Part E – Information on risks and relative hedging policies

INTRODUCTION

In this Part E, the qualitative and quantitative disclosure is presented according to the order established by Bank of Italy Circular 262, which specifically regulates not only the format of the tables but also the sequence of the various topics, except for the section relating to market risks in relation to the application of internal models.
In drawing up this Part, we considered the requirements set out in the Bank of Italy communication of 21 December 2021, which supplemented the provisions of Circular no. 262 as regards the disclosure of the impacts of COVID-19. To complete the qualitative and quantitative disclosure provided in this Part E, in line with the provisions of the above-mentioned communication of 21 December of the Bank of Italy, see also the qualitative information published in Part A – Accounting policies of these Consolidated financial statements (Other aspects Section) and the quantitative information on the loans subject to COVID-19 support measures and the related net adjustments for credit risk (published, respectively, in Part B – Information on the consolidated balance sheet – Assets and Part C – Information on the consolidated income statement of these Consolidated financial statements).

Basic principles

The Intesa Sanpaolo Group attaches great importance to risk management and control, as condition to ensure a reliable and sustainable value creation in a context of controlled risk.
The risk management strategy aims to achieve a complete and consistent overview of risks, considering both the macroeconomic scenario and the Group's risk profile, stimulating the growth of the risk culture and enhancing a transparent and accurate representation of the riskiness of the Group's portfolios.
The Risk-taking strategies are summarised in the Group's Risk Appetite Framework (RAF), approved by the Board of Directors. The RAF is established to ensure that risk-taking activities remain in line with shareholders' expectations, taking into account the Group's risk position and the economic situation. The framework defines both the general risk appetite principles and the control of the overall risk profile and the main specific risks.
The general principles that govern the Group's risk-taking strategy may be summarised as follows:

- Intesa Sanpaolo is a Banking Financial Conglomerate focused on a commercial business model where domestic retail activities remain the Group's structural strength, and include not only banking products and investment services, but also insurance and wealth management solutions tailored for the Group's clients;
- the Group's goal is not to eliminate risks, but to understand and manage them in such a way as to guarantee adequate returns on the risks taken and guarantee soundness and business continuity over the long term;
- Intesa Sanpaolo has a low risk profile in which capital adequacy, profits stability, a sound liquidity position and a strong reputation are the key strengths for maintaining its current and prospective profitability;
- Intesa Sanpaolo aims for a capitalisation level in line with its main European peers;
- Intesa Sanpaolo intends to maintain strict control over the main specific risks (not necessarily related to macroeconomic shocks) that the Group may be exposed to;
- the Group devotes particular effort to the continuous strengthening of its risk culture as a fundamental instrument to promote sound risk-taking and ensure that risk-taking activities beyond its risk appetite are recognised, assessed, escalated and addressed in a timely manner;
- to guarantee the sustainability of its operating model over the long-term, the Group attributes particular emphasis to monitoring and controlling non-financial risks, model risk, reputational risks and Environmental, Social and Governance (ESG) and climate change risks. With specific regard to the latter, Intesa Sanpaolo recognises the strategic importance of ESG factors and the urgency of limiting climate change, and is committed to including the impact of these aspects in strategic decision-making processes and to fully integrate them into its risk management framework with the goal of maintaining a low risk profile. This includes controlling how ESG risks and those connected with climate change impact existing risks (credit, operational, reputational, market and liquidity risk) and implementing high ethical and environmental standards in internal processes, products and services offered to customers and in the selection of counterparties and suppliers.

The general principles are applicable at Group level as well as at the individual entity level (business unit/legal entity). In case of an external growth, these general principles will be applied taking into consideration the specific characteristics of the business in which the target is involved and its competitive environment.
The Risk Appetite Framework thus represents the overall framework within which the management of corporate risks is developed, with the establishment of general risk appetite principles and the resulting structuring of the control of:

- the overall risk profile; and
- the Group's main specific risks.

The control of the overall risk profile derives from the definition of general principles and is structured in the form of a framework of limits aimed at ensuring that the Group, even under severe stress conditions, complies with minimum requirements of capital adequacy, liquidity, resolvability capacity and profitability , and also contains the non-financial risks, reputational risks and ESG within appropriate limits.

In detail, the control of the overall risk profile is aimed at maintaining adequate levels of:
- capitalisation, also in conditions of severe macroeconomic stress, in relation to both Pillar 1 and Pillar 2, by monitoring the Common Equity Ratio, the Total Capital Ratio, the Leverage Ratio and the Risk Bearing Capacity;
- liquidity, sufficient to face periods of tension, including extended ones, on the various funding markets, with regard to both the short-term and the structural situation, by monitoring the internal limits of the Liquidity Coverage Ratio, Net Stable Funding Ratio, Loan/Deposit Ratio, Asset Encumbrance and Survival Period in an adverse scenario;
- stability of profits, by monitoring the net profit adjusted and the adjusted operational cost on income, which represent the main potential causes for their instability;
- resolvability capacity with regard to the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), to be able to absorb any losses and restore the Group's capital position, continuing to perform its critical economic functions during and after a crisis;
- non-financial risks, in order to minimise the potential impact of negative events that jeopardise the Group's economic stability;
- reputational risks and ESG, through active management of its image and the aspects connected with ESG factors, including climate change, aiming to prevent and contain any negative effects on its reputation.

In compliance with the EBA guidelines (EBA/GL/2015/02) concerning the "Minimum list of quantitative and qualitative recovery plan indicators", the Group includes asset quality, market-based and macroeconomic indicators, to ensure consistency with its Recovery Plan.

The control of the main specific risks is implemented by establishing specific limits and mitigation actions to be taken in order to limit the impact of particularly severe future scenarios on the Group. These limits and actions regard the typical risks of the Groups activity, such as credit risk, market risk and interest rate risk, as well as the most significant risk concentrations such as, for example, concentration on single counterparties, sovereign risk and public sector risk, as well as other types of operations deemed worthy of specific attention by the Corporate Bodies (e.g. transactions exposed to valuation risk, exposure to associated entities[68]).

Within the monitoring of the specific risks, the Credit Risk Appetite (CRA) Framework, a specific RAF for credit risk introduced in 2015, identifies areas of growth for loans and areas to be monitored, using an approach based on ratings and other predictive statistical indicators, to guide lending growth by optimising the management of risk.

The CRA limits are approved within the RAF and are continuously monitored by the Banca dei Territori Risk Management Head Office Department and the IMI CIB Risk Management Head Office Department. These contributed to improving the risk profile of the loan portfolio in terms of expected loss and the distribution of loans by risk class. In order to ensure homogeneous treatment of customers, guarantee the continuity of current operations and a consistent monitoring of Group risks, the Credit Risk Appetite (CRA) framework of Intesa Sanpaolo was applied until the merger also to the scope of UBI Banca and IW Bank, defining specific operational limits as well as the governance for managing breaches of the limits in line with that is already in place in Intesa Sanpaolo.

The limits set in the RAF are divided into two categories, Hard Limits and Soft Limits, which differ in the escalation process triggered by their breach. In particular, with regard to the Group limits, whose governance is established in detail in the Guidelines on the Group Risk Appetite Framework, the responsibility for approving the remediation plan is assigned:
- to the Board of Directors for Hard Limits, typically set for the main metrics used to control overall risk profile (e.g. Common Equity Tier 1 ratio, Liquidity Coverage ratio, etc.);
- to the Managing Director and CEO for Soft Limits, set on the metrics used to control the main specific risks (e.g. single name concentration, concentration towards the Italian public sector, etc.).

In addition to the limits themselves, Early Warning thresholds may be defined, the exceeding of which is promptly discussed in the competent managerial committee[69].

Defining the Risk Appetite Framework is an articulated process headed by the Chief Risk Officer, which involves close interaction with the Chief Financial Officer and the Heads of the various Divisions, is developed in line with the ICAAP, ILAAP and Recovery Plan processes, and represents the risk framework in which the Budget and Business Plan are developed. This ensures consistency between the strategy and the risk-taking policy and the Plan and Budget process.

Within the annual RAF update process, it is possible to identify the following phases:
- definition of the scope of RAF risks: risks are identified continuously within the Group to maintain ongoing alignment with the changing internal and external context and to guarantee the adequacy of the controls and limits implemented to safeguard the Group Long term viability. The activity is formalised within the Group's Risk Identification process. The scope of RAF risks is thus defined starting with that process, paying particular attention to the evolution of the risks for which specific limits and/or risk strategy actions are deemed necessary;
- formulation of the limit proposal: in general, the RAF limits are defined according a prudential approach. However, the criteria adopted to determine the risk limits differ depending on whether related to control of the Overall Group risk or to control of the Main Specific Group Risks;
- reconciliation between the RAF, Business Plan and Budget: consistency between the RAF and the Business Plan/Budget is sought in all phases of the related preparation procedures through a process of mutual consultation and dialogue that lasts for several months, involving not only the structures of the Chief Risk Officer Governance Area and

[68] With regard to "Associated Entities", see the "Group Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group", which set out the rules on relationships with parties with special elements of "proximity" to the decision-making centres of the Bank and the Banking Group, classified as Associated Entities, in compliance with the provisions issued on this matter by the Bank of Italy and in line with the CONSOB requirements. In that context, within the Risk Appetite Framework, at least once a year specific plafond of Group exposure are proposed to the Board of Directors by involving the Parent Company structures concerned. Those plafond, defined in line with the applicable limits, are broken down into sub-limits of exposure, divided among the Parent Company structures concerned and each Group company, considering the credit, equity and financial components of the market.

[69] The competent Managerial Committee varies according to the RAF metrics considered:
- for capital adequacy, credit risk, stability of profit, asset quality, ESG and climate change metrics, the responsibility lies with the Steering Committee;
- for liquidity and financial risk metrics, including market-based and macroeconomic metrics and those referring to insurance risk, the responsibility lies with the Group Financial Risk Committee;
- for non-financial risks and reputational risk metrics, the responsibility lies with the Group Control Coordination and Non-Financial Risks Committee.

the Chief Financial Officer Governance Area but also the Business Divisions/Structures;
- approval of the RAF: in line with the provisions of the applicable regulations, the Board of Directors defines and approves the risk objectives, the tolerance threshold (where identified) and the risk governance policies.

The RAF is updated every year, in view of the preparation of the Annual Budget and/or the Business Plan. During the year, when significant events occur, such as exceptional changes in the market context in which the Group operates, significant changes in the configuration of the Group and/or its strategy or based on direct instructions from the Board of Directors, also through the Risks Committee, the Chief Risk Officer Governance Area assesses whether the RAF is still adequate and, if necessary, proposes partial or full revisions to the framework.

The definition of the Risk Appetite Framework and the consequent operational limits for the main specific risks, the use of risk measurement instruments in credit management and operational risk control processes, the use of capital-at-risk measures for corporate performance reporting and assessment of the internal capital adequacy of the Group represent fundamental milestones in the operational application of the risk strategy defined by the Board of Directors along the Group's entire decision-making chain, down to the single operational units and to the single desks.
The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas, in a comprehensive framework of limits and procedures for governance and control.

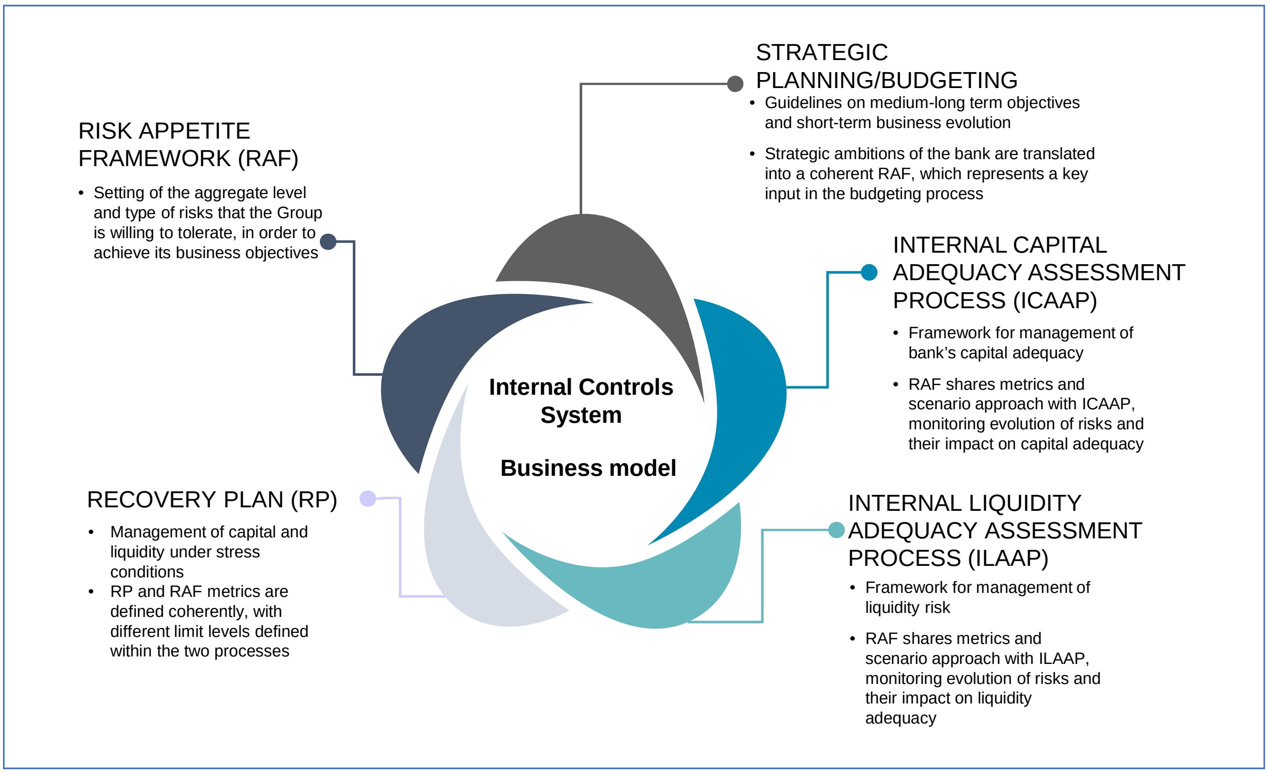
As part of correct risk assessment and the development of an adequate system of monitoring and control to mitigate them, the Chief Risk Officer, with the support of the Chief Compliance Officer, where envisaged, conducts a preventive risk assessment of Most Significant Transactions ("MSTs") – understood as transactions of particular importance, of the proprietary type or with individual customers or counterparties or that potentially have a significant impact on the overall risk profile and/or on specific risks of the Group, as defined in the RAF – in order to ensure the assumption of a risk level acceptable for the Group and in line with the RAF. The MST governance model also requires that the Chief Risk Officer reports every six months on the activities carried out to the Corporate Bodies, specifically to the Board of Directors, the Risks Committee, the Management Control Committee and the Steering Committee.

The assessment of the comprehensive Group risk profile is conducted annually with the ICAAP, which represents the capital adequacy self-assessment process according to the Group's internal rules, the results of which are then also discussed and analysed by the Supervisor.
In accordance with the ECB requirements, the ICAAP process incorporates two complementary perspectives, both of which are analysed from an actual perspective and, on a prospective basis, in a baseline scenario and an adverse scenario:
- regulatory perspective, in which the regulatory metrics for the Pillar 1 risks over the medium term (several years) are represented for both these scenarios;
- financial and operating perspective, in which the management measures and metrics covering all the risks, including the Pillar 2 risks, are presented, with a time horizon of several years in the baseline scenario, and a time horizon of at least two years in the adverse scenario.

