharp drop in sales recorded last year (-15.6% yoy in 1Q20), the growth rate for 1Q21 was very high (+38.6% yoy). However, it is much more significant to note that the number of transactions was 17% higher than in 1Q19 with almost 24,000 more sales and purchases (over a total of over 162,000 properties sold).

Federico Desperati

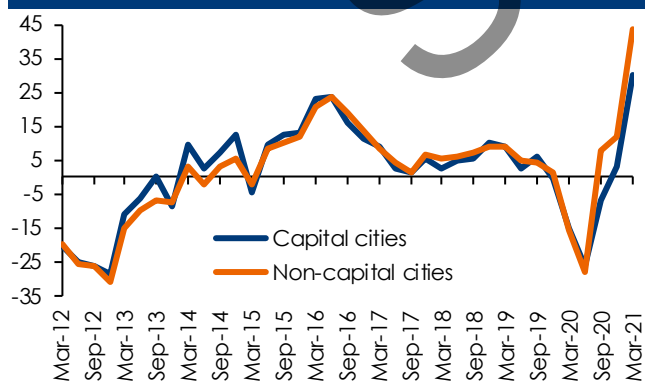
### Yoy % change in transactions of residential real properties



Source: OMI and Intesa Sanpaolo Research Department calculations

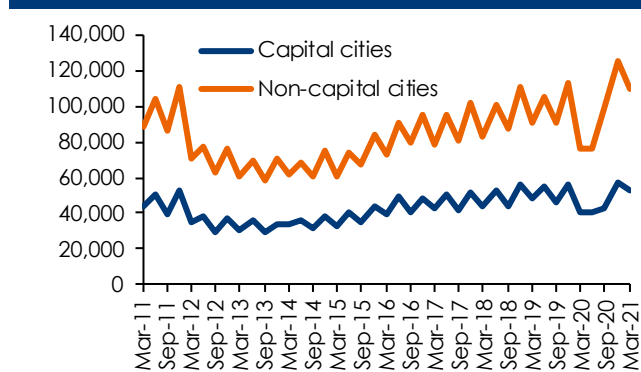
The trend in real properties sold and purchased differs again between provincial capitals and smaller cities. In particular, we note that as in all 2020, this quarter's transactions in the provincial non-capitals were more dynamic than the provincial capitals, with growth rates that are increasingly higher (by 43.3% yoy and 29.8% respectively). Breakdown of transacted real properties has therefore changed slightly, with the smaller centres accounting for a larger share. In fact, in 2019 the ratio between real properties sold and bought in smaller cities and the market total equalled 66% on average, 65% in 1H20; it rose to 69% in 2H20 and came in at 67% in 1Q21.

### Yoy % change in transactions of residential real properties, provincial capitals and provincial non-capitals



Source: OMI and Intesa Sanpaolo Research Department calculations

### Number of transactions of residential properties, provincial capitals and provincial non-capitals



Source: OMI and Intesa Sanpaolo Research Department calculations

## House prices are still rising

In the first quarter of 2021, ISTAT figures show that house prices recorded growth of 1.7% yoy and 1.1% qoq.

Federico Desperati

In the current economic context, the significant increases recorded throughout all of 2020 and that are continuing at the beginning of 2021 appear to be anomalous, also in the light of conflicting figures coming from other sources and negative forecasts formulated and confirmed by experts and market participants. Such an increase in dwelling values is explained by the unprecedented support provided to the economy, but market expectations that go beyond the fundamentals also play a part. Indeed, behavioural economics teaches us that the low interest rate monetary policy will support the market going forward, especially according to those who predict that a resolution to the pandemic is near and a rapid post-pandemic economic recovery. As for the factors supporting the real estate market, we note that mortgage loans are on the increase and lending rates are at record lows. A forced period of savings may have eased the liquidity constraints of households while economic uncertainty and low yields may have supported demand for investment purposes<sup>2</sup>.

