



Governance and  
management of risks



## Governance structure

Intesa Sanpaolo adopts the "one-tier" management and control model, in which the management and control functions are exercised, respectively, by the Board of Directors and the Management Control Committee set up within it, both appointed by the Shareholders' Meeting.

Detailed information on the corporate governance system and remuneration – including references to diversity in the Board of Directors – is provided in the "Report on Corporate Governance and Ownership Structures" and in the "Report on Remuneration" published on the Bank's website, to which reference should be made.

### THE BOARD OF DIRECTORS

The Board of Directors is tasked with corporate management and may undertake all transactions considered necessary, useful or appropriate in achieving the corporate purpose, both of an ordinary and extraordinary nature. It performs strategic guidance and supervision functions for the Company and resolves on all the most important corporate deeds. The Managing Director and CEO is the Chief Executive Officer and General Manager and supervises the company's management to the extent of his/her assigned powers, in compliance with the general planning and strategic guidelines set forth by the Board. The Chairman of the Board of Directors oversees the work of the Board, organises and directs the activity and performs all the tasks set by the supervisory regulations. He/She has a non-executive role and does not carry out, not even de facto, management functions.

Within the Board\* there is a Management Control Committee, appointed by the shareholders' meeting, which is made up of five independent directors pursuant to the Articles of Association and exercises the control functions also as an internal control and audit committee (pursuant to Italian Legislative Decree no. 39/2010). The Ordinary Shareholders' Meeting of 30 April 2019 set the number of members of the Board of Directors at 19, appointing directors for the three-year term of office on the basis of the lists submitted by shareholders. Subsequently, following the resignation tendered by a director in November 2019, during the meeting of 2 December 2019 the Board of Directors co-opted a new member, who shall remain in office until the meeting called for the approval of the 2019 financial statements.

All directors are non-executive, with the exception of the Managing Director and CEO, 14 directors are independent. Minority shareholders are adequately represented (5 members) and present in all Board Committees with the chairmanship of the Management Control Committee and the Committee for Transactions with Related Parties. The Directors meet the requirements of fitness for office required by the regulations of reference and the provisions of the Articles of Association.

Following are the Board Committees which are composed of five directors, the majority of whom are independent, are chaired by independent directors and provide support to the Board of Directors, with the duty of performing investigations, providing advice and making proposals:

- Nominations Committee;
- Remuneration Committee;
- Risks Committee;
- Committee for Transactions with Related Parties and Associated Entities.

### RESPONSIBILITIES AND DIVERSITY OF THE MANAGEMENT AND CONTROL BODIES

According to Intesa Sanpaolo's Articles of Association, the Board shall adopt the necessary measures to ensure that each Director, and the Board as a whole, have a continually adequate level of diversification, including in terms of experience, age, gender and international orientation, in addition to competence, fairness, reputation, independence of mind, and time commitment.

In the document on the qualitative and quantitative composition of the Board of Directors published on the Bank's website in February 2019, in view of the renewal of the Corporate Bodies the shareholders were asked to ensure that the new Board of Directors had the broadest gender diversity with adequate professional skills, as well as a diversity of age brackets amongst Directors, in addition to a comprehensive level of knowledge and experience.

With particular reference to the adequacy and diversity of the professional profiles required, a "Skills Directory" has been drawn up in the document cited outlining the set of experiences, knowledge and skills – very good or distinctive, with a very broad, intermediate or limited dissemination – that are considered appropriate to achieve the optimal qualitative composition of the new Board of Directors of Intesa Sanpaolo. The skills and expertise were subsequently strengthened and supplemented on the basis of training programs as well as of the intensive induction plan for both the new directors (onboarding) and the entire Board.

For further information on the skills declared by the individual directors at a distinctive level, reference is made to the Report on Corporate Governance and Ownership Structures (page 14 [i]).

\* A member of the Board of Directors and the Management Control Committee self-suspended from 13 December 2019 and stepped down on 2 March 2020.

The less-represented gender must be reserved a share of at least one third of the total members (7 members out of 19), as established by laws on the matter of equal access to the administrative and control bodies of listed companies. Furthermore, in the current structure of the Board, the female gender is represented within all the Board Committees, reaches the majority of the members of the Committee for Transactions with Related Parties and has the chairmanship of the Risks Committee and the Nominations Committee.

In May 2019, the Board of Directors assessed its composition as adequate, including in terms of diversity, and suitable for a properly balanced composition of the Board Committees.

Senior officers of the subsidiaries are also appointed by the Board of Directors, which operates according to uniform policies and principles at Group level and in compliance with the regulations and best practices applicable to each subsidiary, with specific importance given to the level of diversity, including in terms of age, gender, seniority of service, geographical origin and international orientation. In establishing the composition of the Bodies, the most adequate and effective mix of personal and professional profiles is sought for each subsidiary in terms of its nature, the structure of its activities and the risks taken. To this end, any indications made by the Management Body of each subsidiary during the annual self-assessment process are taken into account.

## TRAINING AND UPDATING OF THE DIRECTORS

With the support of the Nominations Committee, the Board of Directors shall ensure that the Bank draws up and implements induction and training programmes for the members of the Board. In this context, following the Chairman's indications, Board Members' participation in initiatives is promoted to enhance the degree of knowledge of the operating sectors of the Bank and of the Group's companies, company dynamics and their development, the principles of sound risk management and the regulatory and self-regulatory environment of reference, and in formal and informal meetings, aimed at further review of strategic matters.

During 2019, specific induction sessions (6 sessions) were carried out including: incorporation of Banca IMI into the Parent Company - information on the project, meeting with the Chief Lending Officer (activity presentation and project initiatives), IDD regulations on insurance brokerage, regulatory developments in the USA, internal models for the calculation of capital requirements and Pillar 2 and IT analysis.

Furthermore, during the same period 10 onboarding sessions were held for newly appointed Directors regarding the following issues: governance of the Intesa Sanpaolo Group, 2018-2021 business plan and 2019 budget, balance sheet and tax issues, ICAAP/ILLAP and Group Capital Plan - Basel 3, internal control system, remuneration and incentive policies, 2018-2021 Group NPL Plan, IT Plan, Cybersecurity, Innovation and data/artificial intelligence, Risk Appetite Framework and Risk Management Policies, Supervisor Relations (SSM - SRM).

To promote better understanding of the reference corporate and regulatory environment and its evolution, a collection of governance documents, regulatory references, key correspondence with the Supervisory Authorities, accounting positions and any additional documentation conducive to the performance of their duties is available to Board Members via a dedicated electronic platform and regularly updated.

The Board of Directors receives periodic reports from the corporate control functions on their activities, which illustrate the checks carried out, the results achieved, the weaknesses found and the proposals for action to be taken to eliminate them within the various company areas. These reports shall also cover anti-corruption issues. Several Directors also hold positions on the Boards of Directors of leading Italian universities as well as on the Boards of foundations and Third Sector bodies active in the fields of art and culture, health, support for poverty and the circular economy and support for nutrition policies. In particular, a member of the Board of Directors, as well as Chairman of the Risks Committee, is a member of the Creares Scientific Council, a Centre for Research in Business Ethics and Social Responsibility which aims, among other things, to enhance research on business ethics, ethical finance, corporate governance and social reporting.

## REMUNERATION

Full information, both in qualitative and quantitative terms, is provided in the Report on the remuneration policy and the remuneration paid ("Remuneration Report"), available on the website [\[1\]](#).

The Bank's Articles of Association envisage that the members of the Board of Directors be entitled, in addition to the reimbursement of expenses incurred due to their office, to a remuneration for the services rendered, which is determined, upon appointment, by the Shareholders' in a fixed amount for the entire period of their office. The Shareholders' Meeting also determines the additional remuneration for the office of Chairman and Deputy Chairperson. Pursuant to the Articles of Association, the Shareholders' Meeting has the duty to determine, at the time of the appointment of the Management Control Committee and for the entire term of office, specific remuneration for the Board Members of this Committee, consisting of an equal amount for each Member, but with a special addition for the Chairman.

Pursuant to the Articles of Association, the Managing Director is entitled to receive a fixed and variable remuneration tied to the position of General Manager, determined by the Board of Directors in line with the Remuneration and Incentive Policies approved by the Shareholders' Meeting.

As required by the Supervisory Provisions, in accordance with the principle of external competitiveness and

in order to support the achievement of the ambitious objectives set out in the 2018-2021 Business Plan, the Shareholders' Meeting resolved to increase the incidence of variable remuneration to fixed remuneration up to a maximum of 2:1 for Group Risk Takers, including the Managing Director and General Manager.

The variable component of remuneration, bound to the achievement of specific performance objectives linked to the creation of value for shareholders and adjusted for the risks assumed, is composed of the Annual Incentive System and 2018-2021 POP (Performance-based Option Plan) Long-Term Incentive Plan. In accordance with the Supervisory Provisions and the Group's Remuneration and Incentive Policies, both the short- and long-term variable components are subject to deferral and partly assigned in financial instruments subject to holding periods after the vesting period.

Specifically, under the Annual Incentive System, if the bonus accrued is equal to or less than 100% of the fixed remuneration, 55% is paid in shares and the remainder in cash. On the other hand, if the bonus accrued is more than 100% of the fixed remuneration, 60% is paid in shares and 40% in cash. Furthermore, the disbursement of 60% of the bonus is deferred for 5 years.

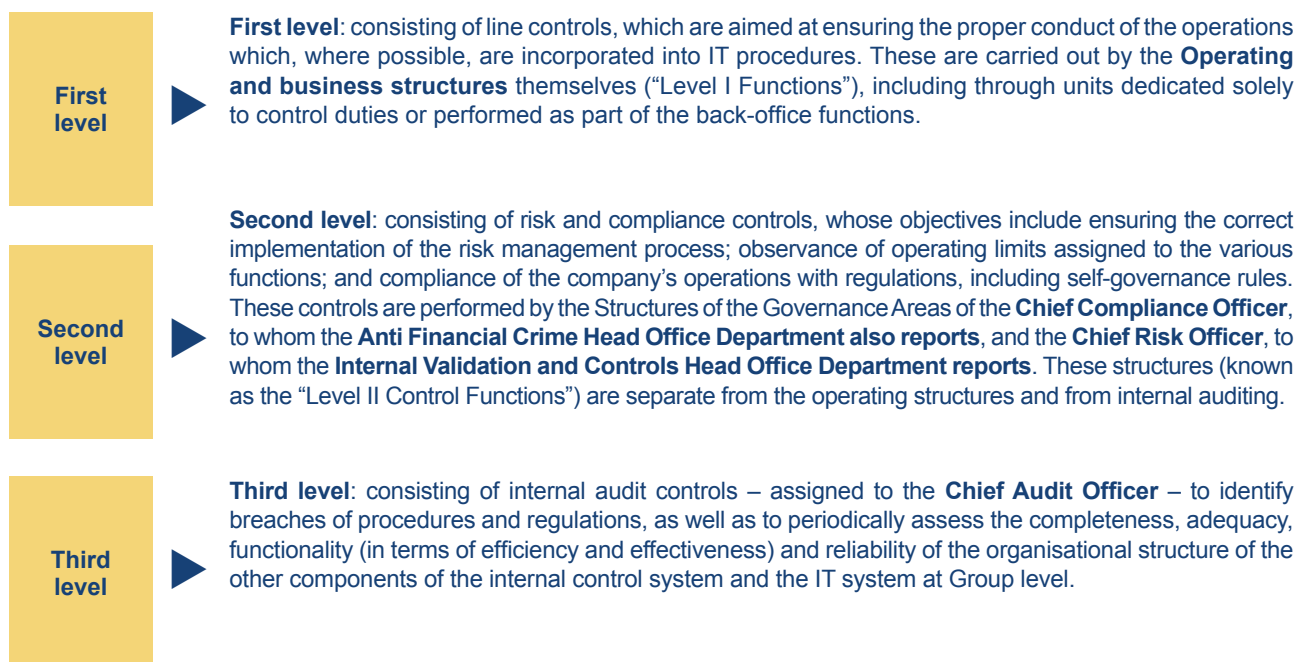
The payment of the deferred amounts is subject to the verification of the malus conditions each year.