The scope of analysis also includes the insurance segment to better capture the specific characteristics of the Group's business model (financial conglomerate).
The quantitative reconciliation between regulatory requirements and management estimates of capital adequacy is set out in a specific document attached to the ICAAP, which reports the differences in scope and definition of risks considered in both areas, as well as the differences, where appreciable, between what is considered in the two perspectives in terms of the main parameters (e.g. confidence interval and holding period) and assumptions (such as those relating to the diversification of effects).
The Group is required to provide a Recovery Plan according to indications received by Supervisory Authorities. The Recovery Plan is governed by the European Bank Recovery and Resolution Directive – BRRD - 2014/59/EU, transposed into Italian law by Legislative Decrees no. 180 and no. 181 of 16 November 2015 and the Bank Recovery and Resolution Directive – BRRD II - Directive 2019/879/EU, transposed into Italian law by Legislative Decree no. 193 of 8 November 2021, in force from 1 December 2021, and establishes the methods and measures to be used when an institution comes under severe stress and in an early intervention phase, in order to restore financial strength and long-term viability.
Within the annual preparation process for the Recovery Plan, the Chief Risk Officer Governance Area identifies the stress scenarios suitable of highlighting the main vulnerabilities of the Group and its business model (e.g. significant exposure to the domestic market), as well as measuring their potential impacts on the Group's risk profile.
In light of the crisis caused by the continuation of the health emergency, to prepare the 2021 Recovery Plan stress scenarios were developed based on the potential economic and financial fall-out of the COVID-19 pandemic.
Following the publication of the European Banking Authority's Final Report on Recommendation on the coverage of entities in a group recovery plan (EBA/Rec/2017/02), dated 1 November 2017, Intesa Sanpaolo has adopted specific criteria for the classification of Group companies among:
- Group-relevant;
- Locally relevant;
- Not relevant.

The application of these criteria to the Group scope has led to the Parent Company as well as Fideuram, the VUB Group, Banka Intesa Sanpaolo d.d., Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, CIB Group, the Privredna Banka Zagreb Group, Banca Intesa Beograd and Intesa Sanpaolo Romania, being classified among the Group-relevant entities. The remaining companies are included in the category of not relevant entities. The above breakdown is consistent with the scope covered by the 2020 Recovery Plan.

The Intesa Sanpaolo Group ensures full consistency of the business model and internal control system with the Business Plan, the Budget, the RAF, the Recovery Plan, the ICAAP and the ILAAP, as illustrated in the diagram below.



Stress Tests

Stress tests are a fundamental risk management tool that enable banks to adopt a forward-looking perspective in their risk management, strategic planning and capital planning activities. As a fundamental element of company decision-making processes, the stress testing must be duly formalised and must have a suitable data infrastructure.
The conduct of the stress tests consists of three basic steps:
- selection and approval of scenarios;
- execution of stress tests;
- approval of the results.

Intesa Sanpaolo distinguishes between the following types of stress tests:
- multi-risk exercise, based on scenario analysis, which enables the forward-looking assessment of the simultaneous impact on the Group of multiple risk factors, also taking into account the interrelationships between them and, where applicable, the top management's reaction capacity. This type of exercise, which requires the full revaluation of the impacts, is also used in the Risk Appetite Framework (RAF), Internal Capital Adequacy Assessment Process (ICAAP) / Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan processes;
- regulatory multi-risk exercise, ordered and coordinated by the Supervisor/Regulator which defines its general assumptions and scenarios, and requires the full revaluation of the impacts;
- situational exercise, ordered by the top management or by the supervisor/regulator in order to assess the impact of particular events (relating to the geopolitical, financial, economic, competitive environment, etc.) from a forward-looking perspective. Its scope may vary from case to case;
- a mono or specific risk exercise to assess the impact of scenarios (or single or more specific risk factors) on specific risk areas;
- mono or specific risk regulatory exercise, ordered and coordinated by the Supervisor/Regulator which defines its general assumptions and scenarios, to assess the impact on specific risk areas.

With specific reference to regulatory multi-risk tests, it is noted that on 30 July 2021, the results were announced of the 2021 EU-Wide Stress Test, conducted by the European Banking Authority (EBA), in collaboration with the Bank of Italy, the European Central Bank (ECB) and the European Systemic Risk Board (ESRB), which also involved the Intesa Sanpaolo Group.
Intesa Sanpaolo noted the announcements made by the EBA and fully acknowledged the outcomes of the exercise. The Intesa Sanpaolo fully loaded CET1 ratio resulting from the stress test for 2023, the final year considered in the exercise, stood at 15.06% under the baseline scenario and 9.38% under the adverse scenario, compared to the starting-point figure of 14.04% as of 31 December 2020. It should be noted that the 2021 EU-wide stress test does not contain a pass/fail threshold and instead is designed to be used as an important source of information for the purposes of the SREP. The results will be used by the competent authorities in assessing Intesa Sanpaolo's ability to meet applicable prudential requirements under stressed scenarios. Please note that: (i) the adverse stress test scenario was set by the ECB/ESRB and covers a three-year time horizon (2021-2023); (ii) the stress test was carried out applying a static balance sheet assumption as of December 2020; therefore, it does not take into account future business strategies and management actions. The fully loaded CET1 ratio under the adverse scenario would be 9.97% restoring the actual neutral effect on capital ratios of the 2018-2021 Long-term Incentive Plan LECOIP 2.0 based on financial instruments, not captured by stress test assumption of a static balance sheet,

and considering the sale transactions of the going concerns - related to the acquisition of UBI Banca in 2020 - finalised in the first half of 2021, other things being equal.
During 2021, the Intesa Sanpaolo Vita Insurance Group participated in the 2021 Insurance Stress Test conducted by EIOPA in partnership with the European Systemic Risk Board (ESRB). The objective of the stress test, which involved 44 insurance groups at European level, was to test the resilience of the European insurance sector in a scenario of long-term COVID-19 featuring lower for longer interest rates, both in terms of capital adequacy and liquidity. The results of the exercise, published at aggregate level, demonstrated the resilience of the European insurance sector also under adverse economic conditions, both in terms of capital and liquidity adequacy.
In 2022 Intesa Sanpaolo will participate in the SSM Climate Risk Stress Test 2022, which will be conducted by the ECB on the figures of banks as at 31 December 2021. This is a learning exercise both for banks and for the supervisory authorities, aimed at assessing the vulnerabilities, sector best practices and challenges that banks will have to deal with in managing climate change risk.

Risk Culture

Risk Culture is topic of increasing attention from the Bank, as an essential tool to promote solidity as a crucial value, in a rapidly changing economic context. This is two-sided, as it is an expression of the principles guiding the Group (top-down) on one side, and the values and attitudes of its people on the other (bottom-up). The balance of these two elements was the founding objective of Risk Culture activities in 2021, aimed at strengthening cooperation, awareness and responsibilities in relation to risk, to promoting an approach to work aimed at innovation, ethical sustainability, personal and professional development and the proactive search for solutions. Particular attention was paid to the promotion of the guiding principles, also by systematically and carefully updating the reference documents on risk (e.g. Risks Tableau de Bord, ICAAP, Risk Appetite Framework) and the information set for the exercise of operational activities. In addition, numerous initiatives were promoted during 2021, including:

- workshops/webinars on innovative issues with potential high impact on the Bank's risk profile (e.g., Blockchain and Crypto-assets, Quantum computing, Cybersecurity, Corporate Reputation and ESG Issues);
- the creation of a new intranet page for the CRO Area, dedicated to all colleagues of the Group, which promotes Risk Culture using educational materials with different levels of detail;
- a Risk Culture Assessment, conducted on a significant portion of the Italy Perimeter, which in 2022 will include the remaining business lines, for the purpose of investigating the profile of the Group's Risk Culture. The Assessment was conducted through a questionnaire that assesses the perceptions and opinions on a wide variety of aspects, including: (i) the degree and diffusion of responsibility, (ii) the role of risk-based reasoning in decision-making processes, (iii) the speed of responses to difficulties, (iv) the quality of the reporting and communication processes, (v) the attitude for cooperation, (vi) openness to dialogue and challenging the status quo, (vii) the quality of expertise and propensity to promote talent and experience, and (viii) compliance with rules and guiding principles. The results were compared with those of the same survey conducted on a sample of international peers and to the results of the survey conducted in the Company during 2016-2017. In addition, several questions, not included during 2016-17 edition nor in the survey proposed to the peers, were also proposed to colleagues, with the goal of investigating the perception of emerging risks, specifically in relation to the pandemic and the *new way of working*. The main results showed excellent scores (both compared to the past and compared to peers) and a substantial improvement in many areas that were relatively weak in 2016-2017, confirming the effectiveness of the solutions adopted over these five years, and the commitment to designing new ones;
- in line with previous years, the Risk Culture Ambassador initiative, which entailed the temporary secondment of resources from the Chief Risk Officer Area, receiving the same number of resources from the recipient structure, pertaining to the Chief Lending Officer Area.

Moreover, during 2021, as part of the project of development of the model risk management framework, various internal workshops were held (targeted to the corporate functions in Italy and abroad involved in the life cycle of the model), aimed at promoting and disseminating model risk awareness and the gradual extension and implementation of the framework within the Group.

Risk governance organisation

The policies relating to risk taking and the processes for the management of the risks to which the Group is or could be exposed are approved by the Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Risks Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework.
The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies.

The Corporate Bodies also benefit from the action of some Managerial Committees on risk management. These Committees operate in compliance with the primary responsibilities of the Corporate Bodies regarding internal control system and the prerogatives of Corporate control functions, and specifically the risk control function. In particular:

- the Steering Committee, chaired by the Managing Director and CEO, is a Group body with a decision-making, consulting and reporting role, which, within the Group Risk Analysis Session, seeks to ensure the control and management of risks and safeguard business value at Group level, including the internal control system, in implementation of the strategic guidelines and management policies established by the Board of Directors. Its various tasks include examining the RAF proposal for the Group, in preparation for the presentation to the Board of Directors, the analysis of the ICAAP and ILAAP Group packages and of the Risks Tableau de Bord;
- the Group Financial Risk Committee is a technical body with decision-making, reporting and consulting powers, focused

both on the banking business (proprietary financial risks for banking and trading books, as well as Active Value Management) and the life and non-life insurance business (result exposure to the trend in market variables and technical variables). The functions of said Committee are set out in two sessions:

- the Risk Analysis and Valuation Session, chaired by the Chief Risk Officer, responsible for evaluating, *inter alia*, in advance of approval by the Board of Directors, the guidelines on undertaking and measuring financial risks and the liquidity risk of the Group, with a view to consistency with the RAF, proposals for operational limits for financial operations referring to interest rate risk of the banking, the trading book and valuation risk defining, within the scope of the powers received, the distribution thereof amongst the Group's major units. It periodically analyses the overall financial risk profile and exposure to liquidity risk and interest rate risk of the Group and the single Group banks and companies, verifying any breaches of the limits and monitoring the approved come-back procedures;
- the Management Addresses and Operational Choices Session, chaired by the Chief Financial Officer, provides operational guidelines in implementation of the strategic guidelines and risk management policies laid down by the Board of Directors, in respect of management of the banking book, liquidity, interest rate and exchange risk.

- the Credit Risk and Pillar 2 Internal Models Committee is a technical body with a decision-making, reporting and advisory role. In particular, with regard to the internal risk measurement systems, the Committee acts as the competent Management Committee for:
  - the internal models for the measurement and management of credit risk;
  - the internal models for Pillar 2 risks[70].
- the Group Control Coordination and Non-Financial Risks Committee is divided into specific and distinct sessions:
  - the Integrated Internal Control System Session, with a reporting and advisory role, whose objective is to reinforce coordination and the interdepartmental cooperation mechanisms within the Group internal control system, thus promoting the integration of the risk management process;
  - the Operational and Reputational Risk session, with a decision-making, reporting and advisory role, which has the task of supervising the implementation of operational and reputational risk management guidelines and policies in accordance with indications formulated by the Board of Directors and periodically reviewing the overall non-financial risk profile, monitoring the implementation of the mitigation actions identified in accordance with indications formulated by the Corporate Bodies and/or the Steering Committee;
  - the Compliance Risk Session, for reporting and consulting purposes, which is tasked with examining the results of the periodic compliance risk assessments.

  The sessions of the Committee are attended by, among others, the Heads of Corporate control functions, as well as the Manager responsible for preparing the Company's financial reports as a permanent member. This contributes to fulfilling the assigned legal obligations and the responsibilities established in the Company Regulations on the supervision of the financial reporting process. It also enables the promotion of the inter-functional coordination and integration of control activities, within its area of responsibility;
- the Group Credit Committee is a technical body with a decision-making and advisory role that has the task of ensuring the coordinated management of issues relating to credit risk, and is organised in two separate sessions (Performing Loans Session and Non-Performing Loans Session). Among other duties, the Committee resolves on the granting, renewal and confirmation of loans within the scope of the powers assigned to it;
- lastly, the Hold To Collect and Sell (HTCS) Sign-Off Committee is tasked with proposing the assumption of market risks put forward by the business structures of the Parent Company or the subsidiaries, on the HTCS shares required for Originate to Share ("OtS") transactions; These transactions consist of loans originated with the intention of being distributed to third-party operators on the primary or post primary market and which provide for a holding period less than or equal to 12 months at the time of their origination.