Growth of the aggregate IPAB index on an annual basis is linked to the dynamics of prices both for new houses, which grew by 3.9% yoy in 1Q21, accelerating compared to +1.8% in the previous quarter, and for existing houses, which are the largest share of the market. These latter increased by +1.2% (+1.3% in 4Q20).

On a short-term basis, the result is attributable to the changes in the prices of existing houses, for which an increase of 1.1% qoq was reported, while the prices of new houses increased by 0.9%.

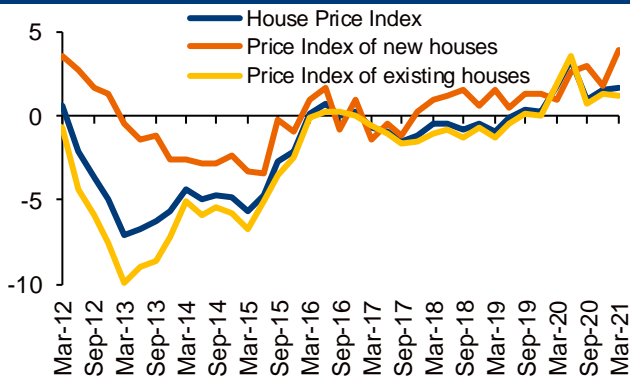
Despite the pandemic, according to Istat data, 2020 appears to be a year of recovery in real estate values with an overall growth of 1.9% yoy, of which +2.1% for new houses and +1.9% for existing houses. These figures are the best of the last 10 years according to the Istat historical series. We note that in the first part of 2020, growth was driven by the performance of existing houses, in terms of market weight and intensity of the growth rate. In 1H20, real estate values of existing houses increased by 2.7% yoy compared to the growth of 1.8% for new houses. As also pointed out by the ECB for European statistics, this trend may be linked to a redirection of demand towards the existing housing segment, given the temporary scarcity of supply of new houses. From 3Q20, this situation has normalised with the recovery in economic activities, and prices of new houses picked up compared to those of existing houses, with an average growth of 2.9% yoy from July 2020 to March 2021 (+1.1% for existing houses, which still account for 83.3% of the market).

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<sup>2</sup> "Euro area house price developments during the coronavirus pandemic", Moreno Roma, ECB Economic Bulletin, Issue 4/2021

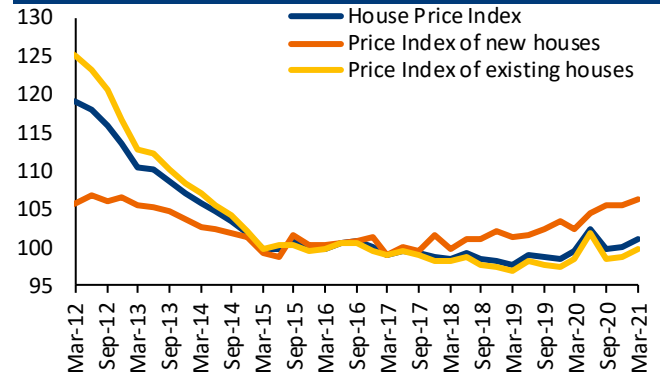


**Change in house prices (quarterly figures, yoy % change)**



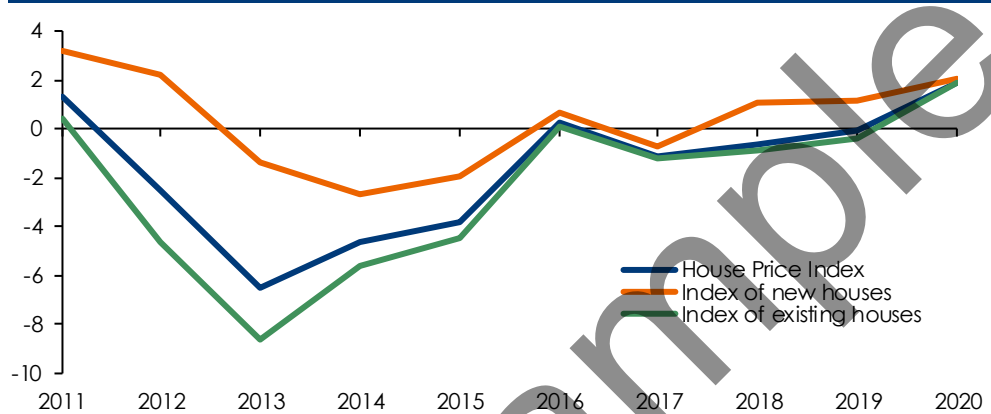
Source: Istat and Intesa Sanpaolo Research Department calculations