Finally, the company reserves the right to activate claw-back mechanisms on bonuses already paid in the 5 years following their payment in the event of disciplinary measures against fraudulent or grossly negligent conduct and in the event of conduct that does not comply with the provisions of the law, regulations, articles of association or any codes of ethics or conduct resulting in a "significant loss" for the Bank or for customers.

## THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

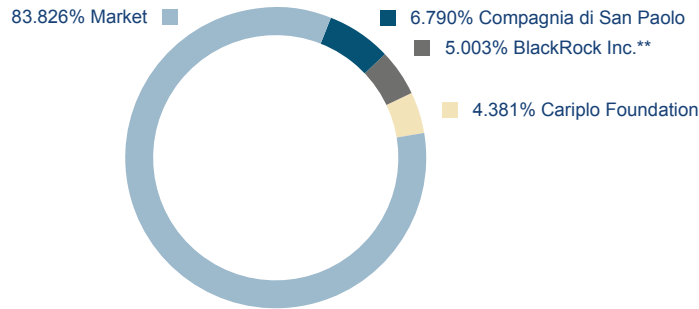
To ensure sound and prudent management, which combines business profitability with informed risk taking and operating conduct underpinned by fairness, the Bank has adopted the Integrated Internal Control System Regulations.

The internal control system has been designed to achieve constant monitoring of the identification, governance and control of the risks involved in our activities and is based on three levels:



## SHAREHOLDER

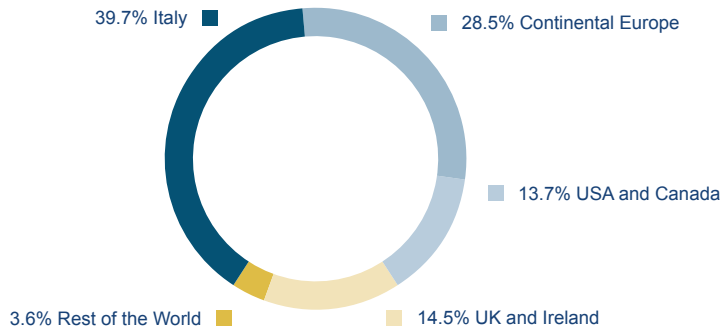
Intesa Sanpaolo's share capital is equal to 9,085,663,010.32 euro, divided into 17,509,728,425 ordinary shares. In February 2020, Intesa Sanpaolo's shareholder base was composed as follows (holders of shares with voting rights exceeding 3%\*):



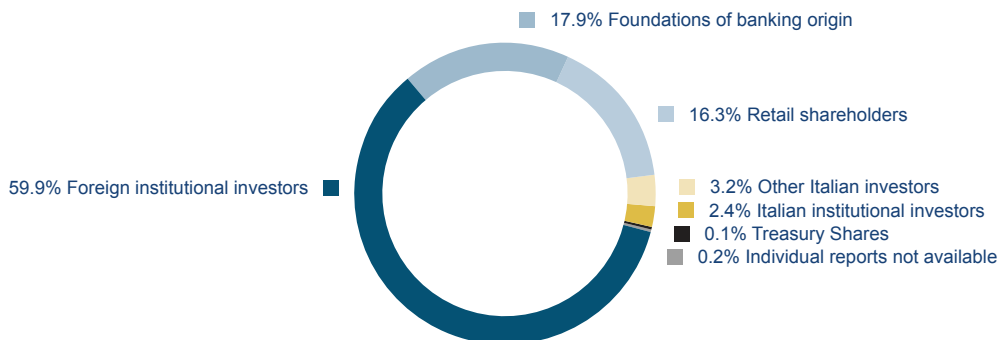
(\*) Shareholders being fund management companies may be exempted from disclosure up to the 5% threshold.  
 (\*\*) Held as assets under management.

Below is a breakdown of the shareholder base by geographic area and type of shareholder, based on the names of the receivers of the dividend paid for the year 2018, as reported by the intermediaries (ex-dividend date 20 May 2019).

## SHAREHOLDER COMPOSITION BY GEOGRAPHICAL AREA



## SHAREHOLDER COMPOSITION BY TYPE OF SHAREHOLDERS



## RELATIONS WITH SHAREHOLDERS AND THE FINANCIAL COMMUNITY

In its relations with the market, Intesa Sanpaolo adopts a specifically transparent form of conduct, especially with regard to annual and interim financial results and to Group strategies. This also takes place via meetings with the national and international financial community, in a framework of constant dialogue with the market based on fair and timely communication.

During 2019, communications with the financial community continued to focus on sustainable profitability and the Group's solidity as a firm point of reference for stakeholders. To guarantee access to all, again in 2019 this information was made available quickly, easily and economically through a number of channels like Internet and conference calls via a freephone number. The Investor Relations section of the website [i] boasts well-organised content and updates on topics, always providing stakeholders with extensive, systematic information. In order to contribute to the creation of sustainable value over time, regular and frequent meetings were held with the financial community that consolidated long-term relations based on mutual trust.

Special attention was also paid to SRI (Socially Responsible Investment) investors and analysts, with dedicated events and road-shows.

## INTESA SANPAOLO STOCK PERFORMANCE

The performance of the Intesa Sanpaolo ordinary shares in 2019 mirrored that of the banking sector indices, showing an upward trend until mid-April, followed by a sharp downturn until early June, when they reached their lowest point. After that the shares performed unevenly until mid-August and then rebounded, reaching their peak on 20 December and ending the year up 21.1% on the end of 2018.

Intesa Sanpaolo's capitalisation rose to 41.1 billion euro at the end of December 2019, from 34 billion euro at the end of 2018.

The Board of Directors shall propose to the Shareholders' Meeting to allocate 0.192 euro per share, totalling approximately 3.4 billion euro.

## SHAREHOLDERS' MEETING

For the Bank, Shareholders' Meetings are one of the main opportunities for contact and dialogue with shareholders, as well as important occasions for the disclosure of news, in accordance with the principle of non-selective disclosure and rules on price sensitive information. At the same time, the Shareholders' Meeting represents for shareholders an opportunity for active participation in the Bank's operations and a chance to express their opinions, through the methods and on the topics envisaged by law and by the Articles of Association.

Intesa Sanpaolo has always strived to encourage the broadest possible participation in the Shareholders' Meetings and to guarantee the best quality standards for the information provided in order to realise the full potential of the meeting.

The Shareholders' Meeting is called by the Board of Directors whenever it is deemed appropriate, or upon request by Shareholders representing at least one twentieth of the share capital.

The Shareholders' Meeting may also be called by the Management Control Committee, where required for the fulfilment of its duties, subject to sending notice thereof to the Chairman of the Board of Directors.

In 2019, the ordinary Shareholders' Meeting was held on 30 April.

## RIGHT TO ATTEND AND VOTE

Each share gives the right to attend and vote at Ordinary and Extraordinary Shareholders' Meetings (each share carries one voting right).

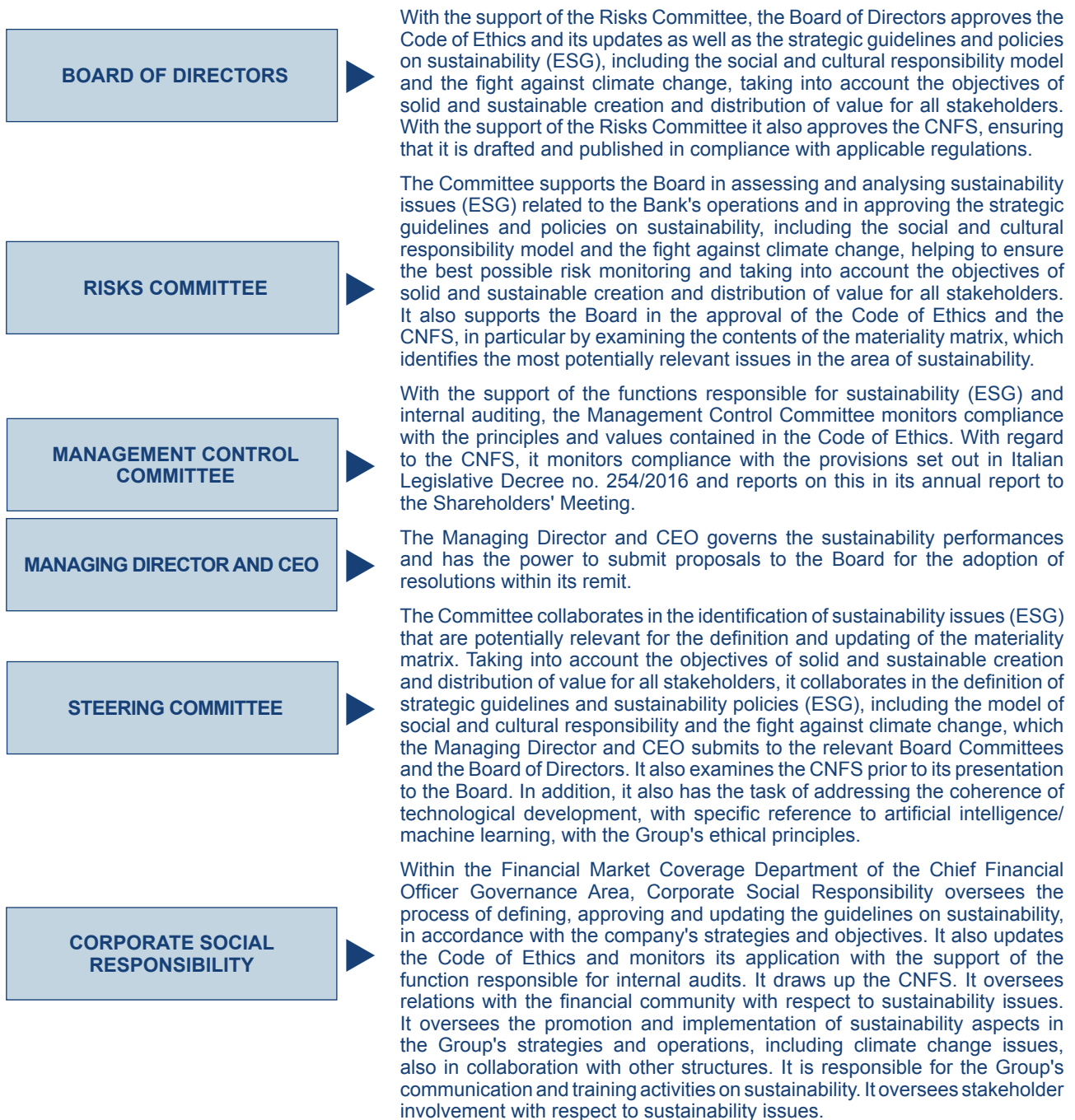


# Sustainability Governance

The strategic guidelines and policies on sustainability (ESG – Environmental, Social, Governance) are approved by the Board of Directors with the support of the Risks Committee, taking into account the objectives of solid and sustainable creation and distribution of value for all stakeholders.

In its 2018-2021 Business Plan, Intesa Sanpaolo committed to strengthening its leadership in corporate social responsibility, aiming to become a model of reference in terms of sustainability and social and cultural responsibility.

The main ESG responsibilities of the Intesa Sanpaolo Bodies and Structures are specified below.