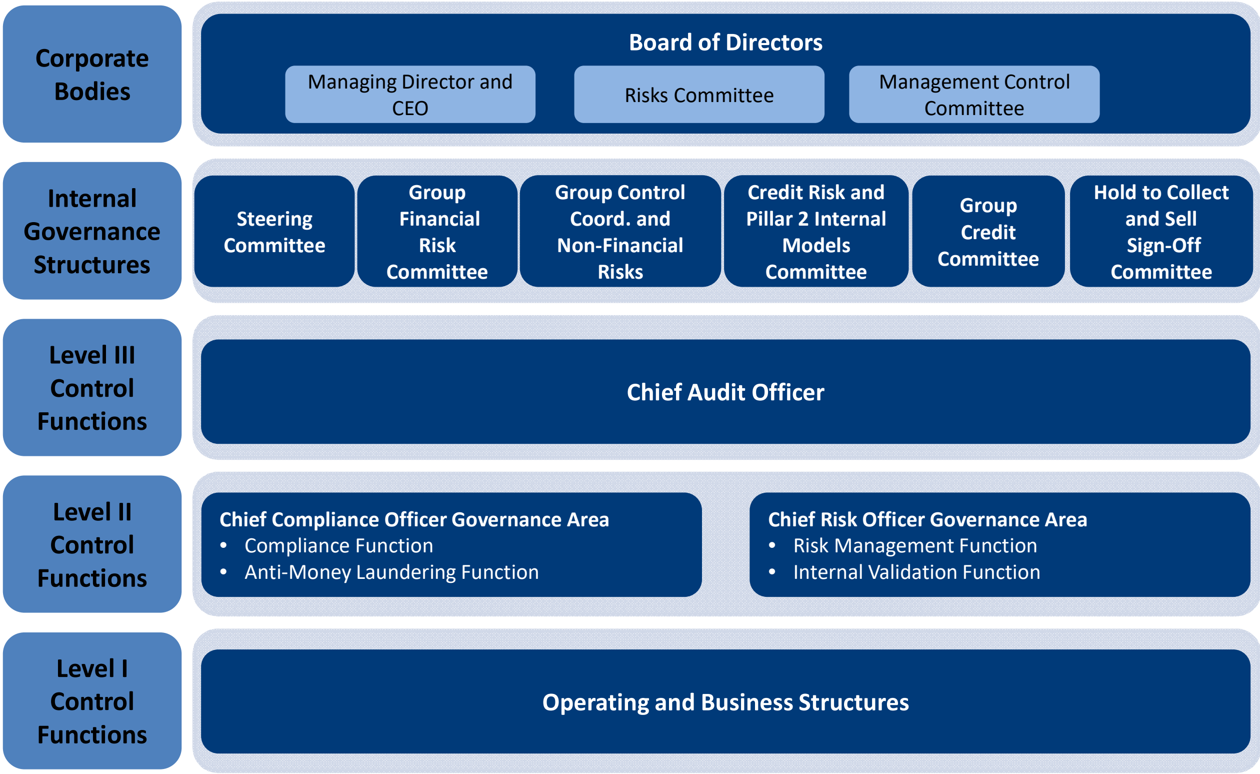
The Chief Risk Officer Governance Area – located directly reporting to the Managing Director and CEO – in which the risk management functions are concentrated, including the controls on the risk management and internal validation process, represents a relevant component of the "second line of defence" of the internal control system that is separate and independent from the business supporting functions.
This Area is responsible for governing the macro process of definition, approval, control and implementation of the Group's Risk Appetite Framework with the support of the other corporate functions involved, as well as assisting the Corporate Bodies in setting and implementing the Group's risk management guidelines and policies, in accordance with the company's strategies and objectives, and coordinates and verifies their implementation by the responsible units of the Group, also within the various corporate areas, guaranteeing the measurement and control of the Group's exposure to various types of risk, implementing the II level controls on credit and other risks, in addition to ensuring the validation of risk measurement **and management internal** systems.
To that end, the Chief Risk Officer Governance Area is broken down into the following Organisational Units:

- Market, Financial and C&IB Risks Coordination Area;
  - Market and Financial Risk Management Head Office Department;
  - IMI CIB Risk Management Head Office Department;
- Credit Risk Management Head Office Department;
- Banca dei Territori Risk Management Head Office Department;
- Enterprise Risk Management Head Office Department;
- Internal Validation and Controls Head Office Department;
- Foreign Banks Risk Governance;
- Coordination of Risk Management Initiatives.

[70] The scope does not include the Pillar 2 models for the measurement and quantification of financial risks in the banking book, which already come under the scope of the Group Financial Risk Committee and the Pillar 2 models for the measurement and quantification of operational and reputational risks, which, instead, come under the scope of the Group Control Coordination and Non-Financial Risks Committee. However, it does include the models used for stress testing and forward-looking income statement valuations.

The Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines along the Bank's entire decision-making chain, down to individual operational units. The risk control functions of subsidiaries with a decentralised management model and any representatives of the Parent Company's risk control function at subsidiaries with a centralised management model report to it.

The Chief Compliance Officer Governance Area, which reports directly to the Managing Director and CEO, in a position that is independent from operating departments and separate from internal auditing, ensures the monitoring of the Group regulatory compliance risk, including conduct risk. Within the Risk Appetite Framework, the Chief Compliance Officer Governance Area (i) proposes the statements and limits set for compliance risk and (ii) collaborates with the Chief Risk Officer Governance Area in the monitoring and control of non-financial risks for compliance purposes and, if the set limits are exceeded, in the identification/analysis of events attributable to non-compliance with regulations and in the identification of appropriate corrective measures.
The Chief Compliance Officer Governance Area is broken down into the following Organisational Units:
– Regulatory Compliance Retail and Private Banking Head Office Department;
– Regulatory Compliance Corporate and Investment Banking Head Office Department;
– Compliance Governance and Controls Head Office Department;
– Anti-Financial Crime Head Office Department, which is tasked, *inter alia,* with the duties and responsibilities of the anti-money laundering function;
– Compliance Digital Transformation.



The Parent Company performs a guidance and coordination role[71] with respect to the Group companies, aimed at ensuring effective and efficient risk management at Group level, exercising responsibility in setting the guidelines and methodological rules for the risk management process, and pursuing, in particular, integrated information at Group level to the Corporate Bodies of the Parent Company, with regard to the completeness, adequacy, functioning and reliability of internal control system. For the corporate control functions in particular, there are two different types of models within the Group: (i) the centralised management model based on the centralisation of the activities at the Parent Company and (ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the direction and coordination of the same corporate control functions of the Parent Company, to which they report in functional terms.
Irrespective of the control model adopted within their company, the corporate bodies of the Group companies are aware of the choices made by the Parent Company and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the Group controls.

[71] In this regard, it is specified that Intesa Sanpaolo does not exercise management and coordination over Risanamento S.p.A. or its subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.

The internal control system

To ensure a sound and prudent management, Intesa Sanpaolo combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.

Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Corporate Governance Code for Listed Companies, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.

Intesa Sanpaolo's internal control system is built around a set of rules, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with sound and prudent management, the achievement of the following objectives:

– verification of the implementation of Company strategies and policies;
– containment of risk within the limits set out in the reference framework for determining the Bank's risk appetite (Risk Appetite Framework – RAF);
– safeguard of asset value and protection from losses;
– effectiveness and efficiency of the Company processes;
– reliability and security of Company information and IT procedures;
– prevention of the risk that the Bank may be involved, including involuntarily involved, in illegal activities (with special regard to those relating to money-laundering, usury and financing of terrorism);
– compliance of business operations with the law and supervisory regulations, as well as internal policies, procedures and regulations.

The internal control system plays a crucial role and involves the entire corporate organisation (bodies, units, hierarchical levels, all personnel). In compliance with the provisions of Bank of Italy Circular 285/2013 (First Part, Title IV, Chapter 3) the "Integrated Internal Control System Regulation" was finalised. This aims to define the guidelines of Intesa Sanpaolo's internal control system, in its capacity as Bank and Parent Company of the Banking Group, through the adaptation of the reference principles and the definition of the responsibilities of the Bodies and of the functions with control duties, which contribute, in various ways, to the proper operation of the internal control system, as well as the identification of coordination arrangements and information flows supporting system integration.

The internal control system is made up of a documentation infrastructure (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls present in the Company, which incorporate all the company policies and the instructions of the Supervisory Authorities, as well as the provisions of law, including the principles laid down in Legislative Decree 231/2001.

The regulatory framework consists of "Governance Documents", adopted from time to time, that oversee the operation of the Bank (Articles of Association, Code of Ethics, Group Internal Code of Conduct, Group Regulations, Group Committees Regulation, Regulation on Related Party Transactions, Integrated Internal Control System Regulation, Authorities and powers, Guidelines, Function charts of the Organisational Structures, etc.) and more strictly operational regulations that govern business processes, individual operations and the associated controls (Rules, Process Guidelines, Control Sheets, etc.).

More specifically, the corporate rules set out organisational solutions that:

– ensure sufficient separation between the operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
– are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
– enable the recording of every operational event and, in particular, of each transaction, with an adequate level of detail, ensuring their correct allocation over time;
– guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the control functions;
– ensure the prompt notification to the appropriate levels within the business and the swift handling of any anomalies found by the business units, the internal audit department and the other control functions;
– ensure adequate levels of business continuity.

The Company's organisational solutions also include controls at each operational level that enable the uniform and formalised identification of responsibilities, particularly in relation to the tasks of controlling and correcting the irregularities found.

In terms of Corporate Governance, Intesa Sanpaolo adopted the one-tier corporate governance system, pursuant to Articles 2409-sexiesdecies and following of the Italian Civil Code. It therefore conducts its operations through a Board of Directors, certain members of which are also members of the Management Control Committee.

Based on this system:

– the Board of Directors is the body responsible for strategic supervision and performs all the tasks assigned to it by the Articles of Association, the applicable regulations and the Bank's governance documents;
– the Managing Director and CEO performs the tasks assigned by the supervisory regulations to the body responsible for management, as set out in the Bank's governance documents, approved by the Board of Directors, except for the responsibilities assigned to the Board;
– the Management Control Committee performs the control function.

The Board of Directors elects a Managing Director from its members, other than the Chairman of the Board, the members of the Management Control Committee or the minimum number of Independent Directors.

The Intesa Sanpaolo Group adopts an internal control system based on three levels, which was also extended during the year to the scope of the former UBI Group, in line with the legal and regulatory provisions in force.

The model has the following types of control:

– Level I: line controls which are aimed at ensuring proper performance of operations (for example, hierarchical, systematic and sample-based controls) and which, to the extent possible, are incorporated in the IT procedures. They are carried out by the same operating and business structures, including through units dedicated exclusively to control duties reporting to the heads of the same structures or performed as part of the back office.

- Level II: risk and compliance controls for the purpose of ensuring, inter alia:
  - correct implementation of the risk management process;
  - compliance with the operating limits assigned to the various functions;
  - compliance of company operations with the rules, including self-governance rules.

  The functions assigned to such controls are separate from the ones in charge of production and contribute to the definition of the risk governance policies and the risk management process. In the Intesa Sanpaolo Group, Level II includes the following Parent Company structures and the equivalent local units of the Group companies, where established:
  - Chief Compliance Officer Governance Area, which is assigned the duties and responsibilities of the "Compliance Function", as defined in the reference regulations. The Chief Compliance Officer's Governance Area also includes the Anti Financial Crime Head Office Department, which is tasked with the duties and responsibilities of the "Anti-Money Laundering Function", as defined by the reference regulations;
  - Chief Risk Officer Governance Area, which is assigned the role of the risk management function, as defined by the applicable regulations. The Chief Risk Officer Governance Area also includes the Internal Validation and Controls Head Office Department, which is tasked, among other things, with the duties and responsibilities of the "validation function", as defined by the applicable regulations, as well as Level II controls on credit and data quality.
- Level III: internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the internal control system and the IT system at Group level, at scheduled deadlines in relation to the nature and intensity of the risks.

In the Intesa Sanpaolo Group, internal auditing is carried out by the Parent Company's Chief Audit Officer and by the equivalent local units of Group companies, where established.

The Manager responsible for preparing the Company's financial reports also contributes to the internal control system, who, pursuant to art. 154 bis of the Consolidated Law on Finance, exercises oversight at Group level of the internal control system for the purpose of accounting and financial reporting.
The internal control system is periodically reviewed and adapted in relation to business development and the reference context.
Intesa Sanpaolo has an internal control structure consistent with the indications provided by the Supervisory Authorities.

The Risk Management and Internal Validation Function

The Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines for risk along the Bank's entire decision-making chain, down to individual operational units. The tasks and functions are discussed in detail in the subsequent chapters of Part E.
Through the Internal Validation and Controls Head Office Department, the Chief Risk Officer Governance Area carries out Level II controls on credit and data quality.
The purpose of the credit controls is to verify the proper classification, approriateness of provisioning and the adequacy of the management and recovery process for individual exposures (so-called single names).
In general, the control activities includes the credit processes assessment, also in order to verify that suitable Level I controls are in place, including proper execution and traceability. The potential areas of investigation to be examined through Single Name controls also consider the results of the monitoring carried out by the Level I Control Functions within the different credit clusters.
As part of the overall risk management process, the Department carries out the Level II controls connected with data quality, in line with the internal and external regulations on the matter, with specific focus on the input data used in internal models, in cooperation with the Data Office, the Enterprise Risk Management Head Office Department and Administrative and Financial Governance. In accordance with recent regulatory developments, the Internal Validation and Controls Head Office Department is also responsible for the development, maintenance and oversight of the framework for the model risk governance, aimed at ensuring the identification, assessment, monitoring and mitigation of the risk for all Internal Systems, including the Pillar 1 and 2 risk measurement systems and the systems that are used for accounting purposes. To that end, the Department mainly carries out the following activities, in coordination with the Functions concerned: a) defining and developing the model risk governance and methodological framework to identify models, assign the related priorities and assess and mitigate model risk, including the methodology for quantifying the economic capital buffer for model risk; b) defining, managing and upgrading the Group Model Management platform (Group Model Inventory) with the goal of guaranteeing a complete, updated inventory of the models and tracking of the processes connected to the various phases of their life cycles; c) ensuring the periodic identification and assessment of model risk and the economic capital buffer; d) overseeing the process for assigning priorities to models (tiers) in order to efficiently steer their governance, with specific reference to the levels of detail, analysis and frequency of validation and development activities; e) for the model risk component, contributing to the annual proposal to update the Group RAF and periodically monitoring the model risk appetite indicators; and f) providing periodic disclosure on the Model Risk Management Framework and on the results of the model risk assessments to the Head of the CRO Area, the competent managerial committees and the Corporate Bodies.
Moreover, the Internal Validation and Controls Head Office Department is assigned the validation function, aimed at ensuring the validation at Group level of the internal risk measurement systems, used both for the determination of capital requirements and for non-regulatory purposes, in order to assess their compliance with regulatory provisions[72], operational needs and reference market demands[73].
The internal systems adopted by the Group are validated on first adoption (based on the plans of gradual extension made by the Group) or when changes are made to them, in compliance with the development and validation process approved by the Corporate Bodies. The validation function also ensures the periodic review of internal systems in terms of models, processes,

72 Regulation (EU) 575/2013 (CRR), EBA Guidelines, EU Directive 2013/36 (CRD IV), Bank of Italy Circular 285/2013.

73 Regulation (EU) 575/2013 (CRR), EBA Guidelines, EU Directive 2013/36 (CRD IV), Bank of Italy Circular 285/2013.

data used and implementations in IT, assessing their adequacy, predictive ability and performance, as well as their compliance over time with regulatory provisions, company needs and changes in the reference market.
The validations are conducted in line with the planning of the function's activities, defined based on the internal and external reference regulations and that presented to the competent Corporate Bodies. The relevant criteria that define the type of validation to implement (Standard or Full) and its frequency also include the tier of the model and its use, as attributed in the Model Risk Management Framework.
For Pillar 1 risks, the validation frequency is set, in any event, in line with the external reference regulations.
In order to ensure the periodic reporting on the results of the validation process continuously carried out to the Corporate Bodies and, regarding the internal Pillar 1 risk measurement systems, to the Supervisory Authorities, the Internal Validation Function prepares the Annual Validation Reports regarding the internal Pillar 1 systems and the internal systems used for management purposes. These reports summarise the results of the analyses conducted during the reporting year on the internal systems used at the Parent Company and the Group Companies and the opinion formulated. They also highlight the main areas for improvement identified and the critical level assigned. In carrying out the validation process at Group level, the function interacts with the Supervisory Authorities, with the relevant Corporate Bodies and the functions responsible for the Level III controls required by the regulations. It adopts a decentralised approach for companies with local validation functions (the main Italian and international companies), coordinating and supervising the activities of those companies, and adopting a centralised approach for the others. The adopted methodologies were developed in implementation of the principles that inspire the Supervisory regulations for banks, EU directives and regulations, general guidelines of international committees and best practices in the area and take the form of documentary, empirical and operating practice analyses.

