Part E – Information on risks and relative hedging policies

INTRODUCTION

In this Part E, the qualitative and quantitative disclosure is presented according to the order established by Bank of Italy Circular 262, which specifically regulates not only the format of the tables but also the sequence of the various topics, except for the section relating to market risks in relation to the application of internal models.
As an accompaniment to the disclosure on the control actions and main accounting issues related to the Russia-Ukraine risk contained in the introductory chapter of the Report on Operations – this Part E, within the comments on credit risk, provides a detailed description of the exposures to Russia and Ukraine, together with an examination of the related valuation aspects, with particular regard to the choices made for the calculation of ECLs on cross-border exposures.
Specific information is also provided on the relevant aspects related to the limited impacts, where present, connected to the conflict between Russia and Ukraine, also for the other main types of risk.

Basic principles

The Intesa Sanpaolo Group attaches great importance to risk management and control, as condition to ensure a reliable and sustainable value creation in a context of controlled risk.
The risk management strategy aims to achieve a complete and consistent overview of risks, considering both the macroeconomic scenario and the Group's risk profile, stimulating the growth of the risk culture and enhancing a transparent and accurate representation of the riskiness of the Group's portfolios.
The Risk-taking strategies are summarised in the Group's Risk Appetite Framework (RAF), approved by the Board of Directors. The RAF is established to ensure that risk-taking activities remain in line with shareholders' expectations, taking into account the Group's risk position and the economic situation. The framework defines both the general risk appetite principles and the control of the overall risk profile and the main specific risks.
The general principles that govern the Intesa Sanpaolo Group's risk-taking strategy may be summarised as follows:
– the Group is a Banking Financial Conglomerate focused on a commercial business model where domestic retail activities remain the Group's structural strength, and include not only banking products and investment services, but also insurance and wealth management solutions tailored to the Group's customers;
– the Group's goal is not to eliminate risks, but to understand and manage them in such a way as to guarantee adequate returns on the risks taken and guarantee soundness and business continuity over the long term;
– the Group has a low risk profile in which capital adequacy, profits stability, a sound liquidity position and a strong reputation are the key strengths for maintaining its current and prospective profitability;
– the Group aims for a capitalisation level in line with its main European peers;
– the Group intends to maintain strict control over the risks arising from its activities;
– the Group devotes particular effort to the continuous strengthening of its risk culture as a fundamental instrument to promote sound risk-taking and ensure that risk-taking activities exceeding its risk appetite are recognised, assessed, escalated and addressed in a timely manner;
– to guarantee the sustainability of its operating model over the long-term, the Group attributes particular emphasis to monitoring and controlling non-financial risks, model risk, reputational risks and Environmental, Social and Governance (ESG) and climate change risks. With specific regard to the latter, Intesa Sanpaolo recognises the strategic importance of ESG factors and the urgency of limiting climate change, and is committed to including the impact of these aspects in strategic decision-making processes and to fully integrate them into its risk management framework with the goal of maintaining a low risk profile. This includes controlling how ESG risks and those connected with climate change impact existing risks (credit, operational, reputational, market and liquidity risk) and implementing high ethical and environmental standards in internal processes, products and services offered to customers and in the selection of counterparties and suppliers.

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

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

In detail, the control of the overall risk profile is aimed at maintaining adequate levels of:
– capitalisation, also in conditions of severe macroeconomic stress, in relation to both Pillar 1 and Pillar 2, by monitoring the Common Equity Ratio, the Total Capital Ratio, the Leverage Ratio, the Risk Bearing Capacity, the Solvency Ratio

and the Accumulated Other Comprehensive Income (AOCI) reserve;
– liquidity, sufficient to face periods of tension, including extended ones, on the various funding markets, with regard to both the short-term and the structural situation, by monitoring the internal limits of the Liquidity Coverage Ratio, Net Stable Funding Ratio, Loan/Deposit Ratio, Asset Encumbrance and Survival Period in an adverse scenario;
– stability of profits, by monitoring the net profit adjusted and the adjusted operational cost on income, which represent the main potential causes for their instability;
– resolvability capacity (Total and Subordination MREL Ratios) in order to be able to absorb any losses and restore the Group's capital position, continuing to perform its critical economic functions during and after a crisis;
– non-financial risks, in order to minimise the potential impact of negative events that jeopardise the Group's economic stability;
– model risk, with the aim of limiting the financial and reputational impacts of its portfolio of models;
– reputational, ESG and climate change risks, through active management of its image and the aspects connected with ESG factors, including climate change, aiming to prevent and contain any negative effects on its reputation.

In compliance with the applicable regulations and in particular the EBA Guidelines (EBA/GL/2021/11) concerning the "Recovery plan indicators", the Group includes asset quality, market-based and macroeconomic indicators, to ensure consistency with its Recovery Plan.

The control of the main specific risks is implemented by establishing specific limits and mitigation actions to be taken in order to limit the impact of particularly severe future scenarios on the Group. These limits and actions regard the typical risks of the Group's activities, such as credit risk, market risk and interest rate risk, as well as the most significant risk concentrations such as, for example, on single counterparties, sovereign risk and public sector risk, as well as other types of operations deemed worthy of specific attention by the Corporate Bodies (e.g. transactions exposed to valuation risk, exposure to associated entities[97]).
Within the monitoring of the specific risks, the Credit Risk Appetite (CRA) Framework, a specific Risk Appetite Framework (RAF) for credit risk, identifies areas of growth for loans and areas to be monitored, using an approach based on ratings and other predictive statistical indicators, to guide lending growth by optimising the management of risk.
The CRA limits are approved within the RAF and are continuously monitored by the designated structures of the Chief Risk Officer Area.

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

In addition to the limits themselves, Early Warning thresholds may be defined, the exceeding of which is promptly discussed in the competent managerial committee[98].

Defining the Risk Appetite Framework is an articulated process headed by the Chief Risk Officer, which involves close interaction with the Chief Financial Officer and the Heads of the various Divisions, is developed in line with the Internal Capital Adequacy Assessment (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), Recovery Plan, Capital Plan and Liquidity Plan processes, and represents the risk framework in which the Budget and Business Plan are developed. This ensures consistency between the strategy and the risk-taking policy and the Plan and Budget process.
Within the annual RAF update process, it is possible to identify the following phases:
– definition of the scope of RAF risks: risks are identified continuously within the Group to maintain ongoing alignment with the changing internal and external context and to guarantee the adequacy of the controls and limits implemented to safeguard the Group Long term viability. The activity is formalised within the Group's Risk Identification process. The scope of RAF risks is thus defined starting with that process, paying particular attention to the evolution of the risks for which specific limits and/or risk strategy actions are deemed necessary;
– formulation of the limits proposal: in general, the RAF limits are defined according to a prudential approach. However, the criteria adopted to determine the risk limits differ depending on whether related to control of the overall Group risk or to control of the main specific Group risks;
– reconciliation between the RAF, Business Plan/Budget, Recovery Plan and Divisions operations: consistency between the RAF and the Business Plan/Budget and other processes is sought in all phases of the related preparation procedures through a process of mutual consultation and dialogue that lasts for several months, involving not only the structures of the Chief Risk Officer Governance Area and the Chief Financial Officer Governance Area but also the Business Divisions/Structures;

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

[98] The competent Managerial Committee varies according to the RAF metrics considered:
– for model risk metrics, the responsibility lies with the Credit Risk and Pillar 2 Internal Models Committee;
– for non-financial risks and reputational risk metrics, the responsibility lies with the Group Control Coordination and Non-Financial Risks Committee;
– for the metrics related to liquidity, market, interest rate for banking book, equity participation, structural foreign exchange and insurance risks metrics, the responsibility lies with the Group Financial Risk Committee;
– for the metrics of capital adequacy, resolvability capacity, stability of profits, ESG & climate change, asset quality, credit risk, country risk, wealth management metrics and for all those metrics not explicity indicated in the points above, the responsibility lies with the Steering Committee.

– approval of the RAF: in line with the provisions of the applicable regulations, the Board of Directors defines and approves the risk objectives, the tolerance threshold (where identified) and the risk governance policies.

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

The definition of the RAF and the consequent operational limits for the main specific risks, the use of risk measurement instruments in credit management and operational risk control processes, the use of capital-at-risk measures for corporate performance reporting and assessment of the internal capital adequacy of the Group represent fundamental milestones in the operational application of the risk strategy defined by the Board of Directors along the Group's entire decision-making chain, down to the single operational units and to the single desks.

The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas, in a comprehensive framework of limits and procedures for governance and control.

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

The assessment of the Group's capital adequacy and liquidity profiles is conducted annually with the ICAAP and the ILAAP, which represent self-assessment processes according to the Group's internal rules, the results of which are then also discussed and analysed by the Supervisor.

With regard to the ICAAP, in accordance with the ECB requirements, the capital adequacy self-assessment process incorporates two complementary perspectives, both of which are analysed from an actual perspective and, on a prospective basis, in a baseline scenario and a stress scenario:

– regulatory perspective, in which the regulatory metrics for the Pillar 1 risks over the medium term (several years) are represented for both these scenarios;
– financial and operating perspective, in which the management measures and metrics covering all the risks, including the Pillar 2 risks, are presented, with a time horizon of several years in the baseline scenario, and a time horizon of at least two years in the stress scenario.

The scope of analysis also includes the insurance segment to better capture the specific characteristics of the Group's business model (financial conglomerate).