**Index of house prices (quarterly figures, base 2015=100)**



Source: Istat

**Change in house prices (annual figures, yoy % change)**



Source: Istat

Concurrently with the publication of the Q12021 data, the figures relating to existing houses in 4Q2020 were revised slightly downwards while the price of new houses picked up.

**House prices, 4Q20 figures**

	Provisional data		Final figures	
	Yoy % change	Qoq % change	Yoy % change	Qoq % change
New houses	+1.7	-0.3	+1.8	-0.2
Existing houses	+1.4	+0.3	+1.3	+0.2
Overall index	+1.6	+0.3	+1.5	+0.2

Source: Istat

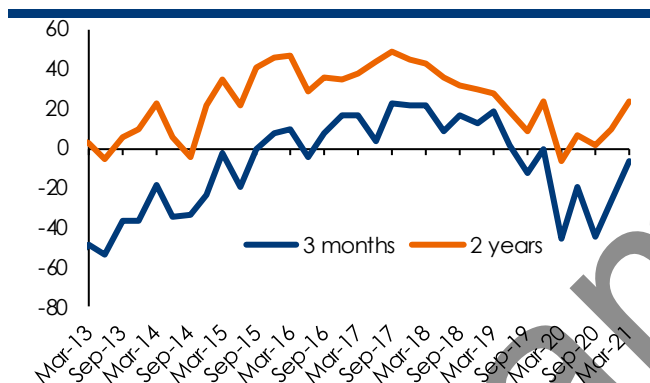
## Agents' expectations for the property market improve

The latest survey by Bank of Italy, Tecnoborsa and Agenzia del Territorio<sup>3</sup>, conducted between 29 March and 30 April 2021 covering 1Q21, recorded an improvement in **agents' expectations regarding the prospects for the real estate market. Short-term expectations remained negative but are much closer to turning positive.** In particular, the balance of expectations on a three-monthly basis stood at -6% from the previous -26.6%. Two-year expectations retained a positive net balance and at 23.6%, they are higher than in the four previous surveys (from 1.8% in the 3Q20).

Federico Desperati

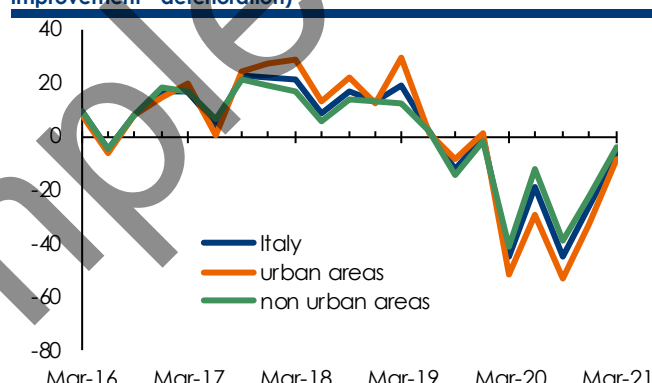
**The improvement concerned both urban and non-urban areas and there was a convergence of prospects between the two macro-areas.** Nevertheless, agents' expectations are **less negative for non-urban areas than for urban areas**, in the short as well as medium term. The confirmation of these differences corroborates the findings of some sector operators and experts regarding a renewed interest in the housing segment outside the large urban centres as a result of the life experience linked to the pandemic.