Compliance

The governance of compliance risk is of strategic importance to the Intesa Sanpaolo Group as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.
The responsibilities and duties of the compliance function are assigned to the Chief Compliance Officer, who is independent and autonomous in relation to the operating structures, reports directly to the Corporate Bodies and has access to all activities within the Bank, as well as any significant information for the performance of its duties.
The Group's Compliance Model is set out in the Guidelines approved by Intesa Sanpaolo's Corporate Bodies, which indicate the responsibilities of the various company structures and macro processes to mitigate compliance risk:
- identifying and assessing compliance risk;
- proposing the functional and organisational measures for mitigation of this risk;
- conducting pre-assessments of the compliance of innovative projects, operations and new products and services;
- providing advice and assistance to the governing bodies and the business units in all areas with significant compliance risk;
- monitoring of ongoing compliance, both through control of compliance with regulations by company structures, and through the use of information provided by the other control functions;
- disseminating a corporate culture founded on the principles of honesty, fairness and respect for the spirit and the letter of the rules.

The regulatory scope and the procedures for monitoring regulatory contexts that present significant risks of non-compliance for the Group are defined in the aforementioned guidelines. The Chief Compliance Officer submits periodic reports to the Corporate Bodies on the adequacy of compliance control, with regard to all regulatory aspects applicable to the Group which show compliance risks. On an annual basis, these reports include an identification and assessment of the primary compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a half-yearly basis they include a description of the activities performed, critical issues noted, and remedies identified. A specific notice is also given when events of particular significance occur.
The Compliance Guidelines call for the adoption of two distinct models in relation to steering, coordination and control of the Group. These models are organised in such a way as to account for the Group's structure in operational and territorial terms.
In particular:
- for specifically identified Italian Banks and Companies, whose operations are highly integrated with the Parent Company, the compliance supervision is centralised at the Parent Company;
- for the other Companies, that have a legal obligation or have been specifically identified based on the business conducted, as well as the International Branches, an internal compliance function is established and a local Compliance Officer is appointed, which are assigned compliance responsibilities. The local Compliance Officers of the subsidiaries functionally report to the Chief Compliance Officer structures, while those of the International Branches, except where not permitted by local regulations, hierarchically report to the Chief Compliance Officer structures.

Anti-Money Laundering

The duties and responsibilities of the Anti-money laundering Function are assigned, as required by the regulations, to the Anti Financial Crime Head Office Department, which reports to the Chief Compliance Officer, and is therefore independent and autonomous in relation to the operating structures, reporting directly to the Corporate Bodies, and has access to all activities within the Bank, as well as to any significant information for the performance of its duties.
Specifically, as envisaged in the Guidelines for combating money laundering and the financing of terrorism and for managing embargoes and the Group Anti-Corruption Guidelines, the Anti Financial Crime Head Office Department ensures monitoring of compliance risk in the area of money laundering, terrorist financing, breach of embargoes, weapons and corruption (Financial Crime), by:
- laying down the general principles to be adopted within the Group for the management of compliance risk;
- identifying and assessing compliance risk;

- conducting ongoing monitoring, with the support of the competent functions, of developments in the national and international context of reference, verifying the adequacy of company processes and procedures with respect to applicable regulations and proposing appropriate organisational and procedural changes;
- providing advice to the corporate functions, as well as establishing adequate training plans;
- preparing appropriate periodic reporting for corporate bodies and top management;
- discharging the required specific obligations including, in particular, enhanced customer due diligence, controls of proper management of the data storage Archive and the assessment and monthly submission to the Financial Intelligence Unit of data relating to aggregated anti-money laundering reports, and the assessment of reporting of suspicious transactions received from operating structures for the submission to the Financial Intelligence Unit of reports deemed accurate.

The Anti Financial Crime Head Office Department also performs its role of steering, coordination and control of the Group according to a model similar to the one described for the Compliance Function.

Internal Auditing

The internal audit function is performed by the Chief Audit Officer, directly reporting to the Board of Directors (and therefore it reports to the Chairman), and also reports functionally to the Management Control Committee, without prejudice to the appropriate links with the Managing Director and CEO.

The Chief Audit Officer has not any direct responsibility on the business.

This function has a structure and a control model which is organised according to the evolution of the organisational structure of Intesa Sanpaolo and of the Group.

The Internal Auditing structures of the Group's Italian and international companies report functionally to the Chief Audit Officer.

The Internal Audit Function performs, from a third level perspective, the overall assessment of the internal control system, reporting possible improvements to the corporate bodies, with specific regard to the Risk Appetite Framework (RAF), the risk management process and risk measurement and control instruments. In particular, the Function assesses the completeness, adequacy, functionality and reliability of the components of the internal control system, the risk management process and the corporate processes, also with regard to their ability to identify and prevent errors and irregularities. In this context, inter alia, it audits the risk management and regulatory compliance corporate functions, also through participation in projects, so as to generate added value and improve the effectiveness of the control and corporate governance processes.

The audit activity concerns directly both Intesa Sanpaolo and the Group companies.

The Internal Auditing Function is also responsible for assessing the effectiveness of the corporate RAF definition process, the internal consistency of the overall framework and compliance of Bank operations with the RAF. The Head of the Internal Auditing Function has necessary autonomy and independence from the operating structures. The Function has access to all activities carried out both in head office and in peripheral structures. In case of outsourcing to third parties of relevant activities for the functioning of the internal control system (e.g. data processing activity), the internal audit function must access to the activities carried out by those parties either.

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Within the framework of the RAF, the Chief Audit Officer prepares its own contribution to the Integrated Risk Assessment conducted by the corporate control functions and by the Manager responsible for preparing the Company's financial reports.

The Department uses personnel with the appropriate professional skills and expertise and operates in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors (IIA).

As required by the international standards, the department is subject to an external Quality Assurance Review every five years. The most recent review was carried out at the end of 2018 on the request of the Management Control Committee and concluded in the first quarter of 2019, confirming the highest assessment envisaged ("Generally Conform"). At the end of 2021, a new assessment was conducted that will end in the first quarter 2022.

When performing its tasks, the function uses structured risk assessment methodologies to identify the areas of greatest focus and the main new risk factors. Based on the assessments emerging from risk assessment and the resulting priorities, as well as on any specific requests for further enquiry expressed by top management and Corporate Bodies, it prepares and submits an Annual Audit Plan for prior examination by the Management Control Committee, and subsequent approval by the Board of Directors, on the basis of which it conducts its activities during the year, in addition to a Long-Term Plan.

The Chief Audit Officer ensures the correct execution of the of the internal management process for reporting violations (so called "Whistleblowing").

The Chief Audit Officer coordinates the "Integrated Internal Control System" session of the Group Control Coordination and Non-Financial Risks Committee.

During the year, auditing was performed directly for the Parent Company as well as for other subsidiaries under an outsourcing contract. For the other Group companies having their own internal audit departments, steering and practical coordination of the local departments was performed to guarantee control consistency and adequate attention to the different types of risks, also verifying the effectiveness and efficiency levels under both structural and operational profiles. Direct auditing and review activities, in the capacity of Parent Company, were also performed for those companies, as mentioned above.

Any weakness identified in the audit activities was systematically reported to the concerned Corporate Functions for a prompt improvement action, which is, then, duly followed up by the function to verify its effectiveness.

Summary internal control system assessments originated from the audit activities have been periodically submitted to the Management Control Committee and the Board of Directors.

The results of the audits activities with an adverse outcome or highlighting significant shortcomings were sent in full to the Board of Directors, the Managing Director and CEO and the Management Control Committee, as well as the Boards of Directors and Boards of Statutory Auditors of the relevant subsidiaries.

The main weaknesses identified and their evolution have been included in the Audit Tableau de Bord (TdB), remarking the ongoing mitigation actions as well as the related owners and the planned deadlines, to ensure the systematic monitoring.

Lastly, the Chief Audit Officer ensured constant assessment of its own effectiveness and efficiency in line with the internal "quality assurance and improvement" plan drafted in accordance with the recommendations of International Standards for the

Professional Practice of Internal Auditing. In this context, during 2021, in line with the timing of the 2018-2021 Business Plan, the Function's evolution programme named Future Audit Solutions and Transformation (FAST) came to an end and the new programme, Strategic Audit Innovation Line-up (SAIL), was launched for the period 2022-2025 in line with the new Business Plan.

Manager responsible for preparing the Company's financial reports

Supervision on the reliability of the Company financial reports and on the financial reporting process is carried out by Intesa Sanpaolo's Manager responsible for preparing the Company's financial reports, in compliance with the provisions of Article 154-bis of the Consolidated Law on Finance and the related implementing provisions. This control is also ensured over the subsidiaries governed by the laws of non-EU countries, in accordance with the supervisory rules on management and accounting systems set by Article 15 of Consob Market Regulation 20249/2017 (as subsequently amended and supplemented).

In order to comply with the aforesaid provisions, the Manager responsible for preparing the Company's financial reports:

- performs a steering and coordination role in Group companies with regard to administrative matters and in the monitoring of the internal control system functional to financial reporting;
- supervises the implementation of legal requirements according to a shared approach at Group level, set out in specific internal regulations.

In particular, the Manager responsible for preparing the Company's financial reports:

- issues the instructions for the correct and uniform application of the accounting standards and measurement criteria, formalised as part of the Group Accounting Policies, which are subject to regular periodic updates;
- prepares appropriate administrative and accounting procedures for the preparation of the separate and the consolidated financial statements, and updates them to ensure compliance with the corporate disclosure requirements in force;
- verifies the adequacy of the administrative and accounting procedures and the effectiveness of the control system on the financial reporting process;
- oversees the correspondence between the corporate reporting to the market with the accounting records; to this end, it has the right to promptly obtain any information deemed necessary for the performance of his/her duties and coordinates the exchange of information with the independent auditors.

With specific regard to the financial reporting processes, the Manager responsible for preparing the Company's financial reports:

- maintains a system of contact and information flows with the function of the Parent Company and of the Group Companies, in order to ensure the adequacy of balance sheet, income statement and financial positions and the descriptions of the main types of risks and uncertainties to which the Group may be exposed, monitoring the reliability of the acquisition of relevant data and information;
- oversees the internal control system on the financial reporting process:
  - providing a prior opinion of suitability regarding the changes to the existing organisational structure (new internal regulations) that have an impact on the adequacy of the procedures for financial reporting;
  - preparing audit plans aimed at ensuring the adequacy and effective application of administrative and accounting procedures over the period, also by subsidiaries subject to the laws of non-European Union countries in accordance with Art. 15 of the CONSOB Market Regulation;
- acquires, in relation to the impact on the financial reporting process and the reliability of the corporate information, the results of the activities carried out by the Corporate control functions and, in particular, by the Chief Audit Officer, who is responsible for the overall assurance for the internal control system in accordance with the "Integrated Internal Control System Regulation";
- acquires any recommendations formulated by the independent auditors at the end of the process of auditing the separate financial statements of the Parent Company and the consolidated financial statements, as well as the related feedback in terms of measures to improve the procedures that have an impact on accounting data, monitoring their implementation and effectiveness;
- periodically reports on the scope and results of the assurance activities performed, to the Risks Committee, the Management Control Committee and the Board of Directors;
- submits to the Surveillance Body established pursuant to Legislative Decree 231/01 the findings of the audit plan carried out in implementation of the monitoring of the financial reporting process, focusing on preventing the criminal and administrative offences described in the "Organisational, Management and Control Model pursuant to Legislative Decree 231 of 8 June 2001".

The Manager responsible for preparing the Company's financial reports contributes to supervising the independence of the independent auditors, in accordance with the procedures governed by specific Company Regulations, in line with the provisions of law (Legislative Decree 39/2010 amended by Legislative Decree 135/2016, which transposed Directive 2014/56/EU into the Italian legal framework, and EU Regulation 537/2014). The above-mentioned Company Regulations assign to the Manager responsible for preparing the Company's financial reports the role of supervising, overseeing and monitoring the accounting audit engagements and other services entrusted by the Parent Company departments and the Group companies to independent auditors, their networks and their affiliates, in addition to the task of regularly informing the Management Control Committee in this regard.

The Manager responsible for preparing the Company's financial reports also ensures periodic reporting to the Board of Directors regarding the legal and regulatory obligations assigned to the Board for the monitoring of the adequacy of powers and means granted to the Manager responsible for preparing the Company's financial reports and of the effective observance of administrative and accounting procedures. This reporting is discussed beforehand with the Management Control Committee and the other Board Committees, for the aspects under their responsibility.

Attestations as required by Art. 154-bis of the Consolidated Law on Finance

In relation to the supervisory and monitoring functions assigned, the Manager responsible for preparing the Company's financial reports:

- signs, jointly with the Managing Director and CEO, the attestations of the separate and consolidated financial statements required by the Article 154-bis, paragraph 5, of the Consolidated Law on Finance on the adequacy and actual application of administrative and accounting procedures, the compliance with the international accounting standards, the agreement of the financial statements with the supporting documentation, accounting books and records and their suitability to give a true and fair view of the financial and economic position of the Group, as well as a reliable analysis of the performance, operating result and the main risks to which the Group is exposed;
- certifies the correspondence of the documents and announcements disclosed to the market with the records, books and accounting entries, pursuant to Article 154-bis, paragraph 2, of the Consolidated Law on Finance.

The monitoring of the accounting and financial reporting process is based on the review of:

- completeness and consistency of the information provided to the market through a structured reporting system originated from the functions of the Parent Company and the Companies concerning the events deemed significant for accounting/financial disclosure purposes, especially with regard to the main risks and uncertainties to which they are exposed;
- suitability and effective implementation of organisational and IT processes and procedures used for the preparation of accounting documents and other communication of a financial nature deemed relevant pursuant to Art. 154-bis of the Consolidated Law on Finance.

Special attention is paid to monitoring the adequacy of the auditing approach and the proper conduct of the activities required for the financial reporting process; the focus of the controls is represented by the work stages which, within the various business processes, entail the recording, processing, evaluation and presentation of data and information used as input for financial reporting and the related internal control system.

The IT processes and developments implemented on the reporting systems play a particularly important role in the oversight of the IT architectures and applications used to manage this information.

The organisational model for the supervision of the adequacy of the administration, accounting and financial reporting procedures and the related internal control system is governed by the Company regulation "Administrative and Financial Governance Guidelines". In particular, the model prescribes assessment methodologies differentiated according to, on one hand, the risk of the processes deemed significant for accounting and financial reporting purposes and, on the other, the need to realise synergies with the control activities carried out by the Internal Audit Department and the other Corporate Control Functions.

To this end, the procedures may be verified by means of in-depth analyses, conducted according to specific methodologies used to verify the correctness of the accounting and financial information, carried out by the structures that support the Manager responsible for preparing the Company's financial reports (analytical approach) and, if present, of the information collected by the Corporate control functions or by external entities such as Independent Auditors, Supervisory Authorities, etc. (synthetic approach).

For the assessment of the adequacy of the relevant processes for the financial reporting, the Manager responsible for preparing the Company's financial reports uses the results of the controls carried out by the structures reporting directly to him, by the Internal Audit Department and the other Corporate control functions. To this end, within the scope of the Controls Coordination Committee and Group Control Coordination and Non-Financial Risks Committee provided for by the Integrated Internal Control System, the Corporate Control Functions and the Manager responsible for preparing the Company's financial reports share annual check plans and the related outcomes. The critical issues arising from inspections conducted by external bodies (Independent Auditors, Supervisory Authorities) are also collected and assessed from the perspective of financial reporting risk.