The quantitative reconciliation between regulatory requirements and management estimates of capital adequacy is set out in a specific document attached to the ICAAP, which reports the differences in scope and definition of risks considered in both areas, as well as the differences, where appreciable, between what is considered in the two perspectives in terms of the main parameters (e.g. confidence interval and holding period) and assumptions (such as those relating to the diversification of effects).

The ILAAP is the internal process of self-assessment of the adequacy of the Group's short-term and structural liquidity position. Like the ICAAP, it is based on two complementary pillars – the economic perspective and the regulatory perspective – aimed at supporting a clear assessment of the liquidity risks and their effective governance, based on a management strategy, all aspects of which have been carefully considered, with the establishment of an appropriate system of risk-taking limits.

The Group is required to provide a Recovery Plan according to indications received by Supervisory Authorities. The Recovery Plan is governed by the European Bank Recovery and Resolution Directive – BRRD - 2014/59/EU, transposed into Italian law by Legislative Decrees no. 180 and no. 181 of 16 November 2015 and the Bank Recovery and Resolution Directive – BRRD II - Directive 2019/879/EU, transposed into Italian law by Legislative Decree no. 193 of 8 November 2021, in force from 1 December 2021, and establishes the methods and measures to be used when an institution comes under severe stress and in an early intervention phase, in order to restore financial strength and long-term viability.

Within the annual preparation process for the Group Recovery Plan, the Chief Risk Officer Governance Area identifies the stress scenarios suitable of highlighting the main vulnerabilities of the Group and its business model (e.g. significant exposure to the domestic market), as well as measuring their potential impacts on the Group's risk profile.

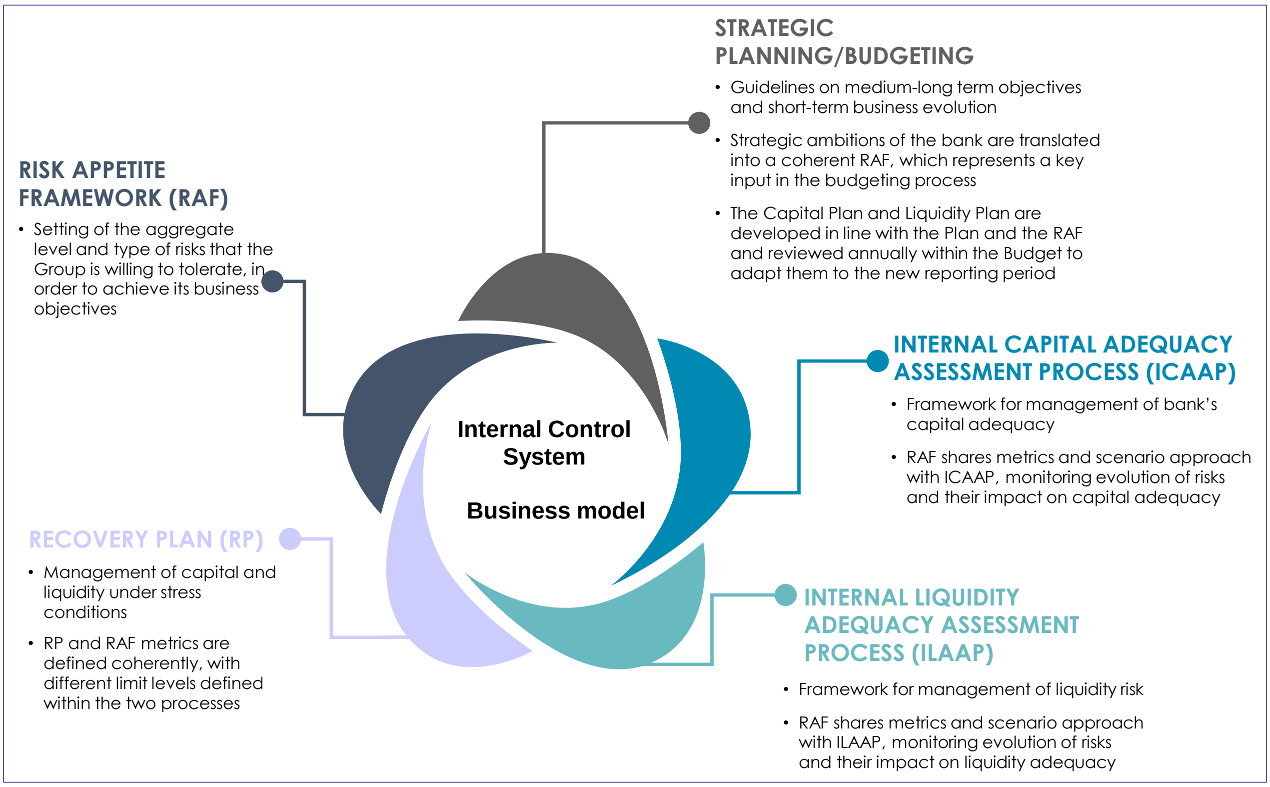
For 2023, in accordance with the applicable regulations, the Intesa Sanpaolo Group has developed four stress scenarios, one of which is purely idiosyncratic, with very rapid evolution, while the other three are "combined", as they are based on a macroeconomic scenario that is made more severe by the addition of systemic and idiosyncratic events. Two of the combined scenarios were developed also taking into account the potential economic and financial fallouts of the prolonged crisis caused by the Russia-Ukraine conflict.

Following the publication of the European Banking Authority's Final Report on Recommendation on the coverage of entities in a group recovery plan (EBA/Rec/2017/02), dated 1 November 2017, Intesa Sanpaolo has adopted specific criteria for the classification of Group companies among:

– Group-relevant;
– Locally relevant;
– Not relevant.

The application of these criteria to the Group scope has led to the Parent Company, as well as Fideuram ISPB Group, VUB Group, Banka Intesa Sanpaolo d.d., Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, CIB Group, PBZ Group, Banca Intesa Beograd and Intesa Sanpaolo Romania, being classified among the Group-relevant entities. The remaining companies are included in the category of not relevant entities. The above breakdown is consistent with the scope covered by the 2022 Recovery Plan.

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



Stress Tests

Stress tests are a fundamental risk management tool that enable institutions to adopt a forward-looking perspective in their risk management, strategic and capital planning activities.
The Group regularly carries out stress tests within the main company processes (RAF, ICAAP/ILAAP, Recovery Plan, Budget/Capital Plan, ...) aimed at assessing capital and liquidity adequacy.
In line with the applicable regulations, the Group has a structured stress testing framework that governs the stress testing activities with reference to both the organisational and governance aspects, as well as the methodological and data infrastructure related aspects. It is an integral part of the Group's risk management systems, providing fundamental support to the company processes and decisions, the strategic ones in particular, which are linked to the management of capital and liquidity. It also enables a forward-looking assessment of the potential material risks and of the main vulnerabilities which the Group is exposed, also in stress scenarios, using both scenario analyses and sensitivity analyses, depending on the objective of the exercise.

The stress testing framework establishes the:
- roles and responsibilities of the structures involved and of the Corporate Bodies;
- stress testing activities (types of exercises, scope, frequency, objectives and applications);
- macro-process adopted;
- methodological approach;
- data infrastructure;
- Group steering and coordination.

With regard to the *macro-process*, the stress test exercises consist of three fundamental phases:
- selection and approval of scenarios;
- execution of stress tests activities;
- approval of the outcome.

With regard to the *types of exercises*, the Group conducts the following stress exercises:
- **multi-risk exercises**: based on scenario analysis, it allows the assessment, according to a forward-looking approach, of the simultaneous impact on the Group of multiple risk factors, also taking into account the inter-relations and possibly the ability of Top Management to react. This type of exercise, which requires the full revaluation of each impact, is also used as part of the processes of RAF, ICAAP/ILAAP and Recovery Plan;

- **regulatory multi-risk exercises**: requested and coordinated by the Supervisor/Regulator which defines the general assumptions and scenarios, requires the full revaluation of the impacts;
- **situational exercises**: requested by the Top Management or by the Supervisor/Regulator in order to assess, in a forward-looking approach, the impact of particular events (relating to the geopolitical, financial, economic, competitive environment, etc.). Their scope may vary from case to case;
- **single or specific risk exercises**: aimed at assessing the impact of scenarios (or single or more specific risk factors) on specific risk areas;
- **single or specific risk regulatory exercises**: ordered and coordinated by the Supervisor/Regulator which defines its general assumptions and scenarios, to assess the impact on specific risk areas.

The results of the stress exercises, carried out through scenario and/or sensitivity analyses, represent a support for the Group in the:

- overall current and forward-looking assessment of capital and liquidity adequacy within the main strategic processes (ICAAP, ILAAP, Recovery Plan and Budget/Capital Plan);
- assessment of the potential vulnerabilities to which the Group is exposed and possible mitigation actions;
- setting of the limits envisaged in the RAF.

With specific reference to the regulatory multi-risk tests, on 28 July 2023, were published the results of the 2023 EU-Wide Stress Test, conducted by the European Banking Authority (EBA), in collaboration with the Single Supervisory Mechanism (SSM), the Bank of Italy, the European Central Bank (ECB) and the European Systemic Risk Board (ESRB), which also involved the Intesa Sanpaolo Group. The stress test scenario was developed over a three-year time horizon (2023-2025) and carried out applying a static balance sheet assumption as at December 2022, therefore without taking into account future business strategies and management actions. It is not a forecast of Intesa Sanpaolo profits. The Intesa Sanpaolo Group fully loaded CET1 ratio resulting from the stress test for 2025, the final year considered in the exercise, stood at 14.85% under the baseline scenario and 10.85% under the adverse scenario, versus the starting-point figure of 13.53% as of 31 December 2022. The results of the stress tests exercise highlight that Intesa Sanpaolo is able to confirm its solidity even in complex scenarios, thanks to its well-diversified and resilient business model.