Short and medium term expectations for the real estate market in Italy (net balance % of responses: improvement - deterioration)



Source: Bank of Italy, Tecnoborsa and Agenzia del Territorio

Short-term expectations for the real estate market: comparison between urban and non-urban areas (net balance % of responses: improvement - deterioration)

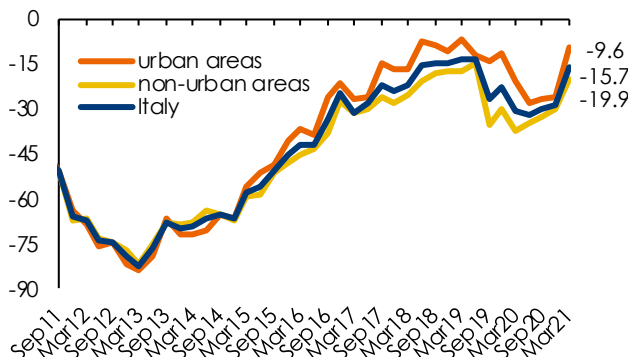


Source: Bank of Italy, Tecnoborsa and Agenzia del Territorio

**The opinions expressed on sales prices improved in the first quarter compared to the previous one (when opinions had remained unchanged), but remained negative.** The final opinions on sales prices compared to the previous quarter was -1.6% from -29%, after recovering just 1% in the past survey (net balance of responses: difference between increase and decrease). Non-urban areas saw a 10% improvement in the balance (from -29.9% to -19.9%) with an increase in the proportion of those who expected prices to rise, from 4.6% to 9.2%. In urban areas, this percentage jumped to 14.6% from 6.1% previously and the balance did in fact recover greatly, rising to -9.6% from -26.2%. **The outlook for the second quarter of 2021 improved for both categories compared with the previous survey findings:** the net balance improved but **remained negative** (respectively -14.8% for urban areas and -11.8% for non-urban areas).

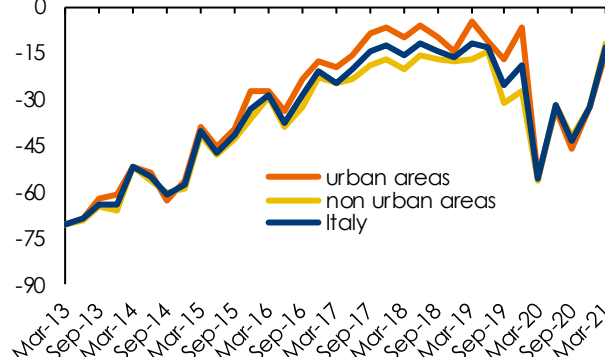
<sup>3</sup> The survey for 1Q21 was carried out between 29 March 2021 and 30 April 2021, and covered a sample of 1,323 real estate agencies, representing 4.1% of all agencies operating in Italy.

**Opinions on sale prices compared to the previous quarter: comparison between urban and non-urban areas (net balance of responses: difference between increase and decrease)**



Source: Bank of Italy, Tecnoborsa and Agenzia del Territorio

**Opinions on sale prices expected in the next quarter: comparison between urban and non-urban areas (net balance of responses: difference between increase and decrease)**

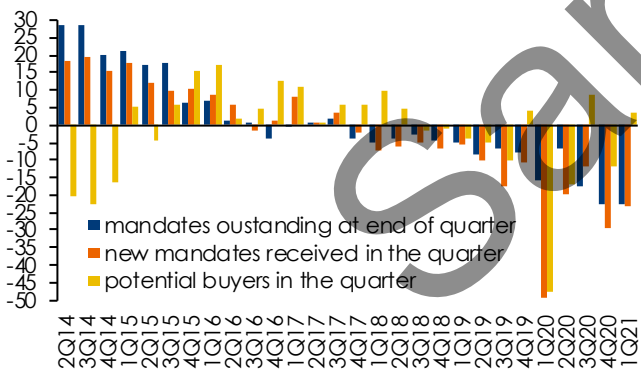


Source: Bank of Italy, Tecnoborsa and Agenzia del Territorio

On the demand side, **new sales mandates** in the first quarter of the year **remained weak, though improved compared to the end of 2020**. The net balance of responses (increase-decrease) has been in negative territory since the end of 2017, and in 1Q21 it was -23%, after the previous -30%.