To conclude the preparation of the Company's financial reports according to the rules and criteria set out in Part A of the Notes to the financial statements, and the supervisory activities conducted on the financial reporting processes, according to the guidelines described herein, the Managing Director and CEO and the Manager responsible for preparing the Company's financial reports sign the attestations required by Art. 154 bis, paragraph 5, of the Consolidated Law on Finance.

These attestations are included in the reporting packages for the separate financial statements of the Parent Company and the consolidated financial statements, and are provided to the public according to the model established by the Consob Regulation.

Report pursuant to article 15 of Consob Market Regulation 20249/2017, as subsequently amended and supplemented

With regard to the protection of savings and the regulation of financial markets, the Italian Securities and Exchange Commission (Consob) has set certain conditions for the listing of parent companies incorporated and subject to the laws of non-EU member states (Article 15 of the Market Regulation cited). As a result, Intesa Sanpaolo has set up an action plan to ensure the existence of the conditions required for subsidiaries that are of material significance, identified in compliance with the criteria established in the rules of the cited Article 15:

- ensuring the public disclosure of the accounting positions of subsidiaries prepared for the purposes of drafting the consolidated financial statements;
- obtaining details from its subsidiaries of their articles of association, membership and powers of the corporate bodies;
- determining that the subsidiaries: i) provide the independent auditor of the parent company with the information necessary to perform annual and interim audits of the parent company; and ii) enjoy access to an administrative and accounting system appropriate for regular reporting to the management and independent auditor of the parent company of the income statement, balance sheet and cash flow data necessary for the preparation of the consolidated financial statements.

On conclusion of the activities performed and the verifications conducted, compliance is confirmed with the conditions required by Article 15 of Consob Market Regulation 20249/2017 (as subsequently amended and supplemented).

The Management Control Committee and Board of Directors have been informed of compliance with those regulatory provisions governing companies incorporated in and subject to the laws of non-EU Member States, in the aforementioned "Report on the internal control system for the financial reporting process" drafted in order to illustrate the overall governance and control activities performed in accordance with the various provisions of laws and Group regulations governing the supervision of financial reporting, organically coordinated by the Manager responsible for preparing the Company's financial reports.

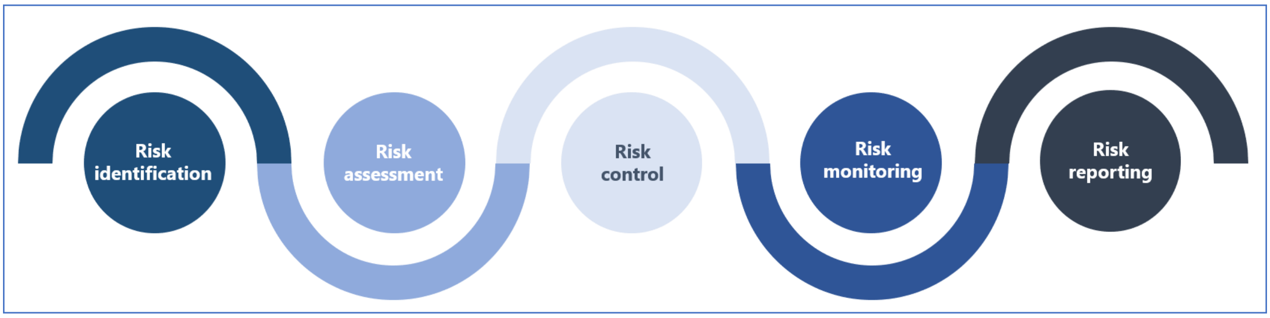
The scope of risks

The risks identified, covered and incorporated within the Economic Capital are as follows:

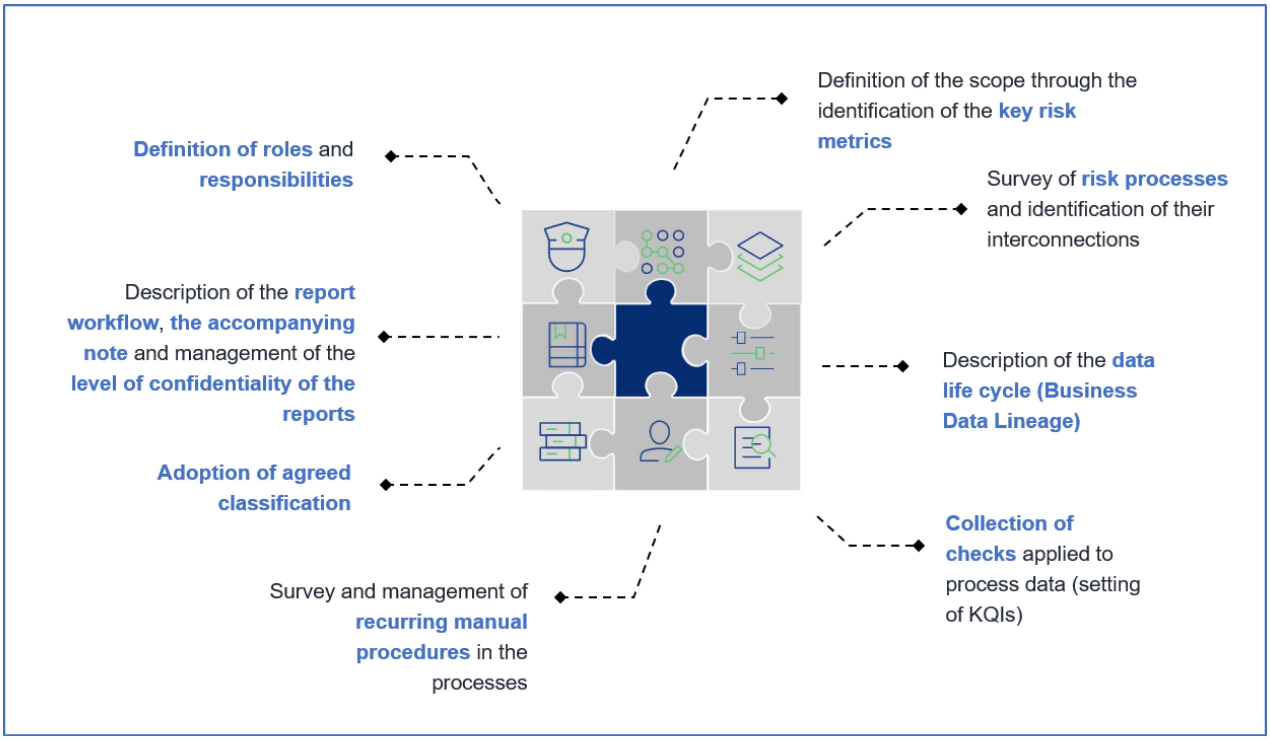
- credit and counterparty risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
- market risk (trading book), including position, settlement and concentration risk on the trading book;
- financial risk of the banking book, mostly represented by interest rate and foreign exchange rate risk;
- operational risks;
- insurance risk;
- strategic risk;
- risk on real estate assets owned for whichever purpose;
- risk on equity investments not subject to line-by-line consolidation;
- risks relating to defined-benefit pension funds;
- model risk.

Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures, including stress tests.
Special attention is dedicated to managing the short-term and structural liquidity position by following specific policies and procedures to ensure full compliance with the limits set at the Group level and operating sub-areas in accordance with international regulations and the risk appetite approved at the Group level.
The Group also attaches great importance to the management of reputational risk, which it pursues not only through organisational units with specific duties of promotion and protection of the company image, but also through dedicated processes for the identification and assessment of reputational risk and the creation of specific reporting flows. In addition, starting in 2018, a specific add-on for economic capital has been introduced for operational risk, determined on the basis of operational losses, to strengthen the protection against possible reputational repercussions.
Lastly, particular attention is also given to the control of environmental, social and governance (ESG) risks associated with the activities of its corporate customers and the economic activities the Group is involved in. In the area of ESG risks, specific importance is assigned to monitoring climate change risk.

Over the years, the Group has developed and implemented the necessary structural and operational improvements for integrated risk reporting that is as complete, accurate and regular as possible, in order to support senior management.



The risk monitoring processes have undergone a progressive strengthening of the Data & Reporting Governance controls, also in compliance with the applicable regulations ("Principles for effective risk data aggregation and risk reporting - BCBS239"). The Chief Risk Officer Governance Area has planned actions in specific areas, including the adoption of agreed classifications and uniform practices for the description of the life cycle of the data within the main risk monitoring processes. Starting in 2020, a process was also initiated for the convergence towards the Group's target framework developed and regulated by the Data Office Department, which continued in 2021 through the participation of the Chief Risk Officer Area in specific wave of adoption of the framework. More generally, the strengthening of Data & Reporting Governance has involved the aspects detailed in the diagram below.



The Group has also strengthened its focus on data quality control, defining processes, roles and responsibilities, reference classifications (quality aspects), identifying the related support instruments and activating, within the Chief Risk Officer Area, a second level control unit over data quality.
The scope of Data & Reporting Governance includes: credit risk, market and counterparty risk, interest rate risk of the banking book, liquidity risk, operational risks and the risk integration process.
Assessments of each single type of risk for the Group are integrated in a summary amount – the Economic Capital – defined as the maximum "unexpected" loss the Group might incur over a year. This is a key measure for determining the Group's financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario. The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the Risks Committee and the Board of Directors, as part of the Tableau de Bord of the Group Risks.

In addition to managing the risks described above, Intesa Sanpaolo pays close attention to the identification and monitoring of specific areas of emerging risk, which, in the medium term, could compromise the achievement of the Group's strategic objectives or significantly influence its financial position and results.

For the purposes described above, the Intesa Sanpaolo Group uses a wide-ranging set of tools and techniques for risk assessment and management, detailed in this Part E of the Notes to the consolidated financial statements, with regard to the types of risk indicated below and in accordance with the procedures established for the qualitative disclosure in Bank of Italy Circular 262.

The table below shows the mapping of risk disclosure regarding the financial statements and Pillar 3.

	FINANCIAL STATEMENTS		PILLAR 3
	Section/Chapter	**Section**	**Section**
RISKS OF THE BANKING GROUP	PART E - SECTION 2		
- Credit risk	Chapter 1.1		Sections 6-7-8-9-10
- Securitisations	Chapter 1.1	*Paragraph C*	Section 12
- Market risk	Chapter 1.2		Section 13
- Regulatory trading book		*Paragraph 1.2.1*	
- Banking book		*Paragraph 1.2.2*	
- Counterparty risk	Chapter 1.3		Section 11
- Financial derivatives		*Paragraph 1.3.1*	
- Credit derivatives		*Paragraph 1.3.1*	
- Accounting hedges		*Paragraph 1.3.2*	
- Liquidity risk	Chapter 1.4		Section 5
- Operational risks	Chapter 1.5		Section 14
RISKS OF INSURANCE COMPANIES	PART E - SECTION 3		
- Insurance Risks	Chapter 3.1		
- Financial Risks	Chapter 3.2		
RISKS OF OTHER COMPANIES	PART E - SECTION 4		

In addition to credit, market trading book, banking book financial, liquidity, operational and insurance risks, discussed in detail in the following paragraphs, the Group has identified and monitors the following other risks.

Strategic risk

The Intesa Sanpaolo Group defines current or prospective strategic risk as risk associated with a potential decline in profits or capital due to changes in the operating context, misguided Company decisions, inadequate implementation of decisions, or an inability to react sufficiently to changes in the competitive scenario.
The Group's response to strategic risk is represented first and foremost by policies and procedures that call for the most important decisions to be deferred to the Board of Directors, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions ensures that the component linked to any impacts of incorrect company decisions and low reactivity to changes in the competitive scenario are mitigated.
As regards the component more directly related to business risk, i.e. associated with the risk of a potential decline in profits as a result of the inadequate implementation of decisions, changes in the operating context and unexpected changes in the cost of refinancing, is handled not only by using systems for regulating Company management, but also via specific internal capital, determined according to an approach that simulates the volatility of margins, fees and commissions, operating costs and refinancing costs, anchored to the business mix of the Group and its Business Units.
Strategic risk is also assessed as part of stress tests based on a multiple-factor model that describes the relations between changes in the economic scenario and the business mix resulting from planning hypotheses, with analyses to assess the impacts on both interest income and margins from the performance of net fees and commissions.

Reputational risk

The Intesa Sanpaolo Group attaches great importance to reputational risk, namely the current and prospective risk of a decrease in profits or capital due to a negative perception of the Bank's image by customers, counterparties, shareholders, investors and Supervisory Authorities.
The Intesa Sanpaolo Group actively manages its image in the eyes of all stakeholders, by engaging all its Organisational Units and seeking robust, sustainable growth capable of creating value for all stakeholders. In addition, the Group seeks to minimise possible negative effects on its reputation through rigorous and comprehensive governance, proactive risk management and guidance and control of its activities.
The overall management of reputational risk is pursued primarily through:

– compliance with standards of ethics and conduct and self-governance policies. The Code of Ethics adopted by the Group contains the core values that Intesa Sanpaolo intends to commit itself to and sets out the voluntary principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with even broader objectives than those required by current legislation;
– the systematic, independent contribution by the company structures tasked with safeguarding the company reputation, which maintain relations with stakeholders, within their respective areas of responsibility;
– an integrated monitoring system for primary risks, to limit exposure to those risks, and to comply with the related limits contained in the Risk Appetite Framework;
– the Reputational Risk Management processes governed by the Chief Risk Officer Governance Area, which operate transversally across the corporate functions and in synergy with decision-making processes.

Those processes, which involve control, specialist and business functions, for various purposes, specifically include:

– the Reputational Risk Assessment, which seeks to identify the most significant reputational risk scenarios that the Intesa Sanpaolo Group is exposed to, is implemented annually and gathers the opinion of Top Management regarding the potential impact of these scenarios on the Group's image, in order to identify appropriate communication strategies and

specific mitigation actions, where necessary;
- ESG & Reputational Risk Clearing, which is aimed at the ex-ante identification and assessment of the potential reputational risks associated with the most significant business operations, the main capital budget projects and the selection of the Group's suppliers/partners;
- Reputational Risk Monitoring, aimed at monitoring the evolution of Intesa Sanpaolo's reputational positioning (on the web, for example) also with the aid of external analyses.

The reputational risk governance model also includes an integrated compliance risk management system, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature are founded on trust.
In order to safeguard customers' interests and the Group's reputation, specific attention is also devoted to establishing and managing customers' risk appetite, pursued through the identification of the subjective and objective traits of each customer. The assessments of adequacy during the process of structuring products and rendering advisory services are supported by objective information, that considers the true nature of the risks borne by customers when they undertake derivative transactions or make financial investments.
More specifically, the sale of financial products is also governed by specific preventive risk assessment from the standpoint of both the Bank (along with risks, such as credit, financial and operational risks, that directly affect the owner) and the customer (portfolio risk, complexity and frequency of transactions, concentration on issuers or on foreign currency, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered).