In 2024, Intesa Sanpaolo Group will take part in the following regulatory exercises:

- 2024 ECB cyber resilience stress test: an exercise conducted by the ECB in which banks will be required to face, under a common severe and plausible scenario, a cyber attack that succeeds in disrupting the bank's daily business operations. The exercise will assess banks' ability on cyber attack response and recovery;
- EBA one-off fit-for-55 climate risk scenario analysis: exercise promoted by the EBA, aimed at assessing the resilience of the financial sector in line with the Fit-for 55 package and to gain insights into the capacity of the financial system to support the transition to a lower carbon economy under conditions of stress.

For both the exercises described above, the results will be used as input in the Supervisory Review and Evaluation Process (SREP).

Risk Culture

Risk Culture is the subject of increasing attention, as an essential tool to promote solidity as a crucial value, in a rapidly changing economic context. This is two-sided, as it is an expression of the principles guiding the Group (top-down) on one side, and the values and attitudes of its people on the other (bottom-up). Particular attention is paid to the promotion of the guiding principles, also by systematically and carefully updating the reference documents on risk (e.g. Tableau de Bord of Group Risks, ICAAP, RAF) and the information set for the exercise of operational activities. In addition, several initiatives were carried out during 2023 to strengthen risk awareness and responsibility, including:

- workshops/webinars on innovative topics with a high potential impact on the Group's risk profile (e.g. learning market data anomalies, generative artificial intelligence, the dissemination of financial knowledge, the Group's commitments in the fight against climate change, the main megatrends, and emerging risks);
- in line with previous years, the Risk Culture Ambassador initiative entailed the temporary secondment of resources from the Chief Risk Officer Area, receiving the same number of resources from the recipient structures of the Head Office Departments and Divisions.

Risk governance organisation

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

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

- the Steering Committee, chaired by the Managing Director and CEO, is a Group body with a decision-making, consulting and reporting role, which, within the Group Risk Analysis Session, seeks to ensure the control and management of risks and safeguard business value at Group level, including the internal control system, in implementation of the strategic guidelines and management policies established by the Board of Directors. Its various tasks include examining the RAF proposal for the Group, preparatory and instrumental to its approval by the Board of Directors, the analysis of the ICAAP and ILAAP Group packages and of the Tableau de Bord of Group Risks;
- the Group Financial Risk Committee is a technical body with decision-making, reporting and consulting powers, focused both on the risks relating to the banking business (including market risk, banking book financial risks, liquidity risk, financial risks for customer investments, supervision and monitoring of business models, and Active Value Management) and those in the life and non-life insurance business (result exposure to the trend in market variables and technical variables). The functions of said Committee are set out in three sessions:
  - the Risk Analysis and Valuation Session, chaired by the Chief Risk Officer, responsible for evaluating, inter alia, in advance of approval by the Board of Directors, the guidelines on undertaking and measuring financial risks and the liquidity risk of the Group, with a view to consistency with the RAF, proposals for operational limits for financial operations referring to interest rate risk of the banking, the trading book and valuation risk defining, within the scope of the powers received, the distribution thereof amongst the Group’s major units. It also periodically analyses the overall financial risk profile and exposure to liquidity risk and interest rate risk of the Group and the single Group banks and companies, verifying any breaches of the limits and monitoring the approved come-back procedures;
  - the Management Guidelines and Operating Choices Session (ALCO), chaired by the Chief Financial Officer, provides the Group Companies operational guidelines in implementation of the strategic guidelines and risk management policies laid down by the Board of Directors, in respect of management of the banking book, liquidity, interest rate and exchange risk;
  - the ALCO session – Extended, chaired by the Chief Risk Officer, which analyses the performance of loans and deposits, in current and prospective terms, together with the expected trend in Risk-Weighted Assets (RWA) and financial assets (debt securities and loans) measured at Fair Value through Other Comprehensive Income (FVOCI reserves), in order to monitor and assess their impact on the Group’s liquidity and capital profiles.
- the Credit Risk and Pillar 2 Internal Models Committee is a technical body with a decision-making, reporting and advisory role. In particular, with regard to the internal risk measurement systems, the Committee acts as the competent Management Committee for:
  - the internal models for the measurement and management of credit risk;
  - the internal models for Pillar 2 risks[99].
- the Group Control Coordination and Non-Financial Risks Committee is divided into specific and distinct sessions:
  - the Integrated Internal Control System session, with a reporting and advisory role, whose objective is to reinforce coordination and the interdepartmental cooperation mechanisms within the Group internal control system, thus promoting the integration of the risk management process, in relation to non-financial and reputational risks, to facilitate their effective management;
  - the Operational and Reputational Risk session, with a decision-making, reporting and advisory role, which has the task of supervising the implementation of operational and reputational risk management guidelines and policies in accordance with indications formulated by the Board of Directors and periodically reviewing the overall non-financial risk profile, monitoring the implementation of the mitigation actions identified in accordance with indications formulated by the Corporate Bodies and/or the Steering Committee;
  - the Compliance Risk Session, for reporting and consulting purposes, which is tasked with examining the results of the periodic compliance risk assessments.

  The sessions of the Committee are attended by, among others, the Heads of Corporate control functions, as well as the Manager responsible for preparing the Company’s financial reports as a permanent member. This contributes to fulfilling the assigned legal obligations and the responsibilities established in the Company Regulations on the supervision of the financial reporting process. It also enables the promotion of the inter-functional coordination and integration of control activities, within its area of responsibility;
- the Group Credit Committee is a technical body with a decision-making and advisory role that has the task of ensuring the coordinated management of issues relating to credit risk, and is organised in two separate sessions (Performing Loans Session and Non-Performing Loans Session). Among other duties, the Committee resolves on the granting, renewal and confirmation of loans within the scope of the powers assigned to it;
- lastly, the Hold To Collect and Sell (HTCS) Sign-Off Committee is tasked with proposing the assumption of market risks

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

put forward by the business structures of the Parent Company or the subsidiaries, on the HTCS shares required for Originate to Share ("OtS") transactions. These transactions consist of loans originated with the intention of being distributed to third-party operators on the primary or post-primary/secondary market and which upon origination have a holding period that varies according to the counterparty's rating class and product type.

The Chief Risk Officer Governance Area, directly reporting to the Managing Director and CEO, in which the risk management functions are concentrated, including the controls on the risk management and internal validation process, represents a relevant component of the "second line of defence" of the internal control system that is separate and independent from the business supporting functions.

This Area is responsible for governing the macro process of definition, approval, control and implementation of the Group's Risk Appetite Framework with the support of the other corporate functions involved, as well as assisting the Corporate Bodies in setting and implementing the Group's risk management guidelines and policies, in accordance with the company's strategies and objectives, and coordinates and verifies their implementation by the responsible units of the Group, also within the various corporate areas, guaranteeing the measurement and control of the Group's exposure to various types of risk, implementing the II level controls on credit and other risks, in addition to ensuring the validation of risk measurement and management internal systems.

To that end, the Chief Risk Officer Governance Area is broken down into the following Organisational Units:

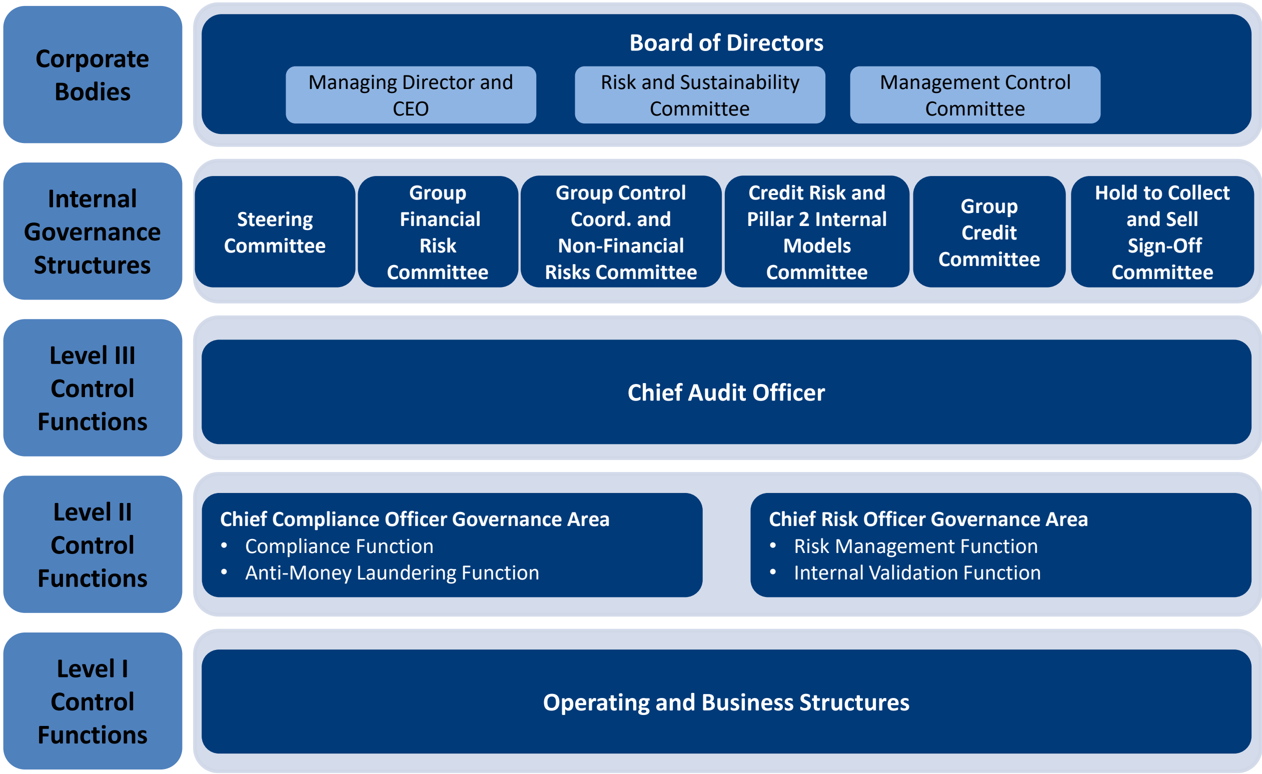
- Market, Financial and C&IB Risks Coordination Area;
  - Market and Financial Risk Management Head Office Department;
  - IMI C&IB Risk Management Head Office Department;
- Internal Validation & Controls Coordination Area:
  - Internal Validation & Model Risk Management;
  - Credit Controls;
  - Data Quality Controls and Analytics.
- Credit Risk Management Head Office Department;
- Banca dei Territori Risk Management Head Office Department;
- Enterprise Risk Management Head Office Department;
- Operational IT & Cyber Risk Management;
- Foreign Banks Risk Governance;

