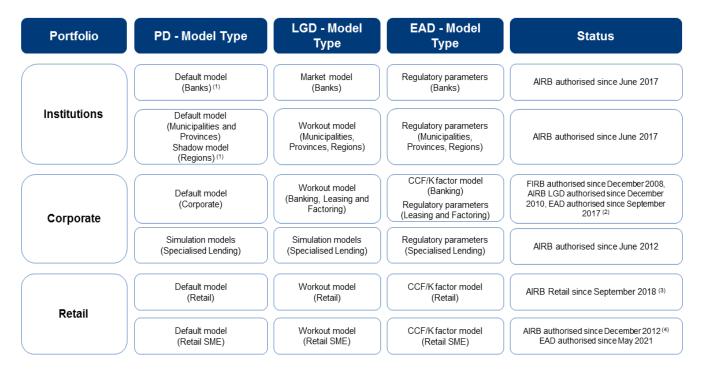
BASEL 3 INTERNAL MODELS FOR CREDIT RISK

The Basel Committee's reforms ("Basel 3") have been translated into EU laws and regulations, effective 1 January 2014. The objective of the reforms is to strengthen banks' ability to absorb shocks arising from financial and economic stress, whatever the source, and improve risk management and governance as well as enhance banks' transparency and disclosure.

In order to abide by the Basel 3 reforms, the Group has implemented appropriate initiatives ahead of the Basel 2 Project targets, aimed at improving measurement systems and the related management systems of risks.

As regards credit risk, the supervisory regulations provide for two approaches for the calculation of the capital requirement: the Standardised approach and the Internal Rating Based (IRB) approach, in which the risk weightings are a function of the banks' internal assessments of their borrowers. The IRB approach is in turn broken down into a Foundation Internal Rating Based (FIRB) and an Advanced Internal Rating Based (AIRB) that differ in the risk parameters that banks are required to estimate: under the foundation approach, banks use their own PD estimates and regulatory values for the other risk parameters, whereas under the advanced approach these are also estimated internally.

The table below describes the situation as at 31 March 2022.



- 1) ISP and Banca IMI (merged by incorporation into ISP in July 2020) authorised since 2017.
- 2) Banca IMI (2012) merged by incorporation into ISP in July 2020, ISP Ireland (2010), VUB (2010), Intesa Sanpaolo Bank (2017), and ISP Luxembourg (2017). Since 2017, the Corporate model has also been used to calculate the risk on the Banking book equity portfolio with LGD 65%/90%.
- 3) VUB authorised since June 2012 for PD and LGD of Retail Mortgage models.
- 4) VUB authorised since June 2014.

As regards credit risk, the covering of the portfolios of the "former Intesa Sanpaolo" banks in Italy by the use of internal models has been completed, while the extension to the "former UBI Banca" subsidiaries in Italy will continue in the coming months in accordance with the roll-out plan shared with the Supervisors, in compliance with the strategic choices relating to the timing for integrating these companies. The activities planned for the coming years will be, therefore, basically aimed at reaching the targets of the IRB regulatory roadmap, which is focused on the updating and re-estimate of the models in order to update the time series periodically, incorporate new regulatory provisions, and implement the remedial actions imposed in the authorisations that will be time by time received.

With regard to the International Subsidiaries, the commitments planned for the coming years are focused on the first adoption - roll-out - of the internal models for credit risks. With respect to the Slovenian subsidiary Intesa Sanpaolo Bank and the Slovakian subsidiary VUB, activities will include the updating and re-estimate of the models which, to date, have already been validated by the Supervisor.

Certain exposures, which are the subject of a request for authorisation for the permanent partial use of the standardised approach, are not included in the plan for adopting the advanced approaches. Specifically, these relate to the following: exposures to central governments and central banks; exposures to own banking group; exposures to minor operational units, and non-significant exposure classes in terms of size and level of risk (this category includes loans to Non-Bank Financial Institutions).