ESG (Environmental, Social and Governance) risks and climate change risk

Sustainability, a term referring to the ability to avoid harming the environment and communities, in order to support a medium/long-term economic, social and environmental balance, is a factor of significant, increasing importance for society as a whole. The management of ESG risks thus requires considering not only the impacts of those risks on the Bank's organisation, but also the potential impact on stakeholders and the risks that the Bank exposes its stakeholders and the environment to through its operations.
The Intesa Sanpaolo Group is aware of the importance of fair, responsible allocation of the resources and the influence that a banking group can have in terms of sustainability in both the short and long term and pays particular attention to managing ESG risks, both regarding its operations and relating to the activities of its corporate customers and the sectors considered sensitive, i.e. with a significant ESG risk profile. As part of the risk management framework, the governance of ESG risk factors is outlined in the various primary risk categories (e.g. credit risk, market risk and operational risk) and develops in close integration with the oversight of reputational risk, enhancing the interconnections between these risk profiles. ESG risk, as the risk stemming from the potential negative impacts of a company or activity on the environment, people and communities and also includes risks related to corporate governance, may have impacts on profitability, on reputation and on credit quality and may entail legal consequences.
As part of ESG risks, climate change risk is particularly significant, meaning the risks linked to climate change caused by the accumulation of greenhouse gas in the atmosphere, which may be divided into "physical risks", linked to the physical impact of climate events, and "transition risk", deriving from the process of moving towards a low carbon emission economy, connected with changes in public policy, technology and consumer choices. The Intesa Sanpaolo Group, aware that it has a direct impact on the environment (due, for example, to its consumption of resources) and an indirect impact (through its business activities), has long been attentive to climate change risk. Since 2018 it has supported the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), committing to disseminate transparent reporting on the risks and opportunities linked to that change. In 2021, the Group voluntarily published its first TCFD, to which reference is made for further details, which describes the choices and controls implemented by the Group in relation to managing ESG and climate change issues.
In general terms, the Group adopts a holistic approach to ESG issues, which is based on:
- defining a Group ESG strategy in line with the guidelines provided by Corporate Bodies, supported by the internal governance structures: Intesa Sanpaolo aims to be a sustainable financial intermediary that generates collective value, aware that innovation, development of new products and services and companies acting in a sustainable manner can contribute to reducing the impacts of phenomena such as climate change and social inequalities. For this reason, it actively participates in numerous national and international initiatives (UN Global Compact, UN Sustainable Development Goals, United Nations Environment Programme Finance Initiative (UNEP-FI) etc.). In addition, in 2021 the Group, with a commitment to reduce net emissions to zero by 2050, announced its participation in the Net-Zero Banking Alliance, the Net Zero Asset Managers Initiative (NZAMI), the Net Zero Asset Owner Alliance (NZAOA) and the Net Zero Insurance Alliance (NZIA);
- its own regulatory framework, which includes the 'Guidelines for the Governance of ESG Risks concerning Lending Operations' and voluntary policies on conduct (Code of Ethics, Principles on Human Rights, "Rules for the environmental and energy policy", "Rules for lending operations in the coal sector", "Rules for lending operations in the unconventional oil&gas sector" and "Rules governing transactions with subjects active in the armaments sector") which also aim to define general and specific criteria for limiting and excluding lending in business sectors considered to have the highest exposure to ESG risks;
- integrating ESG factors in the general Risk Management Framework and, specifically, including in the Risk Appetite Framework a specific section dedicated to ESG and climate change risks, which defines specific limits and criteria for lending to sectors and counterparties with the highest exposure to those risks. Moreover, as regards the Credit Risk Appetite, an indicator that guides managers in assessing counterparties in the phase of credit origination, the risk and resilience factors were connected with ESG elements were developed (an external score was added to these which privileges counterparties with a share of production of sustainable goods or services higher than a specific threshold out of total turnover);
- adopting a corporate rating model, validated by the ECB, which includes social and environmental elements (e.g. environmental certifications, research and development) which could lead to an improvement in the rating. During 2021, an application was submitted to the Supervisory Authorities for the validation and authorisation of a new rating model which further strengthens the analysis of ESG factors by defining and including in the model a score developed internally

based on ESG information (large corporate counterparties). For Italian corporate counterparties, the qualitative portion of the rating model also includes the assessment of aspects linked to catastrophic events based on the specific geographic area;
- integrating ESG factors into the credit framework by adopting sector mapping in terms of the potential impact of climate and ESG risks and the assessment of those risks as part of the processes of implementing the Equator Principles (the Group joined the Association in 2007 and adopts the "EP IV", the updated version of the Guidelines on the matter), and ESG & Reputational Risk Clearing Principles. That assessment is particularly important with regard to loans to Corporate customers, specifically for transactions with counterparties operating in sectors classified as sensitive in terms of ESG aspects and those classified as Most Significant Transactions. In this area, in 2021 specific attention was paid to developing a counterparty ESG score to support the decision-making and control processes. The Credit Risk Appetite, sector mapping and counterparty ESG score are, in turn, considered in the Credit Strategy Framework, aimed at guiding, also through specific pricing corrections, the origination of credit to businesses, with the goal of optimising the risk/return combination of the specific portfolio;
- promoting a sound culture of ESG risk oversight in the entire company organisation.

With specific reference to including climate change risk in the Risk Management Framework, specific attention was paid from 2019 to 2021 on developing stress testing and scenario analysis methodologies. During 2021, the architectural and methodological preparation was begun also to support the ECB climate stress test planned for the first half of 2022. The scenario analysis and stress testing framework is based on the following elements:
- a dedicated platform for measuring transition risk on the Large and Mid-Corporate customer segments. The solution in synergy with the climate stress test envisaged by the ECB provides a bottom-up impact assessment on financial statements, that is, at single counterparty level, based on selected stress scenarios (generally coinciding with those set out in the NGFS - Network of Central Banks and Supervisors for Greening the Financial System Framework);
- a calculation engine specifically developed to measure the transition risk of the SME portfolio. A top-down approach, at aggregated level, is used in this case, with estimates based on sector approximations (enriched with idiosyncratic adjustments, only where available, at single counterparty level). The model provides a series of financial statement projections for single businesses, though starting from the specific sector, exploiting specific scenarios in line with the requests to conduct the stress test required by the ECB;
- the adoption of a specific approach to define the long-term strategic response in line with the achievement of the Group's net zero targets.

These activities are part of the Action Plan presented in May 2021 to the ECB, to implement the expectations of the ECB Guide on Climate Related and Environmental Risks.

With reference to direct environmental risks, Intesa Sanpaolo has defined its own environmental plan, the Climate Change Action Plan, which identifies the Group's medium/long-term objectives to reduce its CO_2 emissions and increase the use of renewable sources. With regard to hydrogeological risk (floods and landslides), which also relates to climate change and the possible occurrence of crisis scenarios in Italy which could have repercussions on Intesa Sanpaolo's properties, a series of company structures is to be activated. In order to ensure business continuity in the areas most affected by the inclement weather, the crisis delegates of local and central structures are activated for timely reporting of critical situations, with particular regard to delays in the transport of valuables and correspondence, difficulties for personnel in reaching their workplaces, operational issues and problems with branch physical plant. In parallel, the Critical Events Management company structure is activated from the first weather alert, along with, in very serious disaster situations, the Emergency Management Operations Centre of the Business Continuity Management Department, which monitors the situation and assesses whether to close facilities temporarily and to take any additional action.

To favour awareness and engagement of Group customers, a variety of training initiatives have been launched by the Group.

Risk on owned real-estate assets

The risk on owned real-estate assets may be defined as risk associated with the possibility of suffering financial losses due to an unfavourable change in the value of such assets and it is thus included in the category of banking book financial risks. Real-estate management is highly centralised and represents an investment that is largely intended for use in company operations. The degree of risk in the portfolio of owned properties is represented by calculating an economic capital based on the volatility observed in the past in indexes of mainly Italian real estate prices, the main type of exposure associated with the Group's real-estate portfolio, with a degree of granularity of geographical location and intended use appropriate to the real estate portfolio at the reporting date.

Risk on equity investments not subject to line-by-line consolidation

The risk in the equity investment portfolio is related to the possibility of incurring economic losses due to the adverse changes in values of investments not subject to line-by-line consolidation.
The scope considered consists of the equity instruments held in financial and non-financial companies, and includes financial investment instruments, commitments to purchase, and derivatives with underlying equity instruments and equity funds.
The model used to estimate the Economic Capital is based on a PD/LGD approach similar to the credit risk portfolio model and it is used for the stand-alone equity investment portfolio. The applicable LGD is the regulatory LGD, whereas the model's other parameters are the same as those used in the portfolio model for credit risk.

Risk related to defined-benefit pension funds

The risk related to defined-benefit pension funds is attributable to the possibility of having to increase the reserve that the Parent Company Intesa Sanpaolo maintains to guarantee the benefits of those pension funds, based on an adverse change in the value of the assets and/or liabilities of the pension funds concerned. This risk is fully considered within the assessment of capital adequacy, measured and controlled both with respect to Economic Capital, using an econometric model for the main macroeconomic variables, as well as to prospective baseline and stress scenarios.

Model risk

Model risk is defined as the potential loss an institution may sustain, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models. In continuity with previous years, within the 2021 ICAAP Report, the Internal Validation and Controls Head Office Department updated the model risk assessment (expressed synthetically through a score) of the methodologies supporting the measurement of Pillar 1 and Pillar 2 risks that also contribute to the calculation of the Economic Capital and provided the Enterprise Risk Management Head Office Department with the parameters for the quantification of the model risk economic capital buffer.

Emerging risks

The strengthening of the overall risk management system also involves the identification, understanding and monitoring of so-called emerging risks, i.e. risks characterised by components that are little-known or rapidly evolving, potentially significant in the medium term to the Group's financial position and business model, even though their effects are not easy to assess and cannot yet be fully integrated into the most consolidated risk management frameworks.
The identification of these types of risks derives primarily from the continuous analysis of the external environment and the main findings gathered by the risk management function as part of identifying risk, continuously performed within the Group to maintain ongoing alignment with the changing internal and external context and to guarantee the adequacy of the controls and limits implemented to safeguard long term viability. In addition to being performed as part of the identification and assessment processes, that activity also involves comparison with peers and with market best practices, as well as with the Bank's other control/business functions.
Any emerging risks for which a model for calculating economic capital has not been developed are assessed, in any event, using expert-based approaches or using proxies or simplified calculation models in order to guarantee a prudent assessment of the economic capital absorbed.

In that context, the increasing digitalisation of technological infrastructure and the commercial offering, the increased process automation (e.g. through the introduction of robotics and/or artificial intelligence) and the introduction of new ways of working have changed the morphology of certain risks. Specifically, though they do not represent intrinsically new risks, it is probable that there will be significant exposure to:

– IT and Cyber risks, in relation to: (i) the increasing dependence on ICT systems and the resulting increase in the number of users of virtual channels and interconnected devices, (ii) exponential growth in the quantity of data managed, which must be high quality and protected, (iii) greater use of IT services offered by third parties (Open Banking, Fintech, Cloud systems), and (iv) low production costs of new attack techniques with the presence of organisation with specific skills and experience;
– risks connected with the digital transformation process linked to the increase in competition triggered by digitalisation in the financial sector (e.g. entry of new competitors) and the vulnerability that still marks the current operating context (e.g. costs of the digitalisation process, obsolescence of legacy systems and fragmentation of the regulatory framework);
– third party risk, in relation to: (i) greater dependence on systems and services offered by third parties (both regarding the outsourcing of company processes and the growing dependence on providers of cloud or IT services in general).

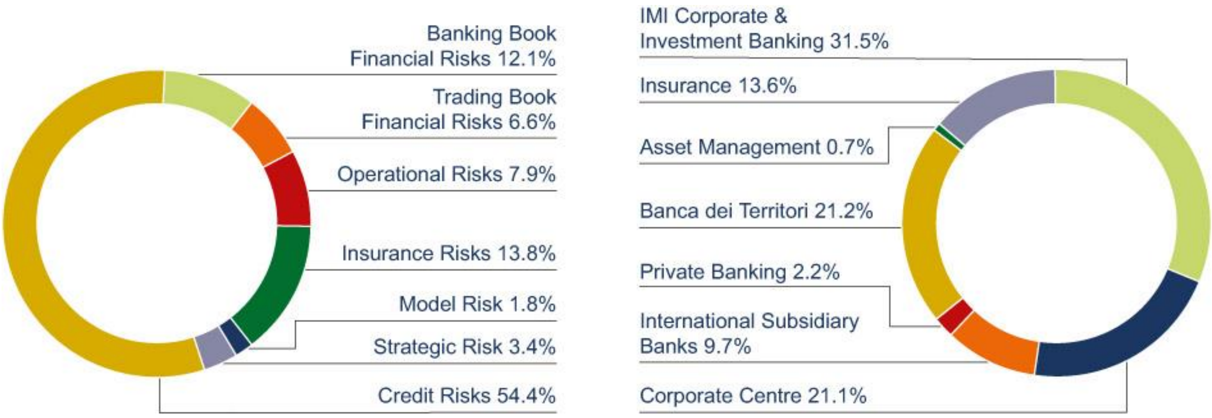
The ongoing evolution of the internal and external operating context requires the continuous updating of the current risk management frameworks, to maximise their effectiveness in identifying and mitigating the Group's potential exposure. In that sense, a series of projects have been launched to optimise the Group's Digital Operational Resilience profile, specifically by developing the current assessment processes towards more timely, data driven approaches.

Moreover, in order to effectively oversee that development, in addition to accelerating the digitalisation process in order to increase long-term profitability and take advantage of new commercial opportunities (also considering the harsh pressures on the net interest income and fee and commission income), the Group continued to guarantee investments to:

- continuously expand Cybersecurity controls (including customer awareness campaigns), in line with best practices and the specific international standards, as well as to gradually upgrade ICT systems (e.g. digitalise services, internationalise the business and activate cloud services);
- expand monitoring and control of third parties, also considering the increased complexity of relationships;
- develop the knowledge and skills of internal resources (e.g. Upskilling/Reskilling programmes, increase awareness of issues of ICT, Cyber, Third Party and ESG Risks).

Absorption of Economic Capital by type of risk and Business Unit

The following is an illustration of the breakdown of the Group's Economic Capital by type of risk and Business Unit.



The absorption of Economic Capital by Business Unit reflects the distribution of the Group's various activities and the specialisations of the business areas.
The majority of risk is concentrated in the "IMI Corporate & Investment Banking" Business Unit (31.5% of the total Economic Capital): this is attributable to the type of customers served (Corporate and Financial Institutions) and Capital Market activities. This Business Unit is assigned a significant share of credit risk and trading book risk. The "Banca dei Territori" Business Unit (21.2% of the total Economic Capital) is a significant source of absorption of Internal Capital, in line with its role as core business of the Group, serving Retail, Private and Small/Middle Corporate customers. It is assigned a sizeable portion of credit risk and operational risk. Most of the insurance risk is assigned to the "Insurance" Business Unit (13.6% of the total Economic Capital). The "International Subsidiary Banks" Business Unit is assigned 9.7% of the total risk, predominantly credit risk. In addition to credit risk, the "Corporate Centre" is attributed with the risks typical of this Business Unit, namely those resulting from investments, the risks pertaining to the exposures in default, the Banking Book interest rate and exchange rate risk, the risks arising from the management of the Parent Company's FVOCI portfolio (21.1% of the overall Economic Capital).
Absorption of Economic Capital by the "Private Banking" and "Asset Management" Business Units is marginal (2.2% and 0.7%, respectively) due to the nature of their business, which is predominantly aimed at asset management activities.