The sustainability governance system is based on the strong involvement of the Risks Committee, established within Board of Directors to offer support, including in the assessment and analysis of ESG issues. To this end, Corporate Social Responsibility (CSR) periodically meets with the Committee to agree upon the approach and report on the progress of processes and activities related to sustainability and non-financial reporting. In 2019, it

took part in three meetings with the Risks Committee (with the Management Control Committee also invited to two of them) to provide information on the 2018 Consolidated Non-financial Statement, on the Consolidated Non-financial Statement as at 30 June 2019, drawn up on a voluntary basis for the first time this year and published in September and on Intesa Sanpaolo's positioning in the main sustainability/ESG indices and rankings.

In addition, it presented the Annual Report on the implementation and governance of the Code of Ethics to the Management Control Committee together with the Surveillance Body pursuant to Italian Legislative Decree 231/2001.

In these activities, CSR is supported by a network of about 60 CSR Contacts appointed in the main structures and by the CSR Delegates identified in each of the Banks that are part of the International Subsidiary Banks Division. Also in 2019, in order to strengthen sustainability governance, CSR involved those reporting directly to the CEO in specifically organised meetings with the aim of further increasing engagement and knowledge of ESG issues. For each Governance Area, Division and Head Office Department, each Chief identified Sustainability Managers capable of playing a strategic role in the definition and implementation of sustainability objectives and in the cooperation and coordination between Top Management and CSR.

In 2019, CSR promoted specific initiatives including:

- the adoption of the UNEP FI Principles for Responsible Banking - PRB, a planning document that intends to bring the banking sector closer to the UN Sustainable Development Goals and the 2015 Paris Climate Agreement;
- responding to 23 assessments from investors and analysts on ESG and climate change issues, and holding 33 meetings with 47 parties including investors and analysts focusing on sustainability, in collaboration with Investor Relations and Investor Coverage.

Moreover, in order to consolidate the Group's leadership in sustainability the ISP4ESG project was launched, a wide-ranging initiative with a significant impact promoted by the Financial Market Coverage Department of the Chief Financial Officer Governance Area in coordination with the Strategic Support Department, which involved the various Group structures. Starting with the mapping of the ESG positioning with respect to the main players in the sector, strengths and areas for specific focus were highlighted, also in light of recent regulatory scenarios, with the aim of being an exemplary model in the sustainability/ESG strategy.

## IMPLEMENTATION AND GOVERNANCE OF THE CODE OF ETHICS

The Code of Ethics is the self-regulation document for the integration of social and environmental considerations into company processes, practices and decisions. It contains voluntary commitments in the management of relations with all the Group's internal and external stakeholders, setting out the core values and foundations of the corporate culture.

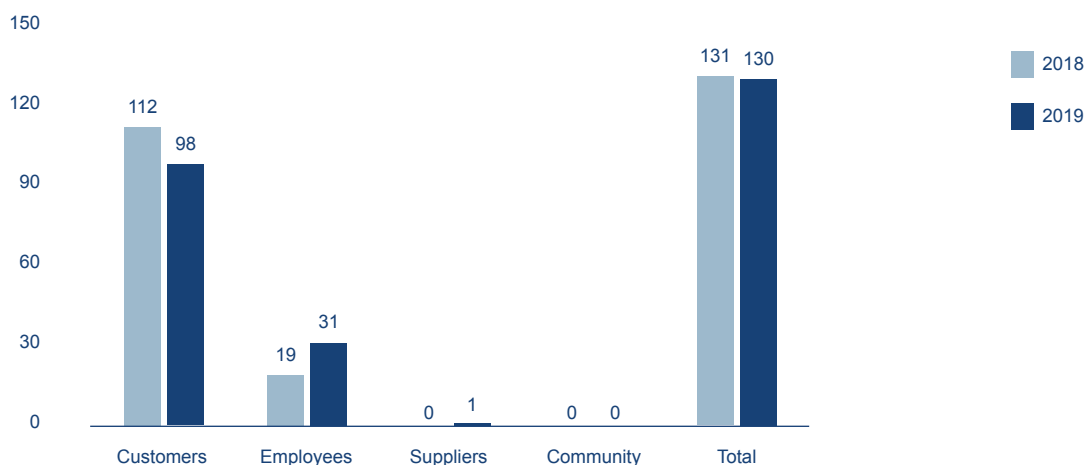
The Code's implementation and governance mechanism is based on the following cornerstones:

- The principle of self-responsibility, where each structure is directly responsible and ensures adherence to the values and principles of the Code, setting the related objectives and action plans and, where appropriate, appointing a CSR Contact and Sustainability Managers.
- The commitments set out in the Code are given practical expression in the annual reporting process (Consolidated Non-financial Statement), which presents the management policies and procedures, initiatives, indicators and objectives for the issues relevant to the stakeholders and the business. Furthermore, in 2019 the process was also reinforced by the half-yearly non-financial reporting.
- The analysis and subsequent certification of corporate social responsibility governance by an independent third party in accordance with the principles and contents of standard ISO 26000, published annually on the website [i]. The Governance was assessed according to the method UNI PdR ("Reference Practice") 18:2016, which concluded with a rating of "Consistent and committed to excellence" and a score of 44 on a scale from 15 to 45 (in 2018 the score was 42). The update of the third-party assessment relating to the application of the Code of Ethics was carried out by focusing on the analysis of the Governance of relevant issues that emerged from the annual materiality analysis. The assessment revealed that the Group's CSR governance has matured substantially, with clear assignment of ESG responsibilities to the Steering Committee. The scoring for Italy shows an increase in relation to 7 out of 10 issues. It should be noted that the Direct Environmental Impacts had already achieved the maximum score. The monitoring of cross-cutting processes (human resources management, health and safety, management of direct impacts on the environment, prevention of corruption, Community commitment) was found to be robust and effective for Italy, distinguished by further innovative ideas. The introduction of ESG logic in the granting of credit, asset management and management of insurance products emerged with greater clarity, particularly with respect to Italy. In relation to International Subsidiary Banks, in line with the strengthening of CSR Governance activities, an improvement in 9 of the 10 topics analysed is appreciated. In particular, the most significant improvements were recorded in the issues Integrity in corporate conduct, Quality and innovation in customer relations, Responsible asset management and Employee growth and development.
- Management of cases of non-compliance with the Code of Ethics: CSR receives reports sent in and, following the necessary checks, replies in collaboration with the structures concerned, ensuring to protect the reporting parties from any form of retaliation, discrimination or penalisation, and guaranteeing the utmost confidentiality, without



prejudice to obligations laid down by the law. In 2019, 130 reports were received, of which 84 were received in Italy and 46 from abroad, similar to 2018.

### Reports of alleged non-compliance with the Code of Ethics



The highest number of reports came from customers (98), followed by those from employees (31). The category having the greatest impact in the area of customer complaints concerns the difficulty of access to branches or online services by people with disabilities (18 reports), in particular due to the complexities of access channels. There are 13 complaints related to products deemed to be incorrectly offered, which are often caused by a lack of understanding of certain products by customers who are increasingly diverse in age, origin and culture. There are 31 reports received from employees, 22 of which come from abroad, regarding conflicts at work, difficulties in integration for workers with disabilities and – on the foreign front – reports of alleged irregularities. Non-discrimination issues were constantly and carefully monitored in 2019 as well.

- The dissemination of the culture of sustainability: the collection of 9 pieces of training modules (videos and training fiction) on the values and principles of the Code of Ethics made available in 2018 was further expanded in 2019 with 6 new items dedicated to the analysis of sustainability issues within Intesa Sanpaolo, like the challenge related to climate change, human rights, financial inclusion and sustainable investments. The course on financial inclusion and the role played by the Group had about 29,600 views, while the remaining had at least 2,000 views each. Moreover, a new training plan dedicated to CSR Delegates of the International Subsidiary Banks Division was launched in 2019 with a specific focus on issues and activities related to the integration of sustainability in the organisation. The first two modules were dedicated respectively to ISO 26000, GRI Standards and reporting quality requirements. Each session involved a total of 15 participants. During the year training sessions also continued for the structures involved in the management of complaints and customer satisfaction of the International Subsidiary Banks Division, aimed at identifying and reporting potential breaches of the Code of Ethics. The 2019 editions involved Intesa Sanpaolo Bank Albania and Intesa Sanpaolo Bank Romania for a total of more than 450 participants.

Compliance with the principles and values of the Code of Ethics was monitored with the support of the Chief Audit Officer, so that it could be reported annually to the Management Control Committee and the Surveillance Body pursuant to Italian Legislative Decree 231/2001. Checks were conducted on 15 risk areas that also considered social and environmental responsibility aspects and implications including:

- Transactions with Related Parties and associated entities;
- Personnel remuneration and incentive systems (in various Group companies);
- Reporting on the Research and Development Special Fund financing and more generally the disbursement of loans (involving an assessment of social and environmental elements) in specific segments or business areas (New York Hub - Structured Finance Desk);
- Checks on the methods of data collection and management for the Consolidated Non-financial Statement;
- Management of purchasing procedures (i.e. centralised purchasing or for specific companies and activities), of monitoring and qualification of suppliers and of processes concerning specific categories of suppliers (infoprovider);
- Role and activities of the subsidiaries ISPIC Spa and Neva Finventures Spa, for some aspects related to the circular economy;
- Sponsorships and local donations (assessments of some specific entities).

The audits did not identify any particular breaches or critical issues.

## Management of environmental, social and governance risks

The Group has implemented specific processes and responsibilities to understand and manage risks in such a way as to ensure long-term soundness and continuity, extending the benefits to its stakeholders.

Below is an overview of the main ESG risks that are significant due to their potential impact on company activities and the related mitigation measures.

The following sections go into more detail and describe the main controls relating to some of the risks identified in the table below. A specific table explains in depth the risks associated with the environment and climate change.

Issue	Potential risk	Potential impacts	Mitigation measures
Integrity in corporate conduct	<p>Risks of non-compliance with applicable legislation (corruption, money laundering, taxation, free competition, privacy, labour law) and ineffective response to regulatory changes</p> <p>Risk of providing employees with insufficient or no training</p> <p>Reputational risks</p>	<p>Fines and penalties, limitations to conducting business</p> <p>Damage to reputation and brand</p>	<p>Compliance system divided into different levels to monitor the risk of non-compliance, with specialised functions</p> <p>Internal control system</p> <p>Definition of corporate internal regulations</p> <p>Specialist training for employees</p> <p>Introducing a whistleblowing system</p> <p>Drafting self-regulation policies for sensitive sectors</p> <p>Adherence to UNEP FI's Principles for Responsible Banking</p>
Customer protection and responsible sales	<p>Unfair commercial practices</p> <p>Inadequate customer service levels</p> <p>Inadequate customer communications</p> <p>Ineffective transition from traditional to digital channels</p> <p>Inadequate customer communications</p> <p>Business continuity in the event of an emergency, blocking or malfunctions</p>	<p>Loss of competitiveness, customers and market shares leading to reduced profitability</p> <p>Disputes and complaints</p> <p>Fines and penalties</p> <p>Damage to reputation and brand</p> <p>Damage to persons and objects during robberies</p>	<p>Model focussing on the level of service, on personalised advice, and on transparency</p> <p>Process of clearing for new products and services</p> <p>Careful and proactive management of complaints</p> <p>Innovation in the offer aimed at ensuring accessibility to services</p> <p>Business continuity plan</p>
Multichannel approach and accessibility	IT risk		Prevention of IT risk
Health and safety of customers and employees	Robberies		Preventing and combating robberies
Supporting to businesses	<p>Management of social and environmental risks in loans</p> <p>Transactions or loans in sensitive sectors</p> <p>Reputational risks</p>	<p>Non-performing loans or needs for provisions</p> <p>Damage to reputation and brand</p>	<p>Rating model which also includes intangible aspects of companies</p> <p>Risk clearing processes</p> <p>Equator Principles for project finance</p> <p>Drafting self-regulation policies for sensitive sectors</p> <p>Opinions involving social-environmental factors</p>