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

The Chief Compliance Officer Governance Area, which reports directly to the Managing Director and CEO, in a position that is independent from operating departments and separate from internal auditing, ensures the monitoring of the Group regulatory compliance risk, including conduct risk. Within the Risk Appetite Framework, the Chief Compliance Officer Governance Area (i) proposes the statements and limits set for compliance risk and (ii) collaborates with the Chief Risk Officer Governance Area in the monitoring and control of non-financial risks for compliance purposes and, if the set limits are exceeded, in the identification/analysis of events attributable to non-compliance with regulations and in the identification of appropriate corrective measures.

The Chief Compliance Officer Governance Area is broken down into the following Organisational Units:

- Regulatory Compliance Retail and Private Banking Head Office Department;
- Regulatory Compliance Corporate and Investment Banking Head Office Department;
- Compliance Governance, Privacy and Controls Head Office Department, which includes the Data Protection Officer function that performs the tasks assigned by data protection legislation;
- Anti Financial Crime Head Office Department, which is tasked, *inter alia,* with the duties and responsibilities of the anti-money laundering function;
- Compliance Digital Transformation.



The Parent Company performs a guidance and coordination role with respect to the Group companies[100], aimed at ensuring effective and efficient risk management at Group level, exercising responsibility in setting the guidelines and methodological rules for the risk management process, and pursuing, in particular, integrated information at Group level to the Corporate Bodies of the Parent Company, with regard to the completeness, adequacy, functioning and reliability of internal control system. For the corporate control functions in particular, there are two different types of models within the Group: (i) the centralised management model based on the centralisation of the activities at the Parent Company and (ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the direction and coordination of the same corporate control functions of the Parent Company, to which they report in functional terms.
Irrespective of the control model adopted within their company, the corporate bodies of the Group companies are aware of the choices made by the Parent Company and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the Group controls.

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

The internal control system

To ensure a sound and prudent management, Intesa Sanpaolo combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.
Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Corporate Governance Code for Listed Companies, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.
Intesa Sanpaolo's internal control system is built around a set of rules, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with sound and prudent management, the achievement of the following objectives:
– verification of the implementation of Company strategies and policies;
– containment of risk within the limits set out in the reference framework for determining the Bank’s risk appetite (Risk Appetite Framework – RAF);
– safeguard of asset value and protection from losses;
– effectiveness and efficiency of the Company processes;
– reliability and security of Company information and IT procedures;
– prevention of the risk that the Bank may be involved, including involuntarily involved, in illegal activities (with special regard to those relating to money-laundering, usury and financing of terrorism);
– compliance of business operations with the law and supervisory regulations, as well as internal policies, procedures and regulations.

The internal control system plays a crucial role and involves the entire company organisation (bodies, structures, hierarchical levels, all personnel). In compliance with the provisions of Bank of Italy Circular 285/2013 (First Part, Title IV, Chapter 3) the "Integrated Internal Control System Regulation" was finalised. This aims to define the guidelines of Intesa Sanpaolo's internal control system, in its capacity as Bank and Parent Company of the Banking Group, through the adaptation of the reference principles and the definition of the responsibilities of the Bodies and of the functions with control duties, which contribute, in various ways, to the proper operation of the internal control system, as well as the identification of coordination arrangements and information flows supporting system integration.
The internal control system is made up of a documentation infrastructure (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls present in the Company, which incorporate all the company policies and the instructions of the Supervisory Authorities, as well as the provisions of law, including the principles laid down in Legislative Decree 231/2001.
The regulatory framework consists of “Governance Documents”, adopted from time to time, that oversee the operation of the Bank (Articles of Association, Code of Ethics, Group Internal Code of Conduct, Group Regulations, Group Committees Regulation, Regulation on Related Party Transactions, Integrated Internal Control System Regulation, Authorities and powers, Guidelines, Function charts of the Organisational Structures, etc.) and more strictly operational regulations that govern business processes, individual operations and the associated controls (Rules, Process Guidelines, Control Sheets, etc.).
More specifically, the corporate rules set out organisational solutions that:
– ensure sufficient separation between the operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
– are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
– enable the recording of every operational event and, in particular, of each transaction, with an adequate level of detail, ensuring their correct allocation over time;
– guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the control functions;
– ensure the prompt notification to the appropriate levels within the business and the swift handling of any anomalies found by the business units, the internal audit department and the other control functions;
– ensure adequate levels of business continuity.

The Company’s organisational solutions also include controls at each operational level that enable the uniform and formalised identification of responsibilities, particularly in relation to the tasks of controlling and correcting the irregularities found.
In terms of Corporate Governance, Intesa Sanpaolo adopted the one-tier corporate governance system, pursuant to Articles 2409-sexiesdecies and following of the Italian Civil Code. It therefore conducts its operations through a Board of Directors, certain members of which are also members of the Management Control Committee.
Based on this system:
– the Board of Directors is the body responsible for strategic supervision and performs all the tasks assigned to it by the Articles of Association, the applicable regulations and the Bank’s governance documents;
– the Managing Director and CEO performs the tasks assigned by the supervisory regulations to the body responsible for management, as set out in the Bank’s governance documents, approved by the Board of Directors, except for the responsibilities assigned to the Board;
– the Management Control Committee performs the control function.

The Board of Directors elects a Managing Director from its members, other than the Chair of the Board, the members of the Management Control Committee or the minimum number of Independent Directors.
The Intesa Sanpaolo Group adopts an internal control system based on three levels, in line with the legal and regulatory provisions in force.
The model has the following types of control:
– Level I: line controls which are aimed at ensuring proper performance of operations (for example, hierarchical, systematic and sample-based controls) and which, to the extent possible, are incorporated in the IT procedures. They are carried out by the same operating and business structures, including through units dedicated exclusively to control duties reporting to the heads of the same structures or performed as part of the back office.
– Level II: risk and compliance controls for the purpose of ensuring, inter alia:
    o correct implementation of the risk management process;
    o compliance with the operational limits assigned to the various functions;

   - regulatory compliance of company operations, also in relation to self-regulatory provisions.

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

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

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

Compliance

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

The compliance function also includes the data protection officer function, which performs the tasks assigned by data protection legislation in accordance with the governance model described in the Guidelines on the protection of personal data of natural persons.

The regulatory scope, including Environmental, Social and Governance (ESG) factors, and the procedures for monitoring regulatory areas that present significant risks of non-compliance for the Group are defined in the aforementioned guidelines.
The Chief Compliance Officer submits periodic reports to the Corporate Bodies on the adequacy of compliance control, with regard to all regulatory aspects applicable to the Group which show compliance risks. On an annual basis, these reports include an identification and assessment of the primary compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a half-yearly basis they include a description of the activities performed, critical issues noted, and remedies identified. A specific notice is also given when events of particular significance occur.

These models are organised in such a way as to account for the Group's structure in operational and territorial terms.
In particular:
- for the specifically identified Italian Banks and Companies, whose operations have a high level of integration with the Parent Company, compliance monitoring is centralised at the Parent Company;
- for the other Companies, that have a legal obligation or have been specifically identified based on the business conducted, as well as the International Branches, an internal compliance function is established and a local Compliance Officer is appointed, which are assigned compliance responsibilities. The Compliance/AML Officers of the subsidiaries functionally report to the Chief Compliance Officer Governance Area structures, while those of the International Branches, except where not permitted by local regulations, hierarchically report to the Chief Compliance Officer

Governance Area structures. Functional reporting is also in place for the local Data Protection Officers of Group Companies established in the European Union.