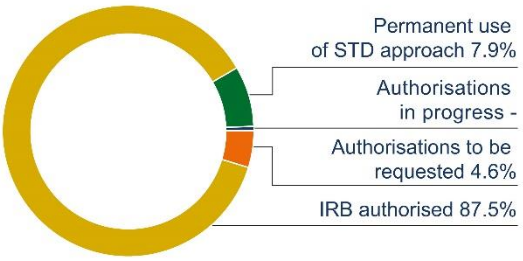
The Basel 3 regulations

In view of compliance with the reforms of the previous accord by the Basel Committee (“Basel 3”), the Intesa Sanpaolo Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.

With regard to credit risks, the ECB's authorisations to use the new Institutions and Retail SME models for regulatory purposes were implemented starting from June 2021.
The periodic updating and alignment to changes in regulations governing IRB systems and their extension to the Italian subsidiaries originating from the former UBI Group and the international subsidiaries (according to the Group’s roll-out plan) continue in accordance with the Regulatory Roadmap agreed with the Supervisory Authorities.

With regard to the progress of the roll-out plan for the internal models for credit risk, the share of exposures authorised for the IRB system is 87.5% of the loans portfolio. There are no pending authorisations, while requests to be made for the remaining portfolios of the Group’s Italian and international banks represent 4.6% of the portfolio. For the remainder, equal to 7.9%, the permanent use of the Standardised approach has been reported to the supervisory authorities.

Roll-out plan for internal models for credit risk(*)



(*) Percentages calculated based on the full standard RWA amounts as at 31.12.21. The portfolios are considered to be covered by IRB models when the authorisation has been received, from the Supervisory Authority, for use of the internal model for at least one of the risk parameters.

With regard to counterparty risk, the Banking Group improved the measurement and monitoring of the risk, by refining the instruments required under Basel 3. For reporting purposes, the Parent Company is authorised to use the internal models approach for the reporting of the requirement with respect to counterparty risk both for derivatives and for SFTs (Securities Financing Transactions, i.e. repos and securities lending). This authorisation was obtained for derivatives from the first quarter of 2014, and for SFTs from the report as at 31 December 2016.
For management purposes, the advanced risk measurement approaches have been implemented for the OTC derivatives of the Parent Company since 2010 and were subsequently extended in 2015 to Securities Financing Transactions.
With respect to 31 December 2020, the approval letter authorising the use of the initial margin simulation model for central counterparties and bilateral counterparties for reporting purposes was received on 6 April 2021. The model was applied starting from June 2021. Also from June 2021, the internal counterparty risk model also covers positions arising from the merger of UBI Banca. In addition, in compliance with the entry into force of Regulation (EU) 2019/876 (CRR II), starting from June 2021 Intesa Sanpaolo adopted the SA-CCR method when calculating counterparty risk exposures on derivative transactions not covered by an internal model. In compliance with the regulatory transaction thresholds, several of the Group’s international subsidiary banks have adopted simplified methods for calculating exposures.

With regard to operational risk, the Group obtained authorisation to use the Advanced Measurement Approach (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009. Please note that, on 30 June 2021, the Group was authorised to extend its advanced model to some entities belonging to the former UBI Group, specifically to: UBI Banca (merged by incorporation into Intesa Sanpaolo S.p.A. on 12 April 2021), including the entities of the former Banca Marche, former Banca Etruria and former CariChieti, UBI Sistemi e Servizi (merged by incorporation into Intesa Sanpaolo S.p.A. on 12 July 2021) and IW Bank Private Investments. Moreover, on 31 December 2021, the extension of the advanced model to UBI Factor (merged by incorporation into Intesa Sanpaolo S.p.A. on 25 October 2021), Pramerica SGR and Pramerica Management Company (merged by incorporation into Eurizon Capital SGR S.p.A. and into Eurizon Capital S.A., respectively, on 1 July 2021) was authorised. The current scope of the Advanced Measurement Approach (AMA) is therefore comprised of Intesa Sanpaolo and the main banks and companies in the Private Banking and Asset Management Divisions, as well as by VUB Bank and PBZ Banka.

The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal risk measurement methodologies, internal capital and total capital available, was approved and sent to the ECB in April 2021.

As part of its adoption of Basel 3, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled “Basel 3 - Pillar 3” or simply “Pillar 3”.

The document is published on the website (www.group.intesasanpaolo.com) each quarter.

Other risk factors

In addition to the above risks, the Intesa Sanpaolo Group is carefully assessing the following risk factors.

Interest Rate Benchmark Reform – General aspects
In recent years, the European benchmark rates have been undergoing extensive reform, largely due to the introduction of the European regulation on benchmarks (Benchmark Regulation, Regulation (EU) 2016/1011), published in 2016 and in effect since January 2018. This regulation, which was partially revised at the end of 2020, establishes precise rules for contributors, users and administrators of benchmarks and also requires that the fixings for those benchmarks be determined, as far as possible, on the basis of actual transactions concluded on the relevant markets, in accordance with the recommendations from the Financial Stability Board and the IOSCO Principles, in view of the central role of the benchmark rates for the proper functioning of the global financial system.
In the specific case of the short-term benchmark rates declared critical by the European authorities, reforms relating to the following were required:
- Euribor: the revision by the EMMI (European Money Market Institute) of the method for determining fixings ("hybrid" method), using transactions concluded on the unsecured money market of up to 12 months by provider banks, where available, came into full effect from November 2019; only where the latter are lacking on all or some maturities will recognition based on proprietary algorithms of the administrator be triggered in an initial phase, and where these are insufficient, the cost of funds curves produced by the single provider banks will be activated, based on suitably approved and documented methodologies. The 2019 reform was managed in full continuity with regard to the measurement of the market of reference, the determination and the use of fixing. As required by the Benchmark Regulation, the methodology is reviewed annually by the Administrator, who has implemented the updates from April 2021 with the aim of making it as robust as possible through a partial revision of the scope of the transactions included in the calculation; The review was announced in November 2021, and its results will be communicated during 2022, confirming not only compliance with the obligations of the regulation but also the intention to continuously increase the reliability and representativeness of the index.
- Eonia: from October 2019, the fixings have been calculated using the risk-free rate published by the European Central Bank (€STR rate), identified on the basis of the overnight transactions concluded by the major European banks and reported according to the rules imposed by the Money Market Statistical Reporting (EU 2014/1333). The Eonia fixing was published on 3 January 2022, with the last recording referring to 31 December 2021. Subsequently it was permanently replaced by €STR plus a fixed spread of 8.5 basis points, quantified and made official by the ECB based on historical information. In October 2021, the European Commission designated €STR also as the interest rate to be applied when a statutory replacement of the Eonia is required.

The €STR rate also constitutes the basis for the calculation of the Euribor fallback rate, to be indicated in the contracts and to be used in the event of any future permanent cessation of publication of the Euribor. To facilitate the calculation of replacement rates, since April 2021 the ECB has been publishing daily the Compounded €STR Index and compounded €STR average rates, which have been included as one of the possible alternatives in the recommendations of the Working Group on euro risk free rates published in May 2021.
Outside the borders of the Eurozone, on 5 March 2021 the Financial Conduct Authority (FCA) – in coordination with the administrator of the Libor, the ICE Benchmark Administration – announced 31 December 2021 as the last date for the publication of Libor interest rates in pounds sterling, euro, Swiss Francs and Japanese yen, as well as of 1-week and 2-month LIBOR USD rates. The LIBOR USD rates on other maturities (overnight, 1, 3, 6 and 12 months) will continue to be published up to 30 June 2023, mainly to enable the transition of those contracts for which it is extremely difficult to convert to an interest rate other than the Libor or to make an amendment to add a fallback rate in a short time.
In the last few years, the authorities in the various jurisdictions, the central banks, associations and market operators have actively worked to identify the risk-free rates (RFR) that could be used as the new benchmarks on the monetary markets: from 2016 onwards, various working groups created within their respective jurisdictions have identified and indicated, also through official recommendations, the risk-free rates that will act as fallback rates for the Libor and which, in addition to complying with the IOSCO principles, will be more representative of the real market conditions, as they are based on actual transactions with significant, stable volumes.
The following is a summary of the framework of risk-free rates:

IBOR	Risk Free Rate	Administrator	Secured or Unsecured	Transaction
GBP LIBOR	SONIA	Bank of England	Unsecured	o/n wholesale deposits
USD LIBOR	SOFR	New York Fed	Secured	o/n UST repo
JPY LIBOR	TONAR	Bank of Japan	Unsecured	o/n call rate
CHF LIBOR	SARON	SIX Swisse Exchange Ltd.	Secured	interbank o/n report
EUR LIBOR	€STR	ECB	Unsecured	o/n wholesale deposits

Source: ICE Benchmark Administration, Intesa Sanpaolo

At the same time as the FCA's announcement, the International Swaps and Derivatives Association (ISDA) established the rules for the transition of derivative contracts between counterparties adhering to the ISDA protocol, at the same time defining the values of Credit Adjustment Spreads to be applied in the transition to RFR in the manner already established and approved for the calculation of the Libor fallbacks.

Lastly, with regard to the US dollar, the main currency involved in the elimination of the Libor, in July 2021 the Alternative Reference Rates Committee (ARRC) took action on two fronts to accelerate the transition of the USD:
- announcement of the conventions and recommendations of best practices for using the SOFR Term Rates in existing contracts to define the fallbacks and in new contracts to be activated for the purpose of permanent elimination of the Libor;
- the CME Group's formal recommendation on using the forward-looking Secured Overnight Financing Rate (SOFR) term rates (SOFR Term Rates) as the preferred rate to replace the Libor, thus increasing the clarity on the various alternative rates on the US market.

Interest Rate Benchmark Reform – Intesa Sanpaolo's activities
In recent years, Intesa Sanpaolo has closely monitored the developments relating to benchmarks, and in 2016 it launched a dedicated project involving the participation of all the corporate functions involved in various capacities.
Leveraging the work of the special projects and within the expenditure limits set out in the project capital budget, the project work also continued in 2021, focusing on the following aspects in particular:
- bilateral negotiations with counterparties for the migration of Credit Support Annexes (CSAs) from Eonia to €STR;
- progressive greater use of €STR derivatives;
- progressive discontinuation of the product mix indexed to GBP Libor starting in the first half of the year and same for CHF, JPY and USD Libor products in the second half of the year to promote and anticipate, to the extent possible, the transition to RFR;
- activities at all levels for the inclusion of robust fallback clauses in the outstanding contracts indexed to Libor;
    - activation of new projects and lines dedicated to bonds linked to the overnight risk-free rates (owned by the Bank and customers);
    - management of the transition with the clearing houses for derivatives subject to clearing. The Group has derivatives contracted with central counterparties (CCP) – LCH and Eurex – which have set up an active transition mechanism – which was carried out in the fourth quarter of 2021 – based on standard rules for all participants and considering the criteria for determining spreads based on the fallback provisions drawn up by the industry as part of the benchmark reform. That conversion method is in line with the provisions of the IASB to apply relief on hedge accounting, and therefore, does not entail problems for maintaining the hedging relationships impacted;
- preparation of the IT structure necessary for the use of RFR in the Bank's accounting and management systems;
- constant information updates for the Group's international legal entities;
- synergic post-merger management with UBI Banca of specific cases in the incorporated bank (e.g. mortgages linked to the Libor CHF rate);
- monitoring of the ISDA developments by signing the documents that, from the beginning of the year, include the new market standards and monitoring contract updating activities also on a bilateral basis. In particular, Intesa Sanpaolo has adopted:
    - the ISDA 2020 IBOR Fallbacks Protocol and can therefore implement the IBOR Fallbacks Supplement rules for existing derivative contracts concluded before the Supplement's effective date with all counterparties that have adhered to the Protocol;
    - the 2021 EONIA Collateral Agreements Fallbacks Protocol (the EONIA Collateral Protocol);
- collaboration with the Italian authorities to support the development of the new RFR rates market;
- participation in public consultations at international level, also providing input to the Italian Banking Association to produce feedback at national level;
- providing feedback on transition readiness for foreign authorities in countries where Group companies are present, and to the ECB Joint Supervisory Team for general aspects related to the Group;
- delivery of specialist training to staff via remote learning and courses on the digital learning platform;
- provision of information to customers via dedicated pages on the Group's website on the benchmark transition process, webinars for financial area customers and the provisions of various specialised reports edited by the Research Department.

Intesa Sanpaolo has also continued to take part in various initiatives, among which the most significant were European working groups organised by EMMI, the European Central Bank and, in July 2021, ESMA.
In this latter area in particular, Intesa Sanpaolo also acted in the last year as a voting member and participant in individual project streams in the working group on euro risk free rates, in which it has also held the new role of Ambassador for Italy since 2020. The main activities of this working group include the designation of €STR as the new benchmark for the short-term money market and the publication of recommendations for the transition from Eonia to €STR and for the Euribor fallbacks in May 2021. More recently, the working group actively engaged with the European Commission to obtain the statutory replacement of the Eonia and the Libor CHF with new risk-free rates.

As reported in the Chapter "Accounting Policies", in 2021, Regulation (EU) 2021/25 of 13 January 2021, adopting the document "Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16" published by the IASB on 27 August 2020 regarding issues pertaining to the second phase of the interest rate benchmark reform project (IBOR Reform), became binding and applicable for the first time. The main amendments introduced concern the possible accounting impacts of the application of the new rates (so-called replacement issue), in particular the accounting treatment of amendments to existing contracts and of hedge accounting. No impacts on the Intesa Sanpaolo Group are foreseen for the modifications with the characteristics envisaged by the standard, in line with the objective of the amendments introduced by the IASB aimed at preventing distortions in the financial statements as a result of the reform.
See Part A, Section 5 - Other Aspects for details on the financial instruments that had not transitioned to the new RFR at the reporting date.

Furthermore, the Intesa Sanpaolo Group has applied since the 2019 Financial Statements Regulation (EU) 34/2020 of 15 January 2020, which adopted the document issued by the IASB on "Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)", which introduced several amendments regarding hedge accounting designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform from causing the discontinuation of existing hedges and difficulties in designating new hedging relationships.

SECTION 1 – RISKS OF THE CONSOLIDATED BOOK

In this Section, information is provided regarding the companies included in the consolidated book.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and quotas of UCI.

A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

***A.1.1. Breakdown of financial assets by portfolio classification and credit quality (book values) -** Excluding insurance companies*

(millions of euro)

Portfolios/quality		Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	TOTAL
1. Financial assets measured at amortised cost		2,127	4,357	621	5,768	655,993	668,866
2. Financial assets measured at fair value through other comprehensive income		-	-	-	238	64,070	64,308
3. Financial assets designated at fair value		-	-	-	-	4	4
4. Other financial assets mandatorily measured at fair value		3	35	1	47	1,157	1,243
5. Non-current financial assets held for sale		434	772	-	-	-	1,206
Total	**31.12.2021**	**2,564**	**5,164**	**622**	**6,053**	**721,224**	**735,627**
Total	**31.12.2020**	**5,019**	**7,366**	**525**	**5,229**	**676,342**	**694,481**

The table above provides comparison data to financial year 2020 in compliance with the new provisions of the 7th update to Circular 262, which provides for on demand loans and receivables due from banks to be represented under "Cash and cash equivalents", and no longer under "Financial assets measured at amortised cost - Due from banks".