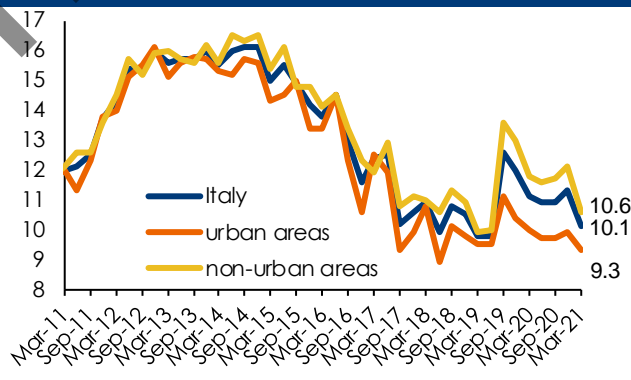
**The discount margin on sales prices** compared to sellers' initial requests, **declined in both urban and non-urban areas, where it remains historically higher but with a narrowing of the differential between the two data points**.

**Market liquidity: number of sales mandates received or to process and number of potential buyers in the quarter (net balance (\*))**



(\*) Balance of the opinions expressed by real estate agents: number of potential buyers higher - lower than in the previous quarter.  
Source: Bank of Italy, Tecnoborsa and Agenzia del Territorio

**Average discount applied (%): comparison between urban and non-urban areas**



Source: Bank of Italy, Tecnoborsa and Agenzia del Territorio

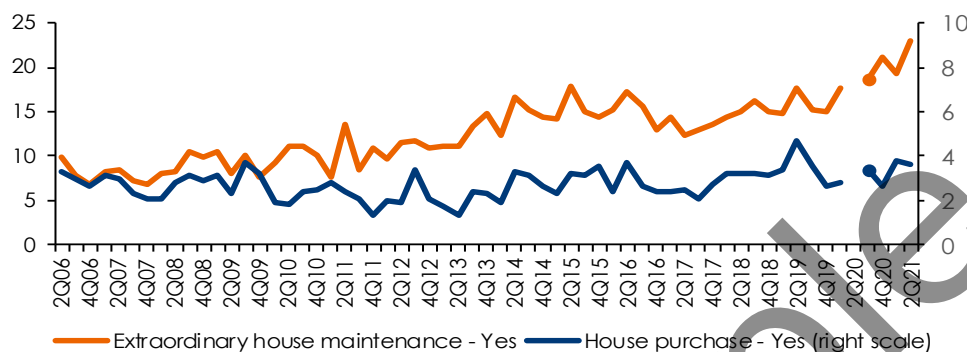
Finally, the proportion of agents who attributed the termination of sales mandates to the difficulty in securing a mortgage decreased further to 24.6% from 25.8% in the previous quarter. Non-urban areas benefited the most from this improvement, with a 1.6% drop in this share (-0.5 for urban areas, where however at 23% the percentage is lower in terms of the level compared to 25.7% in the smaller centres). **The loan-to-value ratio remained high (at 76.2%, given by 77.8% for urban areas and 69.7% for non-urban areas)**.

## Plans to spend on house maintenance at maximum levels

The Istat consumer confidence survey<sup>4</sup>, published at the end of June indicates that the percentage of **individuals seeking to purchase a new home in 2Q21 remains unchanged, at 3.6%** (3.8% in 1Q). On the other hand, consumers who said they intended to **spend for extraordinary maintenance of their house continued to grow**, with a **share of 22.9% in 2Q**, higher by as **much as 3.7 % compared with the previous quarter**. This balance of results is once again driven by the "Superbonus 110%", extended until 30 June 2022 for specific work involving energy efficiency, earthquake resistance, the installation of photovoltaic systems or infrastructure for charging electric vehicles in buildings.