Anti-Money Laundering

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

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

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

The Risk Management and Internal Validation Function

The Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines for risk along the Bank's entire decision-making chain, down to individual operational units. The tasks and functions are discussed in detail in the subsequent chapters of this Part.
Through the Internal Validation & Controls Coordination Area, the Chief Risk Officer Governance Area carries out the Level II controls on credit and data quality.
The purpose of the credit controls is to verify the proper classification and provisioning and the adequacy of the management and recovery process for individual exposures (so-called single names).
In general, the control activities development includes the credit processes assessment also to verify that suitable Level I controls are in place, including proper execution and traceability. The potential areas of investigation to be examined through Single Name controls also consider the results of the monitoring carried out by the Level I Control Functions within the different credit clusters.
As part of the overall risk management process, the Coordination Area carries out the Level II controls connected with data quality, in line with the internal and external regulations on the matter, with specific focus on the input data used in internal models. In accordance with regulatory developments, the Internal Validation & Controls Coordination Area is also responsible for the development, maintenance and oversight of the framework for the model risk governance, aimed at ensuring the identification, assessment, monitoring and mitigation of the risk for all Internal Systems, including the Pillar 1 and 2 risk measurement systems and the systems that are used for accounting purposes. To that end, the Coordination Area mainly carries out the following activities, in coordination with the Functions concerned: a) defining and developing the model risk governance and methodological framework to identify models, assign the related priorities and assess and mitigate model risk, including the methodology for quantifying the economic capital buffer for model risk; b) defining, managing and upgrading the Group Model Management platform (Group Model Inventory) with the goal of guaranteeing a complete, updated inventory of the models and tracking of the processes connected to the various phases of their life cycles; c) ensuring the periodic identification and assessment of model risk and the economic capital buffer; d) overseeing the process for assigning priorities to models (tiers) in order to efficiently steer their governance, with specific reference to the levels of detail, analysis and frequency of validation and development activities; e) for the model risk component, contributing to the annual proposal to update the Group RAF and periodically monitoring the model risk appetite indicators; and f) providing periodic disclosure on the Model Risk Management Framework and on the results of the model risk assessments to the Head of the Chief Risk Officer Area, the competent managerial committees and the Corporate Bodies.
Moreover, the Internal Validation & Controls Coordination Area is assigned the validation function, aimed at ensuring the validation at Group level of the internal risk measurement systems, used both for the determination of capital requirements and for non-regulatory purposes, in order to assess their compliance with regulatory provisions, operational needs and reference market demands[101].
The internal systems adopted by the Group are validated on first adoption (based on the plans of gradual extension made by the Group) or when changes are made to them, in compliance with the development and validation process approved by the Corporate Bodies. The validation function also ensures the periodic review of internal systems in terms of models, processes, data used and implementations in IT, assessing their adequacy, predictive ability and performance, as well as their compliance over time with regulatory provisions, company needs and changes in the reference market.

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

Upon First Adoption, two approaches were developed for the validation of the Pillar 1 internal credit risk models: the Stage Gate Approach and the Waterfall Approach, with the latter corresponding to the validation traditionally carried out at the end of the development of the model. The Stage Gate Approach is a new approach that was introduced with the development of the new Large Corporate model and is only used for the more relevant models. This approach essentially involves a series of intermediate steps in which the Development function releases documentation to the Validation function (Internal Validation and Regulatory Requirements on Internal Risk Systems) at formalized moments (broadly corresponding to the completion of the risk differentiation, risk calibration, and the end of the development), following which the Validation function produces intermediate reports, which include assessments relating both to regulatory compliance and to the Validation controls established (in internal regulations). The Stage Gate approach has been introduced so that the Validation observations can already be factored into the new model, making it more robust.
In addition to overseeing the regulatory aspects of the Pillar 1 credit risk models, in particular by providing regulatory assurance during model changes, the tasks of the Regulatory Requirements function include advisory assessments on broader regulatory issues and interpretations, in response to requests originating from the Chief Risk Officer Area. In 2023, this activity gave rise to around ten notes concerning specific areas.
The validations are conducted in line with the planning of the function's activities, defined consistently with the internal and external reference regulations and that presented to the competent Corporate Bodies. The relevant criteria that define the type of validation to implement (Standard or Full) and its frequency also include the tier of the model and its use, as attributed in the Model Risk Management Framework.
For Pillar 1 risks, the validation frequency is set, in any event, in line with the external reference regulations.
In order to ensure the periodic reporting on the results of the validation process continuously carried out to the Corporate Bodies and, regarding the internal Pillar 1 risk measurement systems, to the Supervisory Authorities, the Internal Validation Function prepares the Annual Validation Reports regarding the internal Pillar 1 systems and the internal systems used for management purposes. These reports summarise the results of the analyses conducted during the reporting year on the internal systems used at the Parent Company and the Group Companies and the opinion formulated. They also highlight the main areas for improvement identified and the critical level assigned. In addition, the Internal Validation function prepares an update on the internal models in terms of performance and resolution of the issues raised by the validation function, which is submitted to the relevant corporate bodies on a half-yearly basis. In carrying out the validation process at Group level, the function interacts with the Supervisory Authorities, with the relevant Corporate Bodies and the functions responsible for the Level III controls required by the regulations. It adopts a decentralised approach for companies with local validation functions (the main Italian and international companies), coordinating and supervising the activities of those companies, and adopting a centralised approach for the others. The adopted methodologies were developed in implementation of the principles that inspire the Supervisory regulations for banks, EU directives and regulations, general guidelines of international committees and best practices in the area and take the form of documentary, empirical and operating practice analyses.

Internal Auditing

Internal auditing activities are assigned to the Chief Audit Officer, who reports directly to the Board of Directors (and therefore it reports to the Chair), functionally reporting to the Management Control Committee, without prejudice to the appropriate links with the Managing Director and CEO. The Chief Audit Officer has not any direct responsibility on the business.
This function has a structure and a control model which is organised according to the evolution of the organisational structure of Intesa Sanpaolo and of the Group.
The local Internal Auditing structures of the Group's Italian and international companies report to the Chief Audit Officer in terms of functions.
The Internal Auditing Department performs overall level 3 assessment of the internal control system, reporting possible improvements to the corporate bodies, with specific regard to the Risk Appetite Framework (RAF), the risk management process and risk measurement and control instruments. In particular, the Department assesses the completeness, adequacy, functionality and reliability of the components of the internal control system, the risk management process and the corporate processes, also with regard to their ability to identify and prevent errors and irregularities. This includes the verification of the corporate functions for risk control and regulatory compliance, also by participating in projects, in order to create added value and improve the effectiveness of the control processes and the governance of the organisation.
The Head of the Internal Auditing Department do not have direct responsibility for operating areas subject to control and not be directly subordinate to the managers of these areas. The Department has access to all the activities carried out both in the head office structures and in the peripheral structures. In case of outsourcing to third parties of relevant activities for the functioning of the internal control system (e.g. data processing activity), the internal audit function must access to the activities carried out by those parties either.
Within the RAF, the Chief Audit Officer prepares his/her contribution to the Integrated Risk Assessment conducted by the corporate control functions and the Manager responsible for preparing the Company's financial reports.
The Department uses personnel with the appropriate professional skills and expertise and operates in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors (IIA).
As required by the international standards, the department is subject to an external Quality Assurance Review every five years. The most recent review was carried out at the end of 2021, three years after the previous review, in accordance with the frequency agreed with the Management Control Committee, and concluded in the first quarter of 2022, confirming the highest assessment envisaged ("Generally Compliant").
When performing its tasks, the function uses structured risk assessment methodologies to identify the areas of greatest focus and the main new risk factors. Based on the assessments emerging from risk assessment and the resulting priorities, as well as on any specific requests for further enquiry expressed by top management and Corporate Bodies, it prepares and submits an Annual Intervention Plan for prior examination by the Management Control Committee, and subsequent approval by the Board of Directors, on the basis of which it conducts its activities during the year, in addition to a Long-Term Plan.
It supports the Surveillance Body pursuant to Legislative Decree 231/2001 in ensuring constant and independent surveillance of the regular performance of operations and processes, to prevent or detect anomalous and risky actions or situations, and to

monitor compliance with and effectiveness of the rules set out in the 231 Model. The Chief Audit Officer ensures the proper performance of the internal whistleblowing management process.
The Chief Audit Officer coordinates the "Integrated Internal Control System" session of the Group Control Coordination and Non-Financial Risks Committee.
During the year, auditing was performed directly for the Parent Company as well as for other subsidiaries under an outsourcing contract. For the other Group companies having their own internal audit departments, steering and practical coordination of the local departments was performed to guarantee control consistency and adequate attention to the different types of risks, also verifying the effectiveness and efficiency levels under both structural and operational profiles. Direct auditing and review activities, in the capacity of Parent Company, were also performed for those companies, as mentioned above.
Any weaknesses identified in the audit activities were systematically reported to the Corporate Functions involved for prompt improvement action, which is, duly followed up by the Chief Audit Officer to verify its effectiveness.
Summary internal control system assessments from the audit activities have been periodically submitted to the Management Control Committee and the Board of Directors.
The results of audit activities with an adverse outcome or highlighting significant shortcomings were sent to the Board of Directors, the Managing Director and CEO and the Management Control Committee, as well as the Boards of Directors and Boards of Statutory Auditors of the subsidiaries concerned.
The main weaknesses identified and their evolution have been included in the Audit Tableau de Bord, with evidence of the ongoing mitigation actions, the parties responsible for implementing them and the relevant deadlines, to ensure systematic follow-up.
Lastly, the Chief Audit Officer ensured constant assessment of its own effectiveness and efficiency in line with the internal "quality assurance and improvement" plan drafted in accordance with the recommendations of International Standards for the Professional Practice of Internal Auditing. In this context, during 2023, the Strategic Audit Innovation Line-up (SAIL) programme for the period 2022-2025 continued in line with the Business Plan.