Issue	Potential risk	Potential impacts	Mitigation measures
Responsible asset management and customer protection	Assessment and control of ESG risks in the investment portfolios Investments in sensitive sectors Reputational risks	Loss of competitiveness, market shares and customers who are conscious of ESG aspects, leading to reduced profitability Damage to reputation and brand	Subscription to PRI (Principles for Responsible Investment) and the Principles of Stewardship Subscription to PSI (Principles for Responsible Insurance) Range of Ethical/ESG funds Company engagement activities Drafting self-regulation policies for sensitive sectors
Employee growth and development	Inadequate employee growth and motivation Incapacity to acquire and maintain talent Insufficient focus on diversity and inclusion issues	Employee dissatisfaction with impacts on productivity Lack of adequately trained and qualified personnel Inadequate customer service levels	Investments in training activities Talent management programmes Recognition of employees' merit Initiatives to ensure diversity and inclusion
Employee well-being	Health and safety of employees	Accidents in the workplace Employee dissatisfaction with impacts on productivity	Certification of the health and safety management system (OHSAS 18001) in all branches in Italy Coordination and rules for health and safety management systems in Banks of the ISBD scope Assessment of work-related stress Work-life balance initiatives Prevention and welfare for employees
Responsible reorganisations	Conflicts and related labour dispute risks	Disputes Strikes with impacts on service continuity for customers Employee dissatisfaction with impacts on productivity	Responsible management of corporate restructuring processes, with the reallocation of employees to other activities New hires to promote generational change Management of labour dispute risks

The risk management system also involves the identification, understanding and monitoring of so-called emerging risks, i.e. risks characterised by components that are scarcely 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. In this perspective, the outlook for global economic growth shows significant vulnerabilities and downside risks, primarily relating to the uncertainty of the recovery of global trade and manufacturing and geopolitical tensions remaining high. In addition, the spread of COVID-19, with its implications for public health, the economy and trade, may have a significant dampening effect on global growth.

## MONITORING OF ESG AND REPUTATIONAL RISKS

In accordance with its approach to Corporate Social Responsibility and the principles outlined in the Code of Ethics, the Intesa Sanpaolo Group is aware of the importance of the correct and responsible allocation of resources, following social and environmental sustainability criteria. Therefore, it promotes balanced development that can redirect capital flows towards sustainable investments that balance interests like the preservation of the natural environment, health, work, the well-being of the whole community and the safeguarding of the system of social relations.

To this end, it takes into account social, environmental and governance risks ESG (environmental, social and governance) associated with the activities of customer companies and pays particular attention to the study of sustainability issues related to sectors considered to be sensitive, i.e. those having a significant risk.

In particular, the monitoring of these risks provides for:

- their inclusion in the Risk Management framework, with particular reference to the Governance of Reputational Risks<sup>1</sup> and the Management of the Most Significant Transactions<sup>2</sup>;

<sup>1</sup> Reputational risk is defined as the current or prospective risk of a decrease in profits or capital due to a negative perception of the Bank's image by customers, counterparties, bank shareholders, investors and Supervisory Authorities.

<sup>2</sup> Transactions of particular importance, of a proprietary type or with individual customers or counterparties, potentially capable of having a significant impact on the overall risk profile and/or the specific risks of the Group.



- their assessment within the processes related to the implementation of the Equator Principles<sup>1</sup> and Reputational Risk Clearing;
- a specific focus on reputational and climate change risks within the "Risk Appetite Framework"<sup>2</sup>;
- the definition of the list of "sensitive" sectors with reference to ESG and reputational risks and subject to self-regulatory policies.

Among the sensitive sectors, the production and trade of arms is of particular importance and is subject to internal regulation. Specifically, in keeping with the values and principles expressed in the Code of Ethics and aware of the need to support national and European defence together with the allied countries in NATO, the Intesa Sanpaolo Group, with regard to the activities of its domestic and foreign subsidiaries, does not support operations that relate to the production and/or trade of military goods, even if permitted by applicable law, in countries that do not belong to the European Union and/or NATO.

Any operations in countries which do not belong to the European Union or NATO shall be submitted for approval to Intesa Sanpaolo's Managing Director and CEO, after consultation with the Chief Compliance Officer, who shall assess such requests, having regard in particular to the existence of intergovernmental programmes with the Republic of Italy.

The company rules also prohibit the undertaking of any kind of banking or lending activity related to the production of and/or trade in controversial weapons and/or those banned by international treaties and in particular: nuclear, biological and chemical weapons; cluster and fragmentation bombs; weapons containing depleted uranium; and anti-personnel landmines. In addition to the provisions already adopted by Intesa Sanpaolo by its domestic and foreign subsidiaries, in accordance with the provisions of Italian Law 185/1990, in 2017 specific rules were issued for the Group's International Subsidiary Banks that provide a ban on the support to any operation related to the production and/or trade of military goods, with the exception of military supplies provided by the Bank's customers to the Armed and/or Police Forces of the Country to which a Subsidiary Bank belongs.

The operations of the Group's Branches and International Subsidiary Banks are also subject to local regulations, when they are stricter than the Group regulations.

## REPUTATIONAL RISK GOVERNANCE MODEL

The reputational risk governance model of Intesa Sanpaolo envisages that management and mitigation of reputational risks is pursued:

- through compliance with standards of ethics and conduct by all employees: 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. As already noted, the Group has also issued voluntary conduct policies (human rights policy, environmental policy and arms industry policy) and adopted international principles (UN Global Compact, UNEP FI, Equator Principles) aimed at pursuing respect for the environment and human rights;
- systematically and independently by the structures tasked with safeguarding the company reputation, which maintain relations with stakeholders, within their respective areas of responsibility;
- across the various corporate functions, through the Reputational Risk Management processes coordinated by the Chief Risk Officer Governance Area. In this context, in addition to the Clearing process, better described in the dedicated section, we would mention Reputational Risk Monitoring to monitor the evolution of Intesa Sanpaolo's reputational positioning over time, and identify the main areas of exposure, above all through periodic analysis of its web reputation, and the Reputational Risk Assessment with which Top Managers identify the main reputational risk scenarios the Group is exposed to;
- with an integrated monitoring system for primary risks (like credit risk, operational risks, market risks) to limit exposure to those risks, and compliance with the related limits contained in the Risk Appetite Framework.

The Group aims to achieve constant improvement of reputational risk governance also through an integrated compliance risk management system, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature are founded on trust.

<sup>1</sup> The Equator Principles (EP or Principles) are international Guidelines (that financial institutions adhere to on a voluntary basis) for the management of socio-environmental risks arising from project financing. The Principles are based on the criteria of the International Finance Corporation (IFC) of the World Bank (the Performance Standards), which concern, amongst other issues: the assessment of social and environmental impacts; the protection of workers' rights; the exclusion of child labour and forced labour; the prevention of pollution and the promotion of energy efficiency; risks to the health and safety of communities; the consultation of the populations concerned and protection of their rights; safeguarding biodiversity and the sustainable management of natural resources; and the preservation of cultural heritage.

<sup>2</sup> The RAF represents the overall framework within which corporate risk management is developed, and is divided into (i) general principles of risk appetite; (ii) monitoring of the Group's Overall Risk Profile; (iii) monitoring of the Group's Main Specific Risks.

## MANAGEMENT OF ESG AND REPUTATIONAL RISKS IN BUSINESS OPERATIONS

The Code of Ethics requires investment decisions and the credit policy to take into account the socio-environmental risks associated with the activities of corporate customers. This commitment is also contained in the Rules for the environmental and energy policy and in the Principles on Human Rights.

The assessment of creditworthiness, which includes the socio-environmental aspects, is conducted for all corporate customers, in accordance with the Rules of the Internal Rating System.

In particular, thanks to its long-term collaboration with Confindustria Piccola Industria, an innovative rating model has been developed, validated by the ECB. In the model, social and environmental aspects can also have a positive impact, leading to an improvement in the rating. In addition to the usual economic and financial assessments, the new model aims to make it easier to access credit, with more favourable financial terms, by highlighting the intangible qualities of the business, such as trademarks, patents, quality and environmental certifications, research and development activities, innovation and digitalisation, development and competitive positioning projects, management of business risk and being part of a supply chain.

Moreover, a study was launched in the third quarter of 2019 to assess the degree of correlation between the risk factors usually considered in ESG-type assessments and credit risk. On the basis of the evidence that will emerge at the end of the analysis, the most appropriate way of introducing these factors into the bank's risk management processes will be assessed (e.g. creditworthiness assessment).

Within the above mentioned Reputational Risk Management (RRM) processes coordinated by the Chief Risk Officer Governance Area, Reputational Risk Clearing is particularly important, 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.

As part of Reputational Risk Clearing, a class of risk is assigned to transactions/counterparties that are potentially exposed to reputational and ESG risks in order to support decision-making processes, thus enabling an informed acceptance of risk.

In 2019, clearing activities were further strengthened through:

- the introduction of a category dedicated to assessing the ESG risk profiles of transactions in sensitive sectors as part of the Group's Most Significant Transactions;
- the incorporation of reputational and ESG assessments into the credit process;
- the inclusion of the assessment of transactions subject to Equator Principles (EP) in the "Reputational Risk Clearing" process.

With regard to the assessment of business transactions, methodological developments have focused on strengthening the structural assessment of ESG risks associated with transactions/counterparties, with a particular focus on customers/counterparties operating in sectors that are also sensitive to climate change risk. In 2019, a total of 40 partnerships and 130 financing transactions were assessed, 17 of which were screened under the Equator Principles (EP).

The assessment of the transactions subject to EPs, which Intesa Sanpaolo has adhered to since 2007, has been included in the risk management framework where it contributes to more effectively outlining the risk of the loans subject to assessment, meeting the objective of making risk management increasingly integrated.

The implementation process of the EPs is also fully integrated with the Group's credit policies in order to identify all loans, starting from the application stage, that come under the scope of the Principles. The latter includes the technical form of Project Finance, from 10 million US dollars, and Project related Corporate Loans, from 100 million US dollars.

The EPs envisage the assignment of a risk category to the projects to be financed (A is high, B medium and C low), based on variables such as the socio-environmental characteristics of the country, the industrial sector and the characteristics of the project in question.

Higher-risk projects, and medium-risk projects if necessary, are assessed by an independent advisor who identifies the main social and environmental impacts.

2019 saw the EP Association's launch of the new EP IV, which will come into force in July 2020 and which extend the scope of application to refinancing loans and acquisition loans, while the threshold is lowered to 50 million US dollars for project related corporate loans. Intesa Sanpaolo has actively participated in the review process by providing its contribution together with the other members of the Association.

In 2019, a total of 11 loans subject to screening according to the Equator Principles reached financial close (a total of 357 since 2007).

In 2019, the amount granted for projects that adopted the Equator Principles assessment process, was 825 million euro. The amount disbursed during the year for transactions subject to EP screening have been equal to 5.7% of total disbursement related to project finance transactions.

The table below shows the number of projects that reached financial close in 2019, with a breakdown by category.