Viviana Raimondo

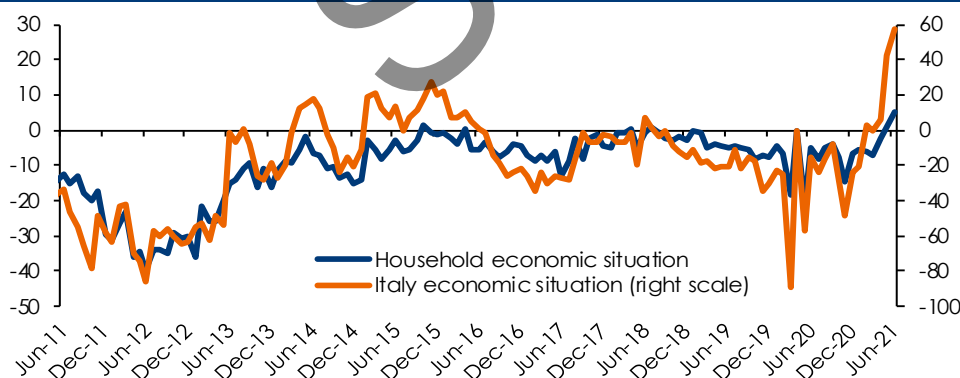
### Consumers' intention to purchase or carry out extraordinary maintenance on their house in the quarter under review (percentage of affirmative responses out of total)



Source: Istat

Accordingly, in the monthly survey conducted in June, consumers expressed a sharp improvement in their expectations on the economic situation of their households compared to the previous months. This outcome of responses<sup>5</sup> rose to +5 in June from +0.9 in May. Similarly, expectations about Italy's economic situation continued to improve as economies began to open and the anti-COVID19 vaccination campaign proceeded smoothly. In June, the outcome of these responses rose to +57 from +42.5 in May, against an average balance of -24.7 from March 2020 to April 2021.

### Opinions expressed by households regarding expectations on the economic situation of households and Italy (balance of results of responses) - series not affected by seasonality



Source: Istat

<sup>4</sup> The figures from the consumer survey on spending forecasts for house purchases and maintenance are available on a quarterly basis (in January, April, July and October). The survey was conducted in the first 15 days of the first month of the quarter to which the intentions refer, in this case April for Q1I2021.

<sup>5</sup> The balance of results relating to the variables of the survey consist of the difference between the percentage frequencies of the number of respondents indicating an increase and the number of responses that indicate a decrease, thus encapsulating the indications on the phenomena observed.

## Statistical appendix

### Loans to households for house purchase

	Outstanding amounts		Monthly operations (gross flows)		
	EUR M	yoy % change	yoy % change	floating-rate % of total	fixed-rate % of total
May-19	381,427	1.2%	-17.5%	34.0%	66.0%
Jun-19	382,404	1.5%	-21.6%	34.3%	65.7%
Jul-19	383,770	1.6%	-11.2%	34.3%	65.7%
Aug-19	383,202	1.6%	-10.6%	36.1%	63.9%
Sep-19	383,911	1.5%	6.4%	26.9%	73.1%
Oct-19	385,888	1.8%	38.1%	20.5%	79.5%
Nov-19	383,693	1.1%	50.7%	21.7%	78.3%
Dec-19	383,515	1.2%	45.8%	17.9%	82.1%
Jan-20	383,793	1.2%	56.1%	17.9%	82.1%
Feb-20	384,810	1.3%	52.8%	17.2%	82.8%
Mar-20	384,410	1.1%	-17.0%	25.8%	74.2%
Apr-20	384,286	1.0%	-8.1%	21.7%	78.3%
May-20	385,546	1.1%	26.9%	19.8%	80.2%
Jun-20	386,131	1.0%	34.1%	16.9%	83.1%
Jul-20	387,518	1.0%	22.6%	17.3%	82.7%
Aug-20	386,867	1.0%	36.6%	20.5%	79.5%
Sep-20	388,161	1.1%	9.0%	15.9%	84.1%
Oct-20	389,742	1.0%	-21.7%	16.8%	83.2%
Nov-20	391,214	2.0%	-17.7%	16.2%	83.8%
Dec-20	391,516	2.1%	-16.6%	15.7%	84.3%
Jan-21	392,327	2.2%	-22.0%	17.2%	82.8%
Feb-21	393,457	2.2%	-7.3%	17.7%	82.3%
Mar-21	395,461	2.9%	50.1%	16.0%	84.0%
Apr-21	397,385	3.4%	63.1%	18.5%	81.5%
May-21	399,176	3.5%	9.1%	16.2%	83.8%