Manager responsible for preparing the Company's financial reports

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

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

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

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

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

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

- periodically reports on the scope and results of the assurance activities performed, to the Management Control Committee and the Board of Directors.

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

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

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

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

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

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

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

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

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

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

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

For the assessment of the adequacy of the relevant processes for the financial reporting, the Manager responsible for preparing the Company's financial reports uses the results of the controls carried out by the structures reporting directly to him, by the Internal Audit Department and the other Corporate control functions. To this end, in the Group Control Coordination and Non-Financial Risks Committee belonging to the Integrated Internal Control System, the Corporate Control Functions and the Manager responsible for preparing the Company's financial reports share their annual verification plans and their findings. Any critical issues arising from inspections conducted by external entities (Independent Auditors, Supervisory Authorities) relating to financial reporting risk are also gathered and assessed.

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

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

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

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

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

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

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

The scope of risks

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

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

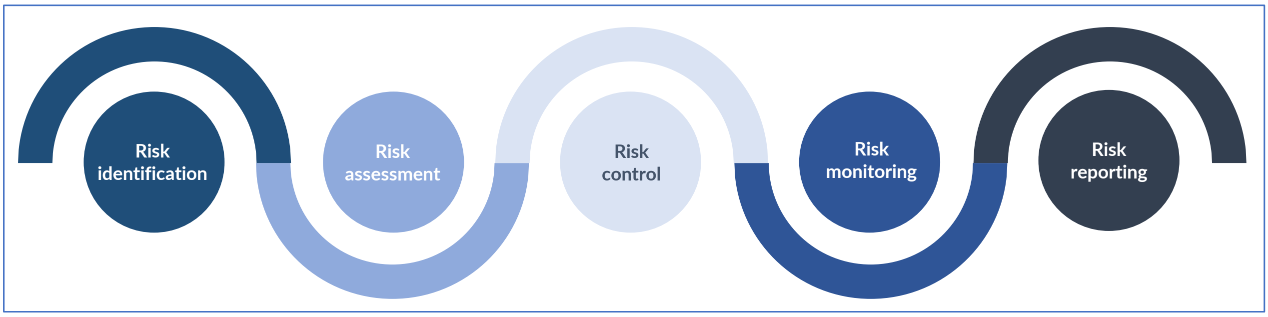
The hedging of risks, both those included and not included in the quantification of the Economic Capital, is based – according to the nature, frequency and potential impact of the risks – on a constant combination of mitigation/hedging actions, control procedures/processes and capital protection measures, including stress tests.

Special attention is dedicated to managing the short-term and structural liquidity position by following specific policies and procedures to ensure full compliance with the limits set at the Group level and operating sub-areas in accordance with international regulations and the risk appetite approved at the Group level.

The Group also attaches great importance to the management of reputational risk, which it pursues not only through organisational units with specific duties of promotion and protection of the company image, but also through dedicated processes for the identification and assessment of reputational risk and the creation of specific reporting flows. In addition, starting in 2018, a specific add-on for economic capital has been introduced for operational risk, determined on the basis of operational losses, to strengthen the protection against possible reputational repercussions.

Lastly, particular attention is also given to the control of environmental, social and governance (ESG) risks associated with the activities of its corporate customers and the economic activities the Group is involved in. In the area of ESG risks, particular attention is given to integrating climate change risk into the overall risk management framework, in line with the regulatory guidance and international best practices.

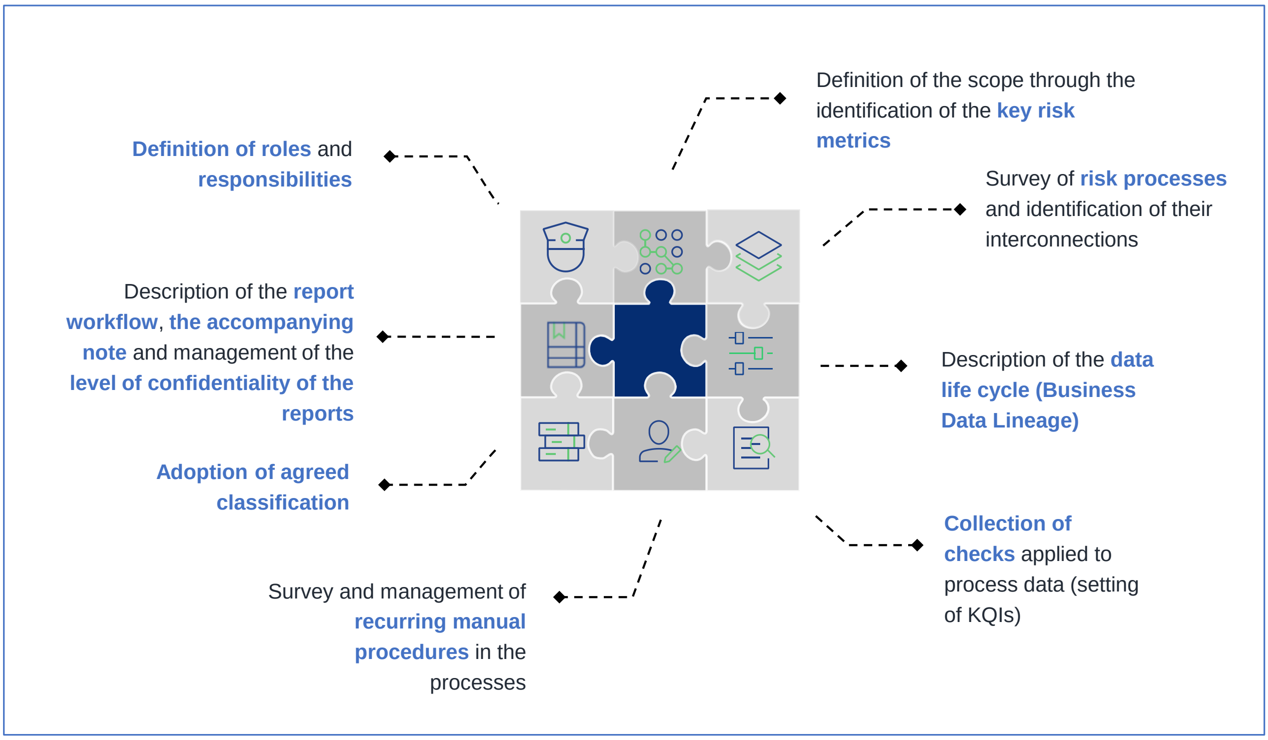
Over the years, the Group has developed and implemented the necessary structural and operational improvements for integrated risk reporting that is as complete, accurate and regular as possible, in order to support senior management.



The risk monitoring processes have undergone a progressive strengthening of the Data & Reporting Governance controls, also in compliance with the applicable regulations ("Principles for effective risk data aggregation and risk reporting - BCBS239"). The target framework, designed and regulated by the Data & Artificial Intelligence Department, ensures the adoption of agreed classifications and uniform practices for describing the life cycle of the data, as well as the adoption of the Data Quality standards for the various Risk Areas designed to increase the accuracy of the Group's data. Attention is also given to the data aggregation processes to ensure that they are able to meet the regulatory requirements or ad hoc requests, also in the stress/crisis situations. This is done in accordance with the expectations expressed by the Supervisory Authorities.

With regard to the risk data reporting practices, the Group has set up a Reporting Governance framework which has identified that the current risk reporting is accurate, clear and complete, and therefore supports effective decision-making by the corporate bodies.

More generally, the strengthening of Data & Reporting Governance has involved the aspects detailed in the diagram below.



The Group has also strengthened its focus on data quality control, with the establishment of a unit responsible for second level data quality controls within the Chief Risk Officer Area.
Assessments of each single type of risk for the Group are integrated in a summary figure – the Economic Capital – defined as the maximum "unexpected" loss the Group may incur over a year, at a given confidence level. This is a key measure for determining the Group's financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also at a forecast level, in line with the approved Risk Appetite Framework, based on the budget assumptions and the forecast macroeconomic scenario, and in relation to stress scenarios. The economic capital together with the risk capital calculated on a regulatory basis is a fundamental element in the assessment of the Group's capital adequacy calculated within the ICAAP.
The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the Risk and Sustainability Committee and the Board of Directors, as part of the Tableau de Bord of the Group Risks.

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

For the purposes described above, the Intesa Sanpaolo Group uses a wide-ranging set of tools and techniques for risk assessment and management, detailed in this Part E of the Notes to the consolidated financial statements, with regard to the types of risk indicated below and in accordance with the procedures established for the qualitative disclosure in Bank of Italy Circular 262. The table below shows the mapping of the risk disclosure using these methods with reference to the Financial Statements, together with the corresponding sections of the Pillar 3 disclosure, where relevant.