	Total	Category A	Category B	Category C
<b>Project Finance</b>	11	3	7	1
<b>Project related Corporate Loans</b>	0	0	0	0

## Management of potential risks and impacts related to climate change

Climate change represents a complex challenge that is set to have a major impact on the future of our planet and society. Climate change is responsible for the increase in extreme weather events (flooding, whirlwinds, forest fires, etc.), and has permanent effects on climate conditions (increase in average temperature, increase in sea level, etc.) which may lead to significant economic, environmental and social costs. These events may generate a loss of wealth and income for companies and families, thus having a potential impact on the financial system. Banks have a key role to play and a responsibility on the issue of climate change, because they have the possibility of directing loans and investments towards companies that are virtuous from an environmental point of view, and operate with a view towards raising awareness and risk containment. In the same way, banks must analyse and contain possible risks to their buildings and consequently to their daily operations.

The growing focus given to the possible consequences of climate change has led to a greater awareness among financial institutions of the need to develop specific knowledge about such risks and the opportunities associated with them.

Climate change risks are divided into “physical risks”, associated with the physical impact of climate events, and “transition risks” arising from the process of adjustment to an economy based on low carbon emissions, associated with the changes in public policies, technology and consumer choices.

Since October 2018, Intesa Sanpaolo has decided to support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), with the voluntary commitment to disseminate transparent reporting on the risks and opportunities linked to climate change, in order to include the main climate-related communications within the framework of financial disclosures for stakeholders, as shown in the TCFD Reconciliation table (see page 195).

### GOVERNANCE

In 2019 Intesa Sanpaolo strengthened its governance of sustainability and climate change. With the support of the Steering Committee, the Managing Director and CEO submits the definition of strategic guidelines and sustainability policies (ESG) including the fight against climate change to the relevant Board Committees and the Board of Directors. The Board of Directors then approves the strategic guidelines and policies on sustainability (ESG) with the support of the Risks Committee, taking into account the objectives of solid and sustainable creation and distribution of value for all stakeholders, including the environment as declared in the Group’s Code of Ethics. Moreover, the Steering Committee – composed of the first organisational line – meets quarterly to examine sustainability issues (ESG), including the fight against climate change.

In this context, Intesa Sanpaolo actively participates in a series of international initiatives, including the Global Compact, the United Nations Environment Programme Finance Initiative (UNEP-FI) and the Equator Principles, and since 2019 the Principles for Responsible Banking (PRB), an initiative that aims to formalise the banking sector’s commitment to increasing social and environmental sustainability. Through its subsidiaries, it adheres to the Principles for Responsible Investments (PRI) in asset management and the Principles for Sustainable Insurance (PSI) in the insurance sector.



## STRATEGY

Intesa Sanpaolo is aware that a large banking group has a significant influence in terms of environmental and social sustainability, both in the short and long term. In fact, in addition to directly managing energy consumption with a view to increasing efficiency and reducing greenhouse gas emissions in its buildings, Intesa Sanpaolo can exert an influence on activities and behaviour that it cannot directly control, in particular those of customers and suppliers.

Intesa Sanpaolo's climate strategy is mainly oriented towards the promotion of sustainable financial instruments to support the transition to a low-carbon economic model. Indeed, the integration of climate considerations into the provision of financial services can have a significant impact and contribute significantly to the fight against climate change.

Intesa Sanpaolo has a diversified business model – with revenues from financing, investment, insurance underwriting and asset management – serving the various sectors of the economy at an international level. This breadth and diversification helps on the one hand to reduce the Group's vulnerability to different specific aspects of climate risk and to take advantage of a wide range of climate-related opportunities, but on the other hand it increases the breadth of analysis and action to be taken with respect to the transition to a low-carbon economy.

In 2019 Intesa Sanpaolo started participating in the working group TCFD Banking Sector Pilot - Phase II, which involves more than 35 international banks coordinated by UNEP FI, with the aim of developing methods for the assessment of risks related to climate change through the performance of long-term scenario analysis. In particular, this method of analysis is applied to certain sectors of the Group's credit portfolio that are sensitive to climate change, in order to quantify the impact of both transition risk and physical risk.

## RISK MANAGEMENT

Intesa Sanpaolo takes into account the social, environmental and governance risks, associated with the activities of its customer companies and the economic activities it invests in and pays particular attention to the in-depth study of sustainability issues related to sectors considered sensitive, i.e. those with a significant socio-environmental risk. In this context, the Bank pays particular attention to the risk arising from climate change (both physical risk and transition risk).

Key activities in climate risk management concern:

- the identification, assessment and measurement of such risks;
- the implementation, development and monitoring of a company-wide risk management framework, including risk culture, risk appetite and credit limits.

With the support of a cross-functional working group, the Chief Risk Officer Area and the Chief Financial Officer Area are responsible for identifying and analysing the range of risks and opportunities related to climate change in order to incorporate them into the ordinary processes of risk assessment and monitoring and credit strategies, and for setting objectives and guidelines to implement actions to manage and mitigate these risks.

Within the Risk Appetite Framework (RAF), the Group has introduced a specific reference to climate risk, working to develop its integration into the existing risk management framework with particular reference to credit risk and reputational risk.

In 2019 work began on identifying the business sectors in the credit portfolio that are potentially most affected by climate risk, both from transition risk and physical risk, in order to quantify the Group's exposure to these risks. The work follows the TCFD approach, i.e. the logic of financial materiality (impact of climate change on the value of the counterparty and consequently on credit risk).

The potential impacts, the related time horizon (short, medium, long) and the mitigation and adaptation actions taken for each potential risk observed are identified annually, with reference to both indirect and direct risks.

## Indirect risks related to climate change

Potential risks	Timeframe*	Potential impacts	Actions
<b>Transition</b> Changes in public policies Technological changes Changes in customer/ consumer preferences	Short/medium/long term	<b>LOANS</b> Reduction of business or increase in costs for customer companies with possible consequences on creditworthiness and solvency  <b>ASSET MANAGEMENT</b> Consequences of climate change on companies in the portfolio with consequent reduction in the value of assets under management	<b>LOANS</b> Assessment of ESG and climate risks on loans in sensitive sectors Inclusion of environmental risks when assessing creditworthiness Implementation of self-regulation policies for the assessment and management of the socio-environmental risk of loans in sensitive sectors Energy transition support through funding to the Green Economy and Circular Economy <b>ASSET MANAGEMENT</b> Assessment and control of ESG risks in the investment portfolios
<b>Transition</b> Changes in public policies Technological changes Changes in customer/ consumer preferences	Short/medium/long term	Reputational impact, negative perception from stakeholders and in particular from SRI investors due to nil or inadequate management of such risks  Possible exclusion from sustainability (ESG) indices or a worse ESG position or lower rating	Inclusion of environmental risks when assessing creditworthiness Implementation of self-regulation policies for the assessment and management of the socio-environmental risk of loans in sensitive sectors Stakeholder engagement initiatives Participation in international working groups on climate change issues
<b>Transition</b> Changes in environmental regulations Introduction of new greenhouse gas emission limits or new related reporting systems	Short/medium term	Financial implications of environmental regulations and emission limits and/or taxes imposed on customers operating in certain economic sectors	Offering dedicated financial solutions and specialist advisory services for customers in the field of renewable energies and energy efficiency Participation in working groups and initiatives relating to climate change Active collaboration with policy makers to highlight the need for stable and clear environmental regulations
<b>Transition</b> Changes in the regulations and incentives on renewable energy	Short term	Negative impact on loans to customers interested in investing in renewable energy sources, due to an Italian scenario characterised by the uncertainty of public intervention	Offering advisory services to customers on new regulations and incentives for the renewables and energy efficiency sectors

\* 0-2 years short term; 2-5 years medium term; over 5 years long term

Potential risks	Timeframe*	Potential impacts	Actions
<b>Transition</b> Changes in customer/ consumer preferences	Short/medium term	Reduction in revenues for the Group due to a lower demand for certain financial services/products	Offering green products and services Green bond issues Support to the Circular Economy
<b>Physical</b> Extreme weather events (floods, heavy snowfall, whirlwinds)	Short/medium/long term	Financial implications for corporate and retail customers damaged by extreme weather events, with possible consequences on their creditworthiness and solvency	New subsidised loans intended to restore damaged structures Suspension or moratorium of repayments of loans issued to damaged customers Implementation of a credit ceiling for the reconstruction of damaged properties in case of disaster events

\* 0-2 years short term; 2-5 years medium term; over 5 years long term

#### Direct risks related to climate change

Potential risks	Timeframe*	Potential impacts	Actions
<b>Transition</b> Changes in environmental regulations	Short/medium term	Possible fines in the event of failure to comply with new regulations	Constant and precautionary monitoring of possible changes to national and European regulations
<b>Transition</b> Introduction of new greenhouse gas emission limits or new related reporting systems Increased cost of greenhouse gas emissions	Short/medium term	Costs for upgrading heating and air conditioning systems and for new monitoring tools Costs related to greenhouse gas emissions Increase in costs of energy supply	Implementation and monitoring of the Climate Change Action Plan Energy efficiency actions Increase in the use of renewable energy sources Preventive actions to replace old systems with next-generation systems with a low environmental impact, as well as consumption monitoring systems during the renovation of branches and buildings
<b>Transition</b> Changes in environmental regulations and standards that the Group voluntarily adheres to (ISO standards)	Short/medium term	Costs of changing the processes of certification in the event of changes to standards	Continuous and precautionary monitoring of possible changes in standards Participation in specific training courses and workshops
<b>Physical</b> Extreme weather events (floods, landslides, heavy snowfall, whirlwinds)	Short/medium/long term	Possible damage to the Bank's infrastructure and possible disruption of activities	Precautionary assessment of the hydrogeological risks for buildings Adoption of a business continuity plan and measures to prevent/mitigate/manage physical damage to the Bank's structures

\* 0-2 years short term; 2-5 years medium term; over 5 years long term



With reference to direct impacts, Intesa Sanpaolo is committed to analysing and containing possible risks on its properties.

The Risk Assessment Document evaluating risks to workers' health and safety (Italian Legislative Decree 81/2008) also includes, for example, the assessment of the hydrogeological risk due to flooding and landslides. A hydrogeological risk assessment of buildings is conducted as a preventive measure in relation to local risk and building vulnerability, and also subsequent to an external event with a view to maintaining the practical features of the buildings involved. Based on the provisions of the Italian Institute for Environmental Protection and Research (ISPRA, Istituto Superiore per la Protezione e la Ricerca Ambientale), which divides the territory into 5 hazard classes (very high P4, high P3, medium P2, moderate P1 and attention areas AA), more than 1,000 Intesa Sanpaolo buildings in Italy are subject to landslide and flood risk. For the Bank's assessment of flooding, the benchmark is based on the level of danger associated with a floodable area, and depends on the probability that the area can be flooded. With regard to landslides, on the other hand, the benchmark is also based on the level of danger (from P1 to P4) associated with an area subject to landslides, but depends on the relationship between the probability of occurrence of the event and its magnitude taking into account both the speed of the landslide's movement and the extent of its spread over the area. These assessments enable the Intesa Sanpaolo Group in Italy to implement actions that take account of the effects of critical events linked to natural phenomena attributable to climate change, allowing for the management of different potential risk scenarios, through the implementation of specific Emergency Plans, in order to mitigate and reduce possible damage, particularly to workers and third parties.

In addition, in order to improve the intervention and mitigation of hydrogeological risk, a pilot project was recently launched to define a vulnerability index for the Bank's properties. This index is useful for defining priority criteria for intervention or in-depth analysis when emergency situations occur. Based on the results of the pilot project, possible intervention measures to make the buildings safe will then be identified in order to prevent the occurrence of potential risk situations.

In general, with regard to all direct risks related to climate change and to the occurrence of crisis events in Italy, the adopted model calls for the activation of CEM (Critical Events Management) at the first alert of bad weather. CEM guarantees the continuous and precise monitoring of the situation and supports the overall coordination of the actions agreed to by the territorial structures, in constant connection with the relevant central structures.