Source: Bank of Italy, ECB and Intesa Sanpaolo calculations

### Rates on new loans to households for house purchase (%)

	Total	of which:		APRC (*)
		floating-rate	fixed-rate	
May-19	1.85	1.51	2.05	2.26
Jun-19	1.77	1.48	1.94	2.17
Jul-19	1.69	1.43	1.84	2.09
Aug-19	1.70	1.50	1.82	2.08
Sep-19	1.44	1.37	1.46	1.82
Oct-19	1.39	1.38	1.40	1.74
Nov-19	1.43	1.25	1.48	1.76
Dec-19	1.44	1.37	1.46	1.78
Jan-20	1.44	1.40	1.45	1.76
Feb-20	1.40	1.39	1.40	1.74
Mar-20	1.38	1.35	1.37	1.73
Apr-20	1.40	1.42	1.37	1.74
May-20	1.33	1.39	1.30	1.65
Jun-20	1.27	1.37	1.25	1.61
Jul-20	1.26	1.36	1.23	1.59
Aug-20	1.32	1.37	1.31	1.67
Sep-20	1.27	1.34	1.25	1.61
Oct-20	1.26	1.30	1.25	1.62
Nov-20	1.27	1.31	1.26	1.63
Dec-20	1.25	1.29	1.24	1.61
Jan-21	1.27	1.30	1.26	1.61
Feb-21	1.29	1.25	1.29	1.64
Mar-21	1.37	1.36	1.36	1.72
Apr-21	1.38	1.38	1.37	1.74
May-21	1.40	1.39	1.40	1.76

(\*) annual percentage rate of charge  
Source: Bank of Italy, ECB.

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**Intesa Sanpaolo - Head of Research Department Gregorio De Felice****Head of Industry & Banking Research**

Fabrizio Guelpa (Head)	+39 0287962051	fabrizio.guelpa@intesasnpaolo.com
Ezio Guzzetti	+ 39 0287963784	ezio.guzzetti@intesasnpaolo.com

**Industry Research**

Stefania Trenti (Head)	+39 0287962067	stefania.trenti@intesasnpaolo.com
Letizia Borgomeo		letizia.borgomeo@intesasnpaolo.com
Enza De Vita		enza.devita@intesasnpaolo.com
Serena Fumagalli	+39 0272652038	serena.fumagalli@intesasnpaolo.com
Ilaria Sangalli	+39 0272652039	ilaria.sangalli@intesasnpaolo.com
Anna Cristina Visconti		anna.visconti@intesasnpaolo.com
Giovanni Foresti (Head of Territorial Economists)	+39 0287962077	giovanni.foresti@intesasnpaolo.com
Romina Galleri (Turin)	+39 0115550438	romina.galleri@intesasnpaolo.com
Sara Giusti (Florence)	+39 0552613508	sara.giusti@intesasnpaolo.com
Anna Maria Moressa (Padua)	+39 0496537603	anna.moressa@intesasnpaolo.com
Carla Saruis	+39 0287962142	carla.saruis@intesasnpaolo.com
Enrica Spiga	+39 0272652221	enrica.spiga@intesasnpaolo.com
Rosa Maria Vitulano (Rome)	+39 0667124975	rosa.vitulano@intesasnpaolo.com

**Banking Research**

Elisa Coletti (Head)	+39 0287962097	elisa.coletti@intesasnpaolo.com
Valentina Dal Maso	+39 0444631871	valentina.dalmaso@intesasnpaolo.com
Federico Desperati	+39 0272652040	federico.desperati@intesasnpaolo.com
Viviana Raimondo	+39 0287963637	viviana.raimondo@intesasnpaolo.com

**Local Public Finance Research**

Laura Campanini (Head)	+39 0287962074	laura.campanini@intesasnpaolo.com
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