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

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

Strategic risk

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

Reputational risk

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

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

Those processes, which involve control, specialist and business functions, for various purposes, specifically include:
- the Reputational Risk Assessment, aimed at identifying the most significant reputational risk scenarios the Intesa Sanpaolo Group is exposed to, in order to determine their probability of occurrence and the Group's exposure to reputational risk. The assessment is carried out annually and gathers the opinion of top management regarding the potential impact of these scenarios on the Group's image, in order to identify appropriate communication strategies and specific mitigation actions, where necessary. To this end, the analysis not only takes into account the business information gathered from the top managers and the Group Business Plan, but also any contributions from external observers. For example, starting from 2022, an analysis has been carried out on the population with knowledge of finance and economics and on opinion leaders (e.g. economic/financial analysts and experts, academics, institutions);
- ESG & Reputational Risk Clearing, which is aimed at the ex-ante identification and assessment of the potential reputational risks associated with the most significant business operations and the selection of the Group's suppliers/partners;
- Reputational Risk Monitoring, aimed at analysing and verifying the evolution of the exposure to reputational risk on an ongoing basis, using specific national and international monitoring (e.g. Web & press monitoring), algorithms aimed at tracking the developments in the company's exposure to reputational risk, and the information provided by the reputational positioning analyses carried out periodically.

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

In performing the Investment Service for customers, the Groups is exposed to a series of potential risks linked to the activity, such as reputational, legal, strategic and operational risks.
To minimise the above risk dimensions, also in compliance with the applicable regulations, the Group has long had appropriate processes in place to capture their key aspects. These include the following processes in particular:
- Product Governance Risk Clearing, which is assigned the objective of pre-emptive assessment, together with the other competent control functions and the business owner, of the suitability of the products being sold/distributed to customers, analysing all potential risk factors;
- Risk Profile Annual Review of the adequacy of the portfolio risk "limit" associated with each customer segment identified;
- Investment Adequacy Framework, covering the subscription of financial investments and the execution of transactions in unlisted derivatives.

The sale of financial products is therefore governed by specific preventive risk assessment from the standpoint of both the Bank (along with risks, such as credit, financial and operational risks, that directly affect the owner) and the customer (portfolio risk, complexity and frequency of transactions, concentration on issuers or on foreign currency, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered), in order to correctly identify and mitigate any potential source of risk inherent to the activity.

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

Sustainability, a term referring to the ability to avoid harming the environment and communities, in order to support a medium/long-term economic, social and environmental balance, is a factor of significant, increasing importance for society as a whole. The management of ESG issues therefore requires considering not only the impacts of the related risks on the Bank's organisation, but also the potential impact on stakeholders and the risks that the Bank exposes its stakeholders and the environment to through its operations. The Intesa Sanpaolo Group is aware of the importance of fair, responsible allocation of the resources and the influence that a banking group can have in terms of sustainability in both the short and long term and pays particular attention to managing ESG risks, both regarding its operations and relating to the activities of its corporate customers and the sectors considered sensitive, i.e. with a significant ESG risk profile.
ESG risks are therefore included in the overall risk management framework as they represent potential negative impacts that an organisation or activity may have on the environment, people and communities, including risks related to the corporate conduct (corporate governance), earnings, reputational profile and credit quality with possible legal consequences. Within the ESG risks, particular importance is given to climate risk, namely the financial risk arising from exposure to the physical and transition risk related to climate change. The risks and opportunities related to climate change are identified and analysed in a coordinated manner by the various corporate functions, in order to include them in the ordinary processes of risk identification, assessment and monitoring, in the Group's credit strategies and commercial offering.
The Group is therefore committed to incorporating the impact of climate-related aspects into its strategic decision-making processes, in order to fully integrate them into the risk management framework with the aim of maintaining a limited risk profile. This includes the monitoring and management of ESG risks, including risks arising from climate change (credit, operational, reputational, market and liquidity risks) and the implementation of ethical and environmental standards in the internal processes, products and services offered to customers, and selection of counterparties and suppliers.
The Risk Appetite Framework (RAF), which represents the general framework used for the management of enterprise risk, includes a specific section dedicated to ESG, climate change and reputational risks. This section includes qualitative and quantitative information. Specifically, with regard to ESG & Climate risks, the Group recognises the strategic importance of ESG factors and the urgent need to curb climate change.

Climate change risks can be divided into physical and transitional risks.

Physical risks represent the negative financial impact from climate change, including more frequent extreme weather events and gradual climate change, as well as environmental degradation, i.e. air, water and soil pollution, water stress, biodiversity loss, and deforestation. These risks – which can usually arise in both the short/medium and long term – can be broken down into acute and chronic risks:
- **acute physical risks,** which refer to specific events that have the potential to create significant physical damage (e.g. flooding of rivers and oceans, tropical storms). These events are occurring more frequently, on both a regional and global basis;
- **chronic physical risks,** which involve a series of physical impacts of considerably longer duration than those posed by acute risks. They are identifiable as processes of change rather than single events. In most cases, the impacts are localised (e.g., drought) but chronic risks are likely to become more significant in the long term.

Transition risks are the negative financial impacts that an institution may incur, directly or indirectly, as a result of the process of adjustment to a low-carbon and more environmentally sustainable economy, arising from:
- **public policy and legal risks**: this category includes policies that attempt to limit actions that contribute to the negative effects of climate change or political actions that seek to promote adaptation to climate change and the legal risk arising from the inability of organisations to mitigate/adapt to climate change;
- **technological developments**: these include innovations that support the transition to a low-carbon and energy-efficient economic system;
- **consumer preferences**: changes in the demand and supply of certain goods, products and services that are more sustainable;
- **reputational risk:** arising from changes in customer or community perceptions of an organisation's contribution to the transition to a low-carbon economy.

The integration of ESG risks, and in particular climate change risk, into the risk management framework comprises:
- a materiality analysis (Climate/ESG Materiality Assessment);
- establishment of specific controls within the Risk Appetite Framework (RAF);
- execution of a Climate Scenario Analysis;
- monitoring of ESG risks divided according to the different risk categories (e.g. credit, market, liquidity), with a particular focus, within the environmental risks, on climate change risk.

Climate/ESG Materiality Assessment

The Climate/ESG Materiality Assessment is aimed at identifying business sectors, geographic areas and portfolios (e.g. corporates, households and sovereigns) with higher vulnerability to climate change and ESG risks based on qualitative and quantitative approaches, in order to prioritise the risk controls to be implemented. The results of the Materiality Assessment provide the basis for:
- updating the mapping of the various climate and ESG risk factors, their transmission channels and the impact on other risk categories;
- setting the limits and Key Risk Indicators (KRIs) within the Risk Appetite Framework;
- calibrating and performing stress tests on specific climate and ESG risk factors;
- guiding the sectoral credit policies and strategies (ESG Sectoral Color Coding) and establishing specific actions aimed at mitigating ESG risks.

Risk Appetite Framework (RAF)

The RAF integrates and translates what has been defined in terms of strategic guidelines, Climate/ESG Materiality Assessment, and ESG Sectoral Color Coding into specific controls, identifying, on an annual basis, limits, key risk indicators (KRIs) and specific actions aimed at containing the ESG risks, with particular regard to the sectors most exposed to those risks. This also includes specific actions related, for example, to the Group's strategic choices, such as subscribing to the Net-Zero targets. Specifically, intermediate sector targets for 2030 have been set within the Business Plan for the most emission-intensive sectors, subject to a transition plan for mitigating the potential future risk, in accordance with the recommendations of the Net-Zero Banking Alliance (NZBA). In addition to the Oil & Gas, Power Generation and Automotive sectors, which are already covered by targets, the Iron & Steel and Commercial Real Estate sectors have been added, and further sectors will be progressively added in the future, in line with the commitments made in joining the NZBA and with the request for validation by the Science Based Target initiative (SBTi).

The ESG Climate Change and Reputational Risk section of the Group RAF includes:
- specific limits in relation to the exposure to the coal mining and oil & gas sectors; for coal mining in particular, the limit is reviewed annually in line with the target of phasing out lending by 2025;
- specific early warning thresholds/KRIs relating to the emission intensity (CO_2eq) in terms of financed production of the counterparties belonging to the Oil & Gas, Power Generation and Automotive sectors, with the aim of meeting the commitments made within the Net-Zero Banking Alliance and the Science Based Target initiative;
- monitoring of new underwritings broken down by energy performance class (EPC), to improve the quality of the residential properties taken as collateral and consequently reduce the transition risk associated with mortgages;
- an early warning threshold in relation to the Group's exposure has also been introduced for sectors characterised by significant issues, especially with regard to the social dimension, in line with the ESG sectoral strategy of associated credit disincentives.

The development work carried out in 2023 will enable the further strengthening of this section and the expansion of its scope, also in terms of portfolios covered (e.g. Residential Real Estate and Commercial Real Estate, and investment portfolios with financial instruments).

The RAF also identifies the main limitations and exclusions to lending to sectors/counterparties most exposed to ESG risks, which are then integrated into the self-regulatory policy and/or company processes. Specifically, Intesa Sanpaolo has issued the "Rules for lending operations in the coal sector", the "Rules for lending operations in the unconventional oil&gas sector" and the "Rules governing transactions with subjects active in the armaments sector", aimed at establishing general and specific criteria for limiting and excluding lending operations to counterparties in those sectors.

Climate Scenario Analysis

Scenario analysis is a key element in integrating the risks and opportunities associated with climate change into the business strategies, also considering the medium- to long-term implications. The Climate Scenario Analysis is used, within the more general framework of the materiality assessment, to explore potential portfolio vulnerabilities, particularly in the credit portfolio, as part of the regulatory stress testing exercises or the Internal Capital Assessment Adequacy Process (ICAAP) and the Internal Liquidity Assessment Adequacy Process (ILAAP).