In the case of very serious calamitous events, the EMOC (Emergency Management Operations Centre) of the Business Continuity Management Department is also activated, which monitors the situation, assesses the temporary closure of buildings and initiates any other actions.

In order to guarantee operational continuity in the areas most affected by bad weather, the local and central structures' crisis contacts are also activated for the timely reporting of critical issues, with particular reference to delays in the transport of valuables and correspondence, staff difficulties in reaching the workplace and difficulties of the branches with operations and systems.

Finally, with regard to the Environmental and Energy Management System according to the UNI EN ISO 14001:2015 standard, the Background Analysis has been updated to shed light on the needs and expectations of all stakeholders involved in applying the System, and on the specific associated risks. The update identified four categories of risks (economic/financial, management, application/operational and reputational/ethical/social).

In general, a "low" level of risk is considered acceptable, whereas for "medium" and "high" level risks, corrective actions are foreseen within six months and one month respectively, followed by monitoring of their progress. Among the risks identified and monitored as part of the Context Analysis, the risks associated with failure to comply with mandatory environmental regulations are also considered.

# Integrity in corporate conduct

## RELEVANT ISSUES

Fighting against corruption	pag. 52
Combating money laundering	pag. 54
Compliance with tax regulations	pag. 55
Protection of free competition	pag. 57
Privacy protection	pag. 57
Compliance with labour laws	pag. 58
Audits	pag. 59
Disputes and fines	pag. 60

## WHY THESE ISSUES ARE RELEVANT

The Intesa Sanpaolo Group recognises that compliance with internal and external regulations and codes of conduct is of significant importance, also from a strategic viewpoint, and therefore it acts in the belief that respecting standards and fairness in business are essential elements in carrying out banking operations, which by nature are based on trust and transparency. Indeed, Intesa Sanpaolo believes that compliance with standards encourages the creation and maintenance of a competitive economic environment and protection of customer rights, which contributes to the development of local areas and communities.

Intesa Sanpaolo also seeks to be a reliable and professional partner for the regulators. In this context, the Group actively adheres to the principles of the United Nations Global Compact that envisage the development of policies for combating corruption, protecting human rights, workers' rights and safeguarding the environment.

The Group has defined and implemented a well-structured system of risk assessment throughout the company structures, which is applied according to risk assessment criteria. Adherence to the rules and integrity of corporate conduct are also ensured through compliance activities focused on the monitoring of risk in relation to fighting corruption and money laundering, combating the financing of terrorism, embargo management and protecting competition. The Group adheres to the principle of active cooperation in preventing these phenomena, which represent a serious threat to the legal economy. Intesa Sanpaolo monitors developments in international tax regulations guided by the OECD and aimed at countering base erosion and profit shifting from high-tax to low-tax countries, with the ongoing commitment to adhere to those principles. Internal auditing involves constant and independent monitoring of the due conduct of the Group's operations and processes.

## PERFORMANCE INDICATORS AND RESULTS ACHIEVED

Macro-issue	Projects/Indicators	2019 Actions/Results
Fighting against corruption and combating money laundering	Training to prevent corruption and money laundering	77,383 employees trained (87.3% of the total) 306,937 hours provided
	Disciplinary sanctions due to staff corruption	0
	Dismissals due to corruption	0
	Internal advice and clearing on transactions in the highest corruption risk areas	228
	Certifications	Received the certificate of compliance of its anti-bribery management system with UNI ISO 37001 international standards

## PERFORMANCE INDICATORS AND RESULTS ACHIEVED

Macro-issue	Projects/Indicators	2019 Actions/Results
Protection of free competition	Training on free competition	54,748 employees trained (61.7% of the total) 1,149,496 hours provided
	Internal requests for antitrust advice and clearing on Group projects	Advice and clearing requests were made for 73 initiatives, of which 37 advice and 16 clearing requests have been completed (opinions not subject to changes or updates), with the rest still ongoing
Privacy protection	Training on Privacy protection	62,828 employees trained (70.8% of the total) 81,510 hours provided
	Cases of customer data being lost or stolen	In Italy 17 cases were assessed, for 15 of which no risk to the rights and freedoms of the data subjects was found and therefore it was not necessary to notify the Italian Data Protection Authority. For the remaining 2 cases the Italian Data Protection Authority was notified  Abroad in the EU 28 cases of alleged personal data breach, 26 of which were found not to pose a risk to the rights and freedoms of the data subjects by the local Data Protection Officers, the remaining 2 cases were reported to the local authorities
Consumer protection	Training on consumer protection	48,131 employees trained (54.3% of the total) 1,213,215 hours provided
Whistleblowing	Whistleblowing reports	17 reports, of which 7 were judged to be not pertinent and 10 were subject to specific investigations

## FIGHTING AGAINST CORRUPTION

The Group's Code of Ethics provides that business goals are pursued with honesty, fairness and with a sense of responsibility in full compliance with the rules, professional ethics and spirit of signed agreements. It recognises the strategic importance of the work aimed at ensuring compliance with internal and external regulations and codes of conduct, and sets high standards of compliance for all employees, which are also included in the Code of Conduct. The Code of Ethics also establishes Intesa Sanpaolo's commitment to contributing to combating corruption, supporting the OECD (Organisation for Economic Co-operation and Development) Guidelines, and the anti-corruption principles established by the United Nations in 2003, including by taking a "zero tolerance" approach. The Group has adopted strict internal procedures and specific Guidelines over time to prevent the risk of corruption.

### MODEL FOR THE MANAGEMENT OF ADMINISTRATIVE LIABILITY PURSUANT TO ITALIAN LEGISLATIVE DECREE 231/01

Legislative Decree 231/01 establishes a system of administrative liability for Italian Companies for certain specifically identified crimes or offences, committed in their interest or for their benefit by their senior officers and/or employees. Intesa Sanpaolo has long had a specific Organisational, Management and Control Model in place that defines the principles of control and conduct that must be adopted to reduce the risk of committing crimes and offences envisaged by the Decree, including, in particular, corruption, environmental crimes and the violation of human rights.

In preparing the Model, the Bank first of all took into account all the existing regulations, procedures and control systems already being implemented, insofar as they were also suitable as measures for preventing crimes and illegal conduct in general, including those envisaged by Italian Legislative Decree 231/01.

The Bank identified the following as specific instruments already existing and aimed at planning the formation and implementation of company decisions and carrying out controls on business operations, including in relation to crimes and offences to be prevented:

- the corporate governance rules, adopted in compliance with the Corporate Governance Code for listed companies and the relevant company regulations and regulatory legislation;
- internal regulations and company policies;
- the Group's Code of Ethics, Internal Code of Conduct and Anti-Corruption Guidelines;

- internal control system;
- power and delegation system.

The Board of Directors delegates the structures the task of implementing the content of the Model and ensuring the constant updating and implementation of internal regulations and company processes, which are an integral part of the Model, in compliance with the principles of control and conduct defined for each sensitive activity.

The effective and concrete implementation of the Model is also guaranteed by:

- the Surveillance Body, in exercising the powers of initiative and control assigned to it in relation to the activities carried out by the individual organisational units in sensitive areas;
- the heads of the various organisational units of the Bank (Governance Areas, Divisions, Departments and Organisational Units) in relation to the activities at risk carried out by them. Without prejudice to the independent responsibility of each Italian-registered company of the Group regarding the adoption and effective implementation of its own Model, Intesa Sanpaolo in performing its duty as the Parent Company issues general criteria and instructions, and verifies the compliance of company Models with those criteria and instructions.

In October 2019, the Board of Directors approved the update of Intesa Sanpaolo's Model, which takes account of the evolution of legislation in the following areas:

- Italian Legislative Decree no. 107/2018 which contains the rules for compliance with the provisions of EU Regulation no. 596/2014 on market abuse;
- Italian Law no. 3/2019 which introduced the new predicate offence of "trafficking in illicit influences" (art. 346 bis of the Italian Criminal Code) and widened the scope of persons who may be involved in international corruption offences (art. 322 bis of the Italian Criminal Code);
- Italian Law no. 39/2019 which introduced into Italian Legislative Decree no. 231/01 the offence of "fraud in sports competitions, abusive gaming or betting" (art. 25 quaterdecies).

Moreover, in addition to the aforementioned regulatory alignments, the Model has been updated with respect to:

- organisational changes like the merger by incorporation of ISGS into Intesa Sanpaolo and the transfer of certain credit recovery activities to Intrum Italy;
- new business activities like the concession to third parties (commercial partners) of physical and digital spaces for the promotion and sale of products (so-called retailisation);
- other adjustments like a change to the causes of suspension and revocation of the members of the Supervisory Body and the updating of the sensitive activity "Management of Relations with the Supervisory Authorities" in order to take into account the organisational changes resulting from the establishment of the ESFS (European System of Financial Supervision).

Following the approval of the new Model by the Parent Company, the other Italian companies of the Group began the adoption of these updates.

To provide the Surveillance Body with an overall picture of the planning of the various control structure activities (compliance, anti-money laundering, administrative/financial governance, internal audit), the Compliance function collects the respective plans from the relevant structures on an annual basis regarding the scheduled supervision of sensitive areas and incorporates them into the 231 Audit Plan. On the basis of this document, the Surveillance Body assesses the adequacy of the programme of audits on individual sensitive company activities and identifies any further actions needed to strengthen the audit plans proposed by the structures concerned.

The heads of the organisational units involved in sensitive processes pursuant to Italian Legislative Decree 231/01 certify the level of implementation of the Model, by means of an overarching self-diagnosis process on the work carried out, with a particular focus on compliance with the principles of control and conduct and the operating rules.

Lastly, constant attention is paid to training initiatives and the dissemination of compliance culture: in this regard, the new remote learning course for the three-year period 2019-2021 has been designed to provide specific training modules.

The Group's Anti-Corruption Guidelines, approved in 2017 by the Board of Directors, identify the principles and the sensitive areas and define the roles, responsibilities and macro-processes for the management of this risk, further strengthening an internal regulatory framework which already consists of the Code of Ethics, the Group Internal Code of Conduct and – for the Italian Group companies – the Organisational, Management and Control Model adopted pursuant to Italian Legislative Decree 231/2001.



The Guidelines define the commitment to comply with the regulatory provisions aimed at combating corruption in all its forms, where corruption means the direct or indirect offering or acceptance of money or other benefits capable of influencing the recipient, in order to induce or reward the performance of a function/activity, or alternatively its omission. In line with international best practices, the Group does not tolerate:

- any type of corruption, in any form, manner or jurisdiction, not even if activities of this kind are permitted, tolerated or not prosecuted under the laws in force in the countries in which the Group operates;
- any conduct involving the offer or acceptance of money or other benefits – directly or indirectly – with the aim of inducing or rewarding the performance of a function/activity, or alternatively its omission. Such conduct is not tolerated even with regard to small payments aimed at speeding up, facilitating or ensuring the performance of a routine activity, or any activity that forms part of the recipient's duties (known as facilitation payments). Benefits that cannot be granted include, for example, gifts and services offered free of charge (except for those envisaged by specific regulations on gifts, and entertainment and charitable expenses), the undue hiring of a person, the granting of credit on terms that do not conform to the principles of sound and prudent management and, more generally, all transactions that entail the generation of a loss for the Group and the creation of a profit for the recipient.

Monitoring in this area is assigned to the Anti Financial Crime Head Office Department, and its Manager is allocated the role of Group Anti-Corruption Officer.

The Anti-Corruption Guidelines have been approved by the main Group companies, including the Banks of the Banca dei Territori Division, Banca IMI, Fideuram Intesa Sanpaolo Private Banking, Intesa Sanpaolo Vita and Eurizon Capital. Within the scope of the International Subsidiary Banks Division, all banks have submitted the document for formal acknowledgement to their relevant bodies and have adapted the Guidelines to the regulatory environment.