***A.1.1. Bis. Breakdown of financial assets by portfolio classification and credit quality (book values) -** Insurance companies*

(millions of euro)

Portfolios/quality		Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	TOTAL
1. Financial assets available for sale		-	-	-	-	88,540	88,540
2. Investments held to maturity		-	-	-	-	-	-
3. Due from banks		-	-	-	-	41	41
4. Loans to customers		-	-	-	-	44	44
5. Financial assets designated at fair value		-	-	-	-	5,532	5,532
6. Non-current financial assets held for sale		-	-	-	-	-	-
TOTAL	**31.12.2021**	**-**	**-**	**-**	**-**	**94,157**	**94,157**
TOTAL	**31.12.2020**	**-**	**-**	**-**	**-**	**79,919**	**79,919**

The table above provides comparison data to financial year 2020 in compliance with the new provisions of the 7th update to Circular 262, which provides for on demand receivables due from banks to be represented under "Cash and cash equivalents", and no longer under "Due from banks".

A.1.2. Breakdown of financial assets by portfolio classification and credit quality (gross and net values) - *Excluding insurance companies*

(millions of euro)

Portfolios/quality	NON-PERFORMING ASSETS				PERFORMING ASSETS			TOTAL (net exposure)
	Gross exposure	Collective adjustments	Net exposure	Total partial write-offs	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets measured at amortised cost	15,358	-8,253	7,105	6,476	664,318	-2,557	661,761	668,866
2. Financial assets measured at fair value through other comprehensive income	35	-35	-	-	64,357	-49	64,308	64,308
3. Financial assets designated at fair value	-	-	-	-	X	X	4	4
4. Other financial assets mandatorily measured at fair value	47	-8	39	-	X	X	1,204	1,243
5. Non-current financial assets held for sale	4,504	-3,298	1,206	682	-	-	-	1,206
Total 31.12.2021	**19,944**	**-11,594**	**8,350**	**7,158**	**728,675**	**-2,606**	**727,277**	**735,627**
Total 31.12.2020	**26,536**	**-13,626**	**12,910**	**8,860**	**683,037**	**-3,111**	**681,571**	**694,481**

(millions of euro)

Portfolios/quality	ASSETS OF EVIDENTLY LOW CREDIT QUALITY		OTHER ASSETS
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-26	34	46,315
2. Hedging derivatives	-	-	1,732
Total 31.12.2021	**-26**	**34**	**48,047**
Total 31.12.2020	**-45**	**37**	**53,395**

The table above provides comparison data to financial year 2020 in compliance with the new provisions of the 7th update to Circular 262, which provides for on demand loans and receivables due from banks to be represented under “Cash and cash equivalents”, and no longer under “Financial assets measured at amortised cost - Due from banks”.

A.1.2. Bis Breakdown of financial assets by portfolio classification and credit quality (gross and net values) - *Insurance companies*

(millions of euro)

Portfolios / Quality	Impaired assets			Not impaired assets			Total (net exposure)
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets available for sale	-	-	-	88,540	-	88,540	88,540
2. Investments held to maturity	-	-	-	-	-	-	-
3. Due from banks	-	-	-	41	-	41	41
4. Loans to customers	-	-	-	44	-	44	44
5. Financial assets designated at fair value	-	-	-	X	X	5,532	5,532
6. Non-current financial assets held for sale	-	-	-	-	-	-	-
Total 31.12.2021	**-**	**-**	**-**	**88,625**	**-**	**94,157**	**94,157**
Total 31.12.2020	**-**	**-**	**-**	**74,999**	**-**	**79,919**	**79,919**

(millions of euro)

Portfolios / Quality	Assets of evidently low credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	856
2. Hedging derivatives	-	-	291
Total 31.12.2021	**-**	**-**	**1,147**
Total 31.12.2020	**-**	**-**	**683**

The table above provides comparison data to financial year 2020 in compliance with the new provisions of the 7th update to Circular 262, which provides for on demand receivables due from banks to be represented under “Cash and cash equivalents”, and no longer under “Due from banks”.

B. INFORMATION ON STRUCTURED ENTITIES (OTHER THAN SECURITISATION VEHICLES)

In line with IFRS 12, the Group considers structured entities to be entities set up to achieve a narrow, well-defined objective, defined through contractual arrangements which often impose strict restrictions on decision-making powers of the entity's management bodies. In that sense, structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, as they refer to administrative tasks, while the relevant operating activities are directed by means of contractual arrangements agreed on at the time of structuring the structured entity, which are difficult to modify. The characteristics of a structured entity include:

- limited activities;
- a narrow and well-defined objective;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

The structured entities through which the Group operates are mainly Special Purpose Entities (SPEs) and UCIs.

B.1. Consolidated structured entities

There are no structured entities consolidated in the accounts other than securitisation companies that fall within the scope of the Intesa Sanpaolo Banking Group.

B.2. Structured entities not consolidated in the accounts

B.2.1. Prudential consolidation of structured entities

There are no structured entities consolidated for prudential purposes other than securitisation companies that fall within the scope of the Intesa Sanpaolo Banking Group.

B.2.2. Other structured entities

Qualitative information

As indicated above, the Group's operations through structured entities are also carried out through SPEs. To that end, SPEs are understood as legal entities established to pursue a specific, well-defined and limited objective:

- to raise funds on the market by issuing specific financial instruments;
- to develop and/or finance a specific business initiative, capable of generating, through an economic activity, cash flows which permit the complete reimbursement of the debt;
- to finance the acquisition of a target company which, through its economic activity, will be capable of generating cash flows for the SPEs which permit the complete reimbursement of the debt.

For the purposes of this section, operations carried out through securitisation vehicles, that is vehicles established to acquire, sell and manage specific assets, separating them from the financial statements of the Originator, for the purpose of carrying out securitisations of assets or for acquiring funding through self-securitisations and issues of Covered Bonds (CB), shall not be relevant. For those types of vehicle companies, reference should be made to section "C. Securitisations" and section "D. Sales" of Part E of the Notes to the consolidated financial statements.

In some cases, the Group sponsors the SPE by structuring the transaction to pursue specific objectives, such as raising funds, securitising its own assets also for the purposes of funding or offering financial services to customers.

In detail, the Group's operations are carried out through the following types of structured entities represented by special purpose entities (SPEs).

Project Financing SPEs

These are financing instruments for capital intensive projects, which are based on the economic or financial validity of the industrial or infrastructural project, and are independent from the standing/creditworthiness of the sponsors who developed the “entrepreneurial” idea. The financing of the initiative is based on the project’s capacity to generate positive cash flows, sufficient to reimburse loans received and guarantee an adequate risk-adjusted return on invested capital.

The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

Asset Backed SPEs

These are transactions aimed at acquisition/construction/management of physical assets by SPEs financed by one or more entities. Their recovery prospects mostly depend upon the cash flows generated by the assets. The assets generate cash flows in their recurring operations (e.g. rentals, goods transportation contracts, etc.) or in their non-recurring operations (e.g. a real estate development or disposal plan). Generally, the assets are also the collateral for the financing disbursed to the vehicle.

The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without any direct equity investments or any other interests which might lead to presume the role of sponsor. The risk undertaken is always a normal credit risk and the benefits are represented by the return on the financing granted.

Leveraged & Acquisition Finance SPEs
This category includes exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long-term) to legal entities in which the majority of share capital is held by private equity funds.
These are mainly positions in support of Leveraged Buy-Out projects (therefore with high leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

The Intesa Sanpaolo Group also has investments in/exposures to structured entities represented by UCIs.
The main cases include the Group's investments in several closed-end and reserved private equity as well as venture and seed capital funds.
The exposures to UCIs also include the investments in units of real estate funds deriving from transactions to contribute portions of the Group's real estate portfolio.
They also consist of investments in UCIs deriving from credit recovery operations or contributions of non-performing loans, together with other banking entities, to funds managed by specialist entities.
The investments in UCIs also include the units held in the Atlante Fund and the Italian Recovery Fund, alternative investment funds managed by the asset management company Quaestio Capital Management, involved in value enhancement of Non-Performing Loans of Italian banks.
Lastly, the Intesa Sanpaolo Group invests in hedge funds. For more information, reference is made to the specific section in Part E of the Notes to the consolidated financial statements.
The Group made further investments in UCIs through the subsidiary Eurizon Capital SGR and the companies controlled by it, in line with the financial portfolio management policies issued by the asset management company and its subsidiaries, in agreement with the Intesa Sanpaolo Group Guidelines. In detail, the asset management company and its subsidiaries have both temporary and structural available funds deriving from company equity that is not permanently invested in equity investments or other fixed assets, and from the ordinary cash flows. Based on that set out in the guidelines for managing the financial portfolio, as part of liquidity management activities, structural and temporarily available funds linked to the trend in short-term and on demand cash flows make up the liquidity portfolio net of the amount held in current accounts or invested in term deposits. In relation to the activities carried out by the asset management company and its subsidiaries and the characteristics of the available funds in question, excess liquidity must be invested in assets with moderate risk that can be easily liquidated. That portfolio includes investments in short-term money market and bond funds, both specialising in the Eurozone, established and/or managed by Eurizon Capital SGR or by its subsidiaries. The Group's investments in UCIs managed by subsidiaries do not prejudice the operational autonomy and capacity of the asset management companies to act in the exclusive interest of investors, considering the specific provisions set out in sector regulations and by the Supervisory Authorities.

The table below summarises the accounting portfolios that the debit and credit transactions with unconsolidated structured entities are allocated to.

Quantitative information

(millions of euro)

Captions / Type of structured entity	Accounting portfolios under assets	Total assets (A)	Accounting portfolios under liabilites	Total liabilities (B)	NET BOOK VALUE (C = A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and book value (E = D - C)
1. Special purpose vehicle		**3,392**		**669**	**2,723**	**4,033**	**1,310**
	Financial assets held for trading	268	Due to customers	658			
	Other financial assets mandatorily measured at fair value	3	Financial liabilities held for trading	11			
	Financial assets measured at fair value through other comprehensive income	24		-			
	Financial assets measured at amortised cost - Loans to customers	3,097					
2. UCI		**4,293**		**316**	**3,977**	**4,554**	**577**
	Financial assets held for trading	149	Due to customers	315			
	Financial assets designated at fair value	3,801	Financial liabilities held for trading	1			
	Assets measured at amortised cost Loans to customers	343		-			

The maximum exposure to risk, representing the maximum exposure of the Group to losses deriving from its interests in structured entities, is generally equal to the net book value, to which, where applicable, several types of off-balance sheet exposures are added (e.g. committed credit lines or guarantees given). The net book value equals the exposure in the financial statements net of value adjustments recorded during the current and previous years.
For UCIs, the maximum risk exposure also includes the Group's commitments, not yet called up by the fund, to subscribe additional units.

The table below shows the amount and type of revenues earned over the year by structured entities. The main component of the revenues recognised consists of fees deriving from the management and placement of the UCIs sponsored and managed by the Group's asset management companies and placed with customers. The fees in question are charged by the asset management company to the funds managed and partly reversed to the distribution network for the placement service.

(millions of euro)

Type of structured entity sponsored	Interest	Fees and commissions	Dividends	Other revenue	TOTAL
UCI	66	2,603	72	-120	2,621
Special-purpose vehicles	104	14	-	40	158

SECTION 2 – RISKS OF THE PRUDENTIAL CONSOLIDATION

In this section the figures are shown gross of the transactions with the other companies included in the scope of the accounting consolidation. These figures usually also include the assets and liabilities, in proportion to the interest held, of the jointly-controlled banking, financial and operational companies consolidated proportionally for reporting purposes. Where the contribution of transactions between the companies included in the prudential consolidation and the other companies in the scope of the accounting consolidation is material, the details of those transactions are provided at the foot of the disclosure concerned.

The following table contains the reconciliation of the consolidated balance sheet with the banking regulatory-scope balance sheet.

(millions of euro)

Assets		31.12.2021 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2021 Regulatory-scope balance sheet
10.	Cash and cash equivalents	14,756	-806	13,950
20.	Financial assets measured at fair value through profit or loss	52,731	608	53,339
	a) financial assets held for trading	47,181	15	47,196
	b) financial assets designated at fair value	4	-	4
	c) other financial assets mandatorily measured at fair value	5,546	593	6,139
30.	Financial assets measured at fair value through other comprehensive income	67,580	15	67,595
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	206,800	-206,800	-
40.	Financial assets measured at amortised cost	668,866	840	669,706
	a) due from banks	163,937	3	163,940
	b) loans to customers	504,929	837	505,766
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	85	-85	-
50.	Hedging derivatives	1,732	-	1,732
60.	Fair value change of financial assets in hedged portfolios (+/-)	392	-	392
70.	Investments in associates and companies subject to joint control	1,652	8,192	9,844
80.	Technical insurance reserves reassured with third parties	208	-208	-
90.	Property and equipment	10,792	-1,209	9,583
100.	Intangible assets	9,342	-1,608	7,734
	of which:	-	-	-
	- goodwill	3,574	-977	2,597
110.	Tax assets	18,808	-777	18,031
	a) current	3,555	-98	3,457
	b) deferred	15,253	-679	14,574
120.	Non-current assets held for sale and discontinued operations	1,422	-	1,422
130.	Other assets	13,837	-4,877	8,960
Total Assets		**1,069,003**	**-206,715**	**862,288**

Liabilities and Shareholders' Equity		31.12.2021 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2021 Regulatory-scope balance sheet
10.	Financial liabilities measured at amortised cost	710,055	2,527	712,582
	a) due to banks	165,258	-278	164,980
	b) due to customers	458,239	1,301	459,540
	c) securities issued	86,558	1,504	88,062
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	2,146	-2,146	-
20.	Financial liabilities held for trading	56,306	82	56,388
30.	Financial liabilities designated at fair value	3,674	-	3,674
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	84,770	-84,770	-
40.	Hedging derivatives	4,868	-	4,868
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	53	-	53
60.	Tax liabilities	2,285	-1,101	1,184
	a) current	363	-52	311
	b) deferred	1,922	-1,049	873
70.	Liabilities associated with non-current assets held for sale and discontinued operations	30	-	30
80.	Other liabilities	15,639	-2,535	13,104
90.	Employee termination indemnities	1,099	-11	1,088
100.	Allowances for risks and charges	5,716	-406	5,310
	a) commitments and guarantees given	508	-61	447
	b) post-employment benefits	290	-	290
	c) other allowances for risks and charges	4,918	-345	4,573
110.	Technical reserves	118,296	-118,296	-
120.	Valuation reserves	-709	-	-709
125.	Valuation reserves pertaining to insurance companies	476	-	476
130.	Redeemable shares	-	-	-
140.	Equity instruments	6,282	-	6,282
150.	Reserves	17,706	-	17,706
155.	Interim dividends (-)	-1,399	-	-1,399
160.	Share premium reserve	27,286	-	27,286
170.	Share capital	10,084	-	10,084
180.	Treasury shares (-)	-136	-	-136
190.	Minority interests (+/-)	291	-59	232
200.	Net income (loss) (+/-)	4,185	-	4,185
Total Liabilities and Shareholders' Equity		**1,069,003**	**-206,715**	**862,288**

(*) The effects are attributable to:
- deconsolidation of companies that are not part of the Banking Group;
- proportional consolidation of the jointly controlled companies that are consolidated at equity in the financial statements.