In 2019, there were continued checks on the consistency of the detailed internal regulations with the general principles set out in the Anti-Corruption Guidelines, in order to implement the necessary alignment, in addition to a detailed analysis of the anti-corruption controls currently in place in the individual “highest risk areas”, in order to identify any strengthening measures. In particular, the regulations governing the Suppliers List have been amended, the regulations on non-financial investments, territorial charities and guest houses have been updated and operations in the social area have been regulated.

Note also that in May 2019 Intesa Sanpaolo was among the first banks in Europe to receive the certificate of compliance of its anti-bribery management system with UNI ISO 37001 international standards. Issued by a third party, the certification came at the end of a process of analysis and verification of the Bank's anti-corruption system and covered all banking and financial operations and services and all other operations that are instrumental or connected to the achievement of the corporate purpose.

During the year, the Anti Financial Crime Head Office Department processed 228 “advice” and “clearing” files for specific operations in the highest risk areas, particularly concerning the purchase, management and sale of equity investments and other assets, donations, sponsorships and relationships with suppliers, the hiring of personnel, and gifts.

At the end of October 2019, the training course on the Anti-Corruption Guidelines – issued for people of the Group's Italian companies in 2018 – was made mandatory and expanded to include a specific focus on the UNI ISO 37001:2016 standard. The same course has been translated into English and also issued to the people of the foreign branches of Intesa Sanpaolo.

Finally, during 2019 specific classroom training initiatives were held for personnel dedicated to compliance issues or who work in the areas most exposed to the risk of corruption.

In Italy, there were no cases of disciplinary measures related to corruption incidents.

There were no significant penalties for non-compliance with laws or regulations relating to corruption.

## COMBATING MONEY LAUNDERING

Intesa Sanpaolo pays particular attention to compliance with national and international regulations aimed at combating money laundering and terrorist financing, which it recognises as a serious threat to the legal economy with destabilising effects for the banking system, and it adheres to the principle of active cooperation in preventing these phenomena.

In compliance with the legislative provisions of the legislator and the sectoral supervisory authorities, and based on the international standards contained in the FATF (International Financial Action Task Force) Recommendations, the Group has adopted procedures, instruments and controls designed to mitigate the risk of being involved, even unknowingly, in acts of money laundering, terrorist financing, violation of embargoes and arms regulations.

The Group's governance system to combat money laundering and the financing of terrorism is based on

Guidelines that constitute a systematic and functional reference framework, with active collaboration by the Group in preventing these illegal activities. Specific processes and procedures are in place in the areas of obligations of customer due diligence, reporting of suspicious transactions, recording of relations and transactions, storage of documents, risk assessment and management, internal control and guarantee of compliance with all of the relevant provisions to prevent and impede the completion of transactions connected to money laundering, the financing of terrorism, violation of embargoes and arms regulations. The guidelines and standards established by the Parent Company are developed and implemented within the individual operating structures in accordance with the characteristics and complexity of the activity carried out, as well as in accordance with their size and organisational structure, in compliance with the requirements of local regulations and ensuring the sharing of information at a consolidated level.

Procedures that provide automatic checks on the Group's register and transactions have been active for some time now, in order to mitigate the risk of having customers included in the list of entities subject to restrictions or freezing of assets (black list). The Group has also adopted a stricter approach, going beyond the regulatory requirements, by envisaging more detailed assessments of credit and reputational aspects to prevent its involvement, in any capacity, in transactions with counterparties or countries under embargo, even if the transaction is among those permitted by the restrictive provisions issued by the international authorities. 2019 saw the completion of the projects aimed at adapting AML controls to the new regulatory requirements of the AML IV Directive (transposed by Italian Legislative Decree 90/2017), and in December the Guidelines were brought into line with the Bank of Italy's 2019 Provisions on organisation, procedures and internal controls and on customer due diligence. The implementation of the related IT projects is still ongoing. The activities of the multi-year programme for the overall review and strengthening of anti-money laundering, embargoes, anti-terrorism and anti-corruption controls at Group level (ENIF Project - Enabling Integrated Financial Crime) also continued. The complexity of the project suggested that it should be restructured in order to identify the priorities for implementation for the two-year period 2020-2021 according to a risk-based logic in terms of geography, processes and customer segments.

## RELATIONS WITH POLITICAL PARTIES AND MOVEMENTS

The internal policies establish that political parties and movements cannot be recipients of donations and sponsorships. With regard to the financing of political parties, connected associations and individual candidates, specific rules state that the only form of new credit concession for them, that can solely be decided upon by the Board of Directors, consists of the advance on an annual basis of the "2x1,000 contribution" against the transfer, to be notified in accordance with the law, of the sums due to the parties for this form of contribution. In 2019 no financing was granted in this area.

## COMPLIANCE WITH TAX REGULATIONS

In compliance with the Code of Ethics, the entire Group is committed to observing principles based on values of honesty and integrity in managing tax matters, compliance with the tax regulations applicable in the countries in which the Group operates, and maintaining a collaborative and transparent relationship with the tax authorities, including through adherence to cooperative compliance schemes.

Intesa Sanpaolo places a particular focus on the evolution of tax regulations, both on a domestic and international level, aimed at countering base erosion and profit shifting, with the ongoing commitment to adhere to those principles. The Group has strengthened the internal control system for tax risk, known as the Tax Control Framework, to make it capable of covering the strategically important area of tax risk and meeting the requirements for access to the collaborative compliance scheme introduced in Italy, in accordance with Italian Legislative Decree 128/2015. On 10 December 2018, Intesa Sanpaolo was granted access by the Italian Revenue Agency to the Cooperative Compliance scheme, starting from 2017 when the application was submitted. Under this scheme, Intesa Sanpaolo and the Italian Revenue Agency can perform joint assessments on certain situations that could lead to tax risks thanks to ongoing, preventive contact, with a view to resolving any potential disputes before they occur.

In December 2017, the Intesa Sanpaolo Group adopted its Principles in relation to tax matters, in order to ensure compliance with the tax and fiscal rules of the countries where it operates over time, and to guarantee the financial and reputational integrity of all the Group companies. In particular, guidelines have been established to ensure uniform management of taxation at all Group companies, based on approach of: (i) correct and timely determination and payment of taxes due by law and performance of the related obligations, (ii) containment of tax risk, understood as the risk of operating in violation of tax regulations or in conflict with

the principles or with the aims of the legal system in the various jurisdictions in which the Group operates, both due to outside factors (primarily, uncertainty of the interpretation of tax laws due to ambiguity or lack of clarity of tax regulations) and internal factors (usually, incorrect and/or untimely compliance with mandatory requirements, failure to detect regulatory changes affecting the taxation of the Group; and transactions that may be challenged by the tax authorities as abusive).

The Principles are:

- Corporate Responsibility - The Group, in compliance with the Corporate Responsibility principle, acts according to the values of honesty and integrity in the management of tax matters, in the knowledge that revenue from taxes is one of the main sources of resources contributing to the economic and social development of the countries in which it operates.
- Legality - The Group adopts conduct based on compliance with the tax regulations applicable in the countries in which it operates and on interpretations that allow it to manage tax risk responsibly, so that it can satisfy the interests of all its stakeholders and ensure its positive reputation.
- Tone at the top - The Board of Directors defines the principles of conduct in relation to Group tax matters and ensures its application, therefore assuming the responsibility of driving the spread of a corporate culture based on the values of honesty and integrity and principle of lawfulness.
- Relationship - The Group maintains a collaborative and transparent relationship with the tax authorities, guaranteeing, among other things, to provide them the information needed to fully understand the circumstances underlying the application of tax rules. To this end, Intesa Sanpaolo encourages the Group companies to adhere to cooperative compliance schemes, which supplement the national regulations, in order to create stronger relationships with the tax authorities.

The Guidelines were also approved for the management of tax risk within the collaborative compliance scheme with the Italian Revenue Agency, which govern the criteria and processes that Intesa Sanpaolo must adopt to ensure the adequacy and effectiveness of its Tax Control Framework, as well as the related Rules.

The types of tax risk that may arise in the context of business processes have been identified by Intesa Sanpaolo as:

- Tax compliance risks. These are risks of an operational nature and arise in both business processes (such as risks of not correctly performing all the operational tasks necessary to ensure correctness – in terms of completeness, accuracy and timely processing – of the relevant data for tax purposes), and in specific tax compliance processes (from data collection through to its processing and preparation of tax declarations/ payments and communications sent to the tax authorities);
- Tax risks of an interpretative nature in transactions/routine operations. This type of risk relates to the uncertainty about the actual meaning of the regulations and the classification of actual cases with respect to theoretical circumstances, and arises within the following processes: regulatory alignment, advice given to the Structures of the Bank and interpretation choices adopted in tax compliance processes;
- Tax risks of an interpretative nature in non-routine transactions. These risks arise whenever non-routine transactions/operations are carried out, which are characterised by objective and defined uncertainty regarding the risk of adopting incorrect interpretations or, in any case, interpretations that are contrary to the principles and aims of the tax system.

Based on the periodic reports and other information flows provided by the Tax structure and the other corporate control functions, and checks conducted directly, the Compliance, Governance and Controls Head Office Department produces an independent assessment of the regulatory non-compliance risk in relation to tax matters and the adequacy of controls put in place for its mitigation, and, when it deems necessary, it requests the Tax structure to implement appropriate strengthening measures.

During 2019<sup>1</sup>, the Group, in addition to indirect taxes of 895 million euro, recorded accrued income taxes for the year of 1,838 million euro, for the most part in Italy, where the majority of operating income was earned, as per the table below.

2019 Figures [millions of euro]	Italy	Europe	Rest of the world
Taxes on income	-1,381	-366	-91
Operating income	14,354	2,952	777

The International Branches are presented in the geographical breakdown in relation to the country where these branches are located. As far as taxes on income are concerned, since Intesa Sanpaolo did not apply the option for the scheme of income exemption for international branches (known as Branch exemption), these

<sup>1</sup> The comments refer to the reclassified data published in the 2019 Consolidated Financial Statements of the Intesa Sanpaolo Group, which can be referred to for additional details or information.

branches' income is also taxed in Italy.

In compliance with the applicable regulations, Intesa Sanpaolo also publishes a country-by-country disclosure in which the following information is provided for each country (according to the rules established by the Bank of Italy): gross income, number of employees, profit or loss before tax and tax on profit or loss. The report is available at the following link [1].

## PROTECTION OF FREE COMPETITION

The Group constantly monitors and promotes free competition, and spreads a culture of compliance with anti-trust regulations, working to ensure that the international, European and national rules and procedures are effectively applied and observed.

In the Group's Code of Ethics, Intesa Sanpaolo declares its commitment to compete fairly in the market and cooperate with other economic, private and public entities, whenever necessary, to strengthen the overall capacity of the countries where the Group operates. The Bank has an ongoing commitment to manage relations with institutions and organisations, in monitoring existing regulations and in conducting attentive advocacy on any bills that could impact the activities of the Group and of its stakeholders at the national, European and international level, with a view to limiting legal, economic and reputational risks and exploiting new opportunities.

Due to the growing importance of antitrust issues, the Group has long since adopted a risk control system for antitrust non-compliance, under the responsibility of the Institutional Affairs Department. In this regard, it has adopted an extensive Antitrust Compliance Program that among its key elements includes the establishment of a specific internal team to monitor compliance with antitrust rules, the adoption of a Group Antitrust Regulation (which has incorporated the Antitrust Compliance Policy), the Antitrust Conduct Rules and the Antitrust Inspection Rules, as well as a training and information programme. The control of this area has been extended beyond the more traditional forms of antitrust (mergers, abuses of dominant positions and agreements) to also include EU regulations on state aid and the recent Italian regulations in support of Italy's competitiveness.

In 2019 the Group continued to raise awareness and spread the culture of antitrust compliance within the Group through the creation of 10 Web TV clips, the publication of 14 articles for the Group's communications magazine "Mosaic" (also translated in English) and the circulation of specific "Antitrust Update" reports. During the year, a series of remote and classroom training initiatives were also carried out on specific topics within various Group companies. The Appendo platform offers employees in Italy the collection "Antitrust... just rules or market support?". The promotion of a culture of competition has enabled the Antitrust Affairs Structure to attain an important recognition in the "Competition" category of the 7th edition of the TopLegal Corporate Counsel & Finance Awards.

## PRIVACY PROTECTION

Intesa Sanpaolo is continually committed to implementing regulatory, organisational and technological measures aimed at adequately meeting the needs of privacy protection. These actions reflect the principles of the Group's Code of Ethics which commit the Bank to adopting criteria of absolute transparency in informing customers and employees about their data privacy rights and how their personal information is processed. This commitment is set out in Company rules for the processing of personal data and in Guidelines on the protection of personal data of private individuals, approved by the Board of Directors, which provide an overall framework for conduct for all Bank staff, as well as for those who work in cooperation with it. The EU Regulation no. 2016/679 of the European Parliament and Council of 27 April 2016 General Data Protection Regulation (GDPR), which came into force on 25 May 2018, makes each data controller responsible, based on the principle of accountability, for implementing regulatory, organisational and technological measures to adequately comply, following a risk-based approach, with the regulatory principles of the GDPR: Data Protection by design and by default, appointment of the Data Protection Officer, Privacy Impact Assessment, Register of Processing Activities, subjective role of Third Parties, and Data Breach. The GDPR alignment project under the responsibility of the Privacy structure has defined the organisational measures and continues to develop the technological and IT security measures needed to comply with the requirements of the European Regulation in Italy and for the Group's companies located within the EU, following a risk-based logic and depending on the solutions available on the market and the complexity of the measures.

The Data Protection Officer, who is supported by the Privacy structure in the Safety and Protection Head Office Department, provides supervision, for the Parent Company and the Group Companies that have signed specific service agreements, of the privacy regulations, ensuring the adoption of the related updates and regulatory



alignment, in addition to compliance with the provisions of the Italian Data Protection Authority. This structure conducts prior assessments on the compliance of new products, initiatives and services involving the processing of personal data, and represents the Company before the Italian Data Protection Authority during inspection procedures.

The Data Protection Officer assesses the role performed by the Group's suppliers/Third Parties based on the provisions for the processing of personal data contained in the contracts, and supports the business and support structure in preparing any letters of appointment as Data Processor, and in updating the Register of Processing Activities. It also updates and publishes the List of Third Parties that process the personal data of customers and employees. The Data Protection Officer manages the responses to the Italian Data Protection Authority and the interested parties, following reports or complaints submitted to the Authority. It also processes customer requests associated with Data Subjects' rights in compliance with the legal provisions and the measures issued by the Authority, and oversees training on privacy, in collaboration with the designated structures through the provision of mandatory training courses on the protection of personal data offered online.

For the other Group Companies, the Data Protection Officer performs a role of guidance, coordination and control, overseeing the correct application of the Group guidelines and regulations on privacy, and provides support and advice for the performance of the current activities in this area. For the Group, it ensures control of the non-compliance risk in relation to privacy regulations, performing the role of Specialist Function set out in the Group Compliance Guidelines. The Function updates the Register of Processing Activities for personal data performed by the Parent Company, with the cooperation of the business and support functions, and provides assistance with regard to other Group companies.

This commitment allows for the mitigation of reputational and non-compliance risks in the processing of personal data, also with respect to the lawfulness and fairness of the processing, the purposes of the processing and its relevance, and the completeness and non-excessive nature of the data collected.

With regard to requests received from customers regarding personal data protection, in Italy 77 reports were received in 2019 for alleged instances of non-compliance (59 of which related to Intesa Sanpaolo) and 9 requests from the Italian Data Protection Authority regarding companies belonging to the Group, for which the necessary responses were given. In 2019, 17 cases (13 of which related to Intesa Sanpaolo) of loss or theft of data of customers of the Group (Data Breach) were assessed in Italy, 15 of which (11 related to Intesa Sanpaolo) were not found to pose a risk to the rights and freedoms of the data subjects and therefore it was not necessary to notify the Italian Data Protection Authority. For the remaining two cases it was deemed necessary to notify the Italian Data Protection Authority<sup>1</sup>.

The Companies of the International Subsidiary Banks Division established in the European Union reported a total of 28 incidents/events of alleged personal data breach, of which 2 reported to local authorities, while for the remaining 26 the local Data Protection Officers did not detect a risk to the rights and freedoms of the data subjects so it was not necessary to notify the respective Italian Data Protection Authority.

## COMPLIANCE WITH LABOUR LAWS

Consistent with the commitment set out in the Code of Ethics for the development of a working environment permeated by mutual trust, loyalty and enriched by the contribution of each person, the management model in this area is based on national and second-level (Group) collective bargaining agreements. Compliance with these rules, in addition to the legal provisions, is instrumental to improving the working environment, with a view to continued growth in the quality of relations between the Company and its personnel and customers. They also have the goal of asserting the need for a transparent and sustainable work organisation, with clear operational responsibilities at the various levels to continuously ensure compliance with the rules and the prevention of non-compliant behaviour, identifying measures that ensure the effective encapsulation of company objectives and worker expectations in terms of the working environment and internal relations. Responsibility for management, and consequently also for monitoring the effective application of the trade union agreements, is assigned to the Trade Union Affairs and Labour Policies Head Office Department. The protocol for Labour Relations enables joint research and sharing between the Company and Trade Union Organisations on solutions to improve the well-being of employees and make a positive contribution to productivity with advanced and innovative responses in the area of pensions, assistance and services for families, education and an improved work-life balance. The aims of the actions include improving the work-life balance for the employees. In general, the number of labour lawsuits is small: 34 cases for violations of labour law were notified in 2019 and around 42 cases were closed. The main types of litigation initiated include the termination of employment relationships – sale of business unit (Intrum), compensation for damages for deskilling and mobbing, higher job positions and appeals of disciplinary sanctions (in any event in 2019, no lawsuits were reported by current employees that related solely to cases of mobbing).

<sup>1</sup> 1 case of Data Breach which involved Intesa Sanpaolo Vita and Intesa Sanpaolo both as Data Controller, the DPO of Intesa Sanpaolo Vita and Intesa Sanpaolo jointly notified the Italian Data Protection Authority; 1 case of Data Breach which involved Intesa Sanpaolo as Data Controller and the DPO notified the Italian Data Protection Authority.

There is no evidence of cases of discrimination that have led to investigations for measures to be issued under formal procedures or processes. Ongoing monitoring has also been conducted on compliance with the rules laid down by the Internal Code of Conduct, through carrying out investigations of potentially abnormal situations. Amendments to the same Code and initiatives aimed at more effective knowledge dissemination with a view to risk prevention are being studied.

## AUDITS

The planning of Audits is coordinated by a specific internal structure, which supports the Chief Audit Officer in setting and assigning medium/short term objectives and plans to the Auditing Responsibility Centres, which are internal structures focused on specific sectors (e.g. head office functions, ITC, branch network, product companies, etc.). This activity takes into account the findings from risk analysis, the requests from the Company Management and Control Bodies, and from Top Management, as well as the obligations arising from external regulations and instructions from the Supervisory Authorities. In terms of timing, the planning is divided into:

- Multi-year Strategic Planning: in line with the company's strategic guidelines;
- Annual Operational Planning: annual audit plan, subject to approval by the Bodies;
- Quarterly Operational Planning.

As required by international standards, the Internal Audit function is subject to an external Quality Assurance Review at least every five years. The most recent audit was started at the end of 2018, at the request of the Management Control Committee, and was concluded in the first quarter of 2019 with the confirmation of the best result ("Generally Compliant"). In addition, on an annual basis, the Internal quality assurance and improvement plan is prepared, which also includes the Annual Plan submitted for approval to the Corporate Bodies. At the international level, the audits are structured in such a way as to ensure the direct monitoring of Intesa Sanpaolo's international branches, in addition to guaranteeing supervision of the Head Office Departments and the International Subsidiary Banks Division. For these banks, the dedicated offices of the Parent Company provide direct auditing, together with governance of the activities carried out by local audit units.

With regard to the audits carried out in 2019 in the Head Office Departments, Banks and Group Companies, the activities regarding the 230 Risk Areas identified in the planning phase were completed, with the completion of 252 audits (52 of which "extraordinary", i.e. originating from specific requests of Corporate Bodies, Supervisory Authorities or from events/circumstances occurring after the completion of the annual planning). In 2019, 90 audits were reported as significant for the purposes of Italian Legislative Decree 231/2001, and among these 18 concerned activities related to corruption risk. These latest audits involved 9 Governance Areas/Divisions\*. In 2019, there were 15 audits regarding actions that directly or indirectly also related to aspects linked to social and environmental policies. The impact of audits that have an effect on the implementation of social and environmental policies should nevertheless be assessed differently depending on the various areas in question: as an example, interventions concerning the disbursement and management of loans may also involve certain aspects related to rules for operations in sectors such as arms and energy policies.

In July 2019 it was made possible to specify on the "Tableau de Bord" (a tool that summarises the critical issues facing the Banking Group) the "sensitivity" of an individual point of attention that emerged during an audit to issues concerning Corporate and Social Responsibility.

Following on from the Internal Audit Transformation (IAT) project completed at the end of 2017, the new development programme called FAST - Future Audit Solutions & Transformation (an integral part of the broader Multiannual Audit Plan) continues, aimed at improving reporting, identifying solutions focused on the strategic aspects of the internal control system and ensuring the proactive management of the corrective actions suggested after audits.

\* 2 Governance Areas had only 1 audit, the others at least 2. Some audits involved several Divisions/Governance Areas.

## WHISTLEBLOWING

Since 2016, a whistleblowing system has been in place, which allows employees to report actions or occurrences that could constitute breaches of the regulations governing banking activities (whistleblowing). Whistleblowing, which ensures the confidentiality of the individual making the report without the risk of retaliatory, unfair or discriminatory behaviour, encourages employees (including suppliers and consultants) to report acts or conduct they become aware of that may constitute a breach of the regulations governing banking activities or related activities that may also be instrumental to a breach or other illicit conduct. The Chief Audit Officer is responsible for ensuring the correct performance of the process; in 2019 a total of 17 reports were received, of which 7 were judged not pertinent whereas 10 resulted in the launch of specific investigations.

## DISPUTES AND FINES

As at 31 December 2019, a total of about 22,000 disputes, other than tax disputes, were pending at Group level for a total amount of around 5,635 million euro. This amount includes all outstanding disputes, regardless of the estimated risk of a disbursement of financial resources resulting from a potential negative outcome and therefore also includes disputes with a remote risk. The risks associated with these disputes are thoroughly and individually analysed by the Parent Company and Group companies.

In terms of tax litigation, there were disputes pending amounting to a total of 365 million euro for the Group. With regard to compliance with environmental regulations, for damage caused to the environment as a result of the Bank's operations and in relation to health and safety, over the last three years, no significant reports emerged and no fines were imposed (see page 160).

With regard to labour litigation, at the end of December 2019 there were no significant disputes from either a qualitative or quantitative standpoint.

For information on the legal risks and the most significant civil, administrative and penal lawsuits, please refer to the Consolidated Financial Statements (see page 487 ff.) [i].