In conducting the ICAAP process, Intesa Sanpaolo adopts an approach that incorporates specific solutions designed to verify the impact of transition and physical risk on the Non Financial Corporate (NFC) portfolio and the real estate-backed portfolio. With regard to transition risk, the impact is assessed by means of shocks applied to the balance sheets of the individual counterparties and to the energy efficiency level of the residential and commercial properties. The estimate of the impact of physical risk, on the other hand, is determined based on the geolocation of collateral real estate or NFC customer production sites, according to the different types of weather events. Within the ILAAP, particular attention is paid to analysing the impact of climate and environmental risk factors that could compromise the liquidity positions from a forward-looking perspective over medium-term horizons (1-3 years).

December 2023 also saw the start of the "One-off Fit-for-55 climate risk scenario analysis" exercise carried out by the European Banking Authority (EBA) on behalf of the European Commission in cooperation with the European Supervisory Authorities (ESAs), the European Central Bank and the European Systemic Risk Board (ESRB). This exercise involves the application of top-down scenarios to data collected from banks to assess the resilience of the EU financial sector and its ability to support the transition to a low-carbon economy, also under stress conditions.

The results of the impact assessments conducted so far (materiality assessment and climate scenario analysis) have shown that the Group is not exposed to a material extent to climate risks in the short term. Over the medium- to long-term horizon, exposure to these risks could intensify in a limited and concentrated manner in areas already subject to control and monitoring. In particular, with regard to the transition risk on the most emission-intensive sectors of the Banking Book (Oil & Gas, Power Generation and Automotive), intermediate sector targets to 2030 have been set in the Business Plan – aligned to the Net-Zero target by 2050 – subject to a transition plan in accordance with the NZBA guidance, to mitigate the potential future risk. The monitoring will be progressively extended to other sectors, in line with the commitments made upon joining the NZBA and with the request for validation by the SBTi.

Monitoring of ESG/climate risks in the different risk categories

Intesa Sanpaolo's risk management framework involves the integration of climate and environmental risk factors with the different risk categories impacted. This decision takes into account the fact that the impact of climate and environmental risks may be direct, for example due to lower earnings of companies or the reduction in value of assets, or indirect, for example due to legal actions (legal risk) or reputational damage that arises when the public, counterparties of the institution and/or investors associate the institution with adverse environmental effects (reputational risk).

With regard to **credit risk**, the qualitative component of the models currently validated and used by the Group considers various ESG and Climate-related aspects and elements. For Large Corporates, a specific module has also been incorporated into the model that considers quantitative ESG data provided by external providers, and for the Corporate model (companies or groups with a size of less than 500 million euro), an ad hoc module has been developed – in addition to the qualitative questions that also consider socio-environmental risks, to take account of the counterparty's exposure to physical risks arising from catastrophic events (e.g. damage to production facilities and/or warehouses) – that statistically identifies potential deteriorations in the Probability of Default, using historic and public information on catastrophic events observed at geographic area level. More specifically, for domestic counterparties, this module provides an assessment of the risk of damage related to natural disasters (floods, fires, earthquakes) to which a company is potentially exposed depending on the region (and/or municipality) where it operates and/or mainly conducts its business. Overall, the weight of these modules in the final rating is limited. Consequently, at present there does not appear to be any appreciable "large-scale" effect attributable to those modules on the ratings expressed by the internal models and, therefore, on the downstream metrics that use them (e.g. ECL).

In managing **market risk**, Intesa Sanpaolo also assesses the effects of climate and environmental factors on its current positions exposed to market risk. Specifically, the Group:

- analyses and monitors market prices and liquidity of financial instruments to identify possible evidence of climate and environmental risk factors;
- analyses the impact of climate and environmental risks on the fair value measurement of financial instruments, focusing in particular on the main asset classes, payoffs and positions explicitly linked to climate and environmental (C&E) risk factors, as well as the future investments proposed by the business structures;
- classifies current positions subject to market risk using the ESG indicators available internally (e.g. ESG Sectoral Assessment and ESG Sectoral Color Coding) and externally (e.g. economic-industrial business sectors, ESG score/rating), also through recognised providers, in order to identify specific risk controls, also considering the materiality of the exposures. These controls consist of the establishment of market risk limits on the investment activity (e.g. allocation of ceiling limits). In principle, the indicators used for assessing the ESG risks associated with the investment activity enable the establishment of negative/positive screening criteria and strategies, taking into account the specific

characteristics of the different asset classes concerned, such as instruments issued by corporate counterparties and instruments issued by government or supranational counterparties.

Within the market risk management model, the assessment of exposure to ESG risks also involves stress tests to investigate the sensitivity of the portfolios to ESG risk factors and estimate the impact that those factors, particularly climate and environmental risks, may have on the actual risk level of the exposures.

With regard to **liquidity risk**, significant climate and environmental risks may lead to an increase in net cash outflows or erode available liquidity reserves. Even though, according to the general consensus in the banking industry, the link between C&E risks and liquidity is mainly indirect and potentially more long term in nature, it is considered important not to underestimate these risks and their potential transmission, and to duly incorporate an assessment of their potential effects on the Group's current and future liquidity position.

To this end, after the prior identification of climate and environmental risk factors that could adversely affect the Group's liquidity positions, specific analyses and monitoring of exposures are carried out to assess the materiality of the risk factors identified, maintaining a close connection with the qualitative assessments adopted:

– by the Bank at sector and sub-sector level (e.g. ESG Sectoral Assessment) for credit risk purposes;
– for the valuation of securities for market risk purposes.

In the assessment of the various scenarios, including stress scenarios, on the timing of inflows and outflows and the quantitative and qualitative adequacy of liquidity buffers, particular attention is also devoted to analysing the impact of climate and environmental risk factors that could compromise the liquidity positions on a forward-looking basis. These analyses are incorporated into the annual report on the Internal Liquidity Adequacy Assessment Process (ILAAP), in line with the analysis horizon for the exercise (1-3 years), and have identified relatively low absorptions of the Group's liquidity reserves.

In managing **operational risks**, Intesa Sanpaolo also considers the possible adverse impact of weather and environmental events on its real estate, business continuity and litigation risk. Specifically, the Group:

- within the loss data collection for operational events, identifies those related to climate and environmental risks, through specific event types;
- during the Operational Risk Assessment process, uses specific risk scenarios dedicated to climate and environmental risks to assess possible losses resulting from property damage, possible disruptions to its operations and potential legal liabilities;
- to protect business continuity, assesses the impact of the physical risks associated with IT centres and sites (including outsourced IT services), identifying alternative locations for disaster recovery.

For the first time in 2023, it used a dedicated scenario to assess the impacts on the Bank of an extreme weather event affecting a key supplier and compromising its ability to provide the service it was engaged for.

In relation to climate/environmental litigation risk, Intesa Sanpaolo has set up monitoring of market disputes (domestic and international), refined its litigation monitoring process, and established a special training initiative for the staff involved.

The operational losses identified in relation to climate and environmental risks, together with the results (in terms of expected loss and VaR) of the Self-Diagnosis of the assessment of the possible impacts of those risks, contribute to the calculation of the capital requirement at individual and consolidated Group level, using an advanced approach, and are included in the operational risk reporting periodically submitted to the Group Control Coordination and Non-Financial Risks Committee.

In managing **reputational risk**, the Group makes prior assessments of the potential ESG and reputational risks associated with the Group's business operations and supplier/partner selection through the ESG & Reputational Risk Clearing process.

With regard to the corporate credit granting process in particular, it is aimed at making a prior assessment of the potential ESG and reputational risks associated with credit transactions involving counterparties operating in sectors sensitive to ESG and/or reputational risks. The ESG & Reputational risk clearing process is applied on a proportional basis and in a differentiated manner according to the complexity of the counterparties/transactions and has escalation mechanisms differentiated according to the ESG/reputational risk class assigned to the transaction/counterparty. The Group also monitors its web and press reputation by integrating specific assessments of events related to environmental risks/climate change (e.g. events resulting from protests or adverse campaigns arising from the Bank's lending activities). Lastly, specific scenarios relating to ESG and climate issues are included in the annual reputational risk assessment by the top management.

In relation to the **risks associated with the Investment Service for Customers**, the Group has set up a series of centralised controls aimed, on one hand, at monitoring the sustainability risk implicit in the size of the ESG score published by a specialised infoprovider at instrument and portfolio level and, on the other hand, at ensuring that sufficient stress is given to Sustainable Development Goal (SDG) factors in the analyses carried out within the Product Governance process for the assets under administration issued by the Parent Company and distributed through the captive networks.

With regard to **direct environmental risks**, in view of the increasing strategic significance of the issue of CO_2 emissions, in 2022 Intesa Sanpaolo drew up a new plan, called the Own Emissions Plan, which sets a Net Zero target for own emissions to 2030 through energy efficiency measures and greater use of energy from renewable sources. Intesa Sanpaolo is also committed to analysing and containing possible risks on its properties, as well as taking swift action to deal with any environmental emergencies that may arise. To this end, in line with the provisions of the Business Plan, in 2023 a specific tool was selected that identifies the degree of exposure of Intesa Sanpaolo's real estate assets to the main geographical and climate change risks, such as floods, hydrogeological risks, drought, forest fires, etc. This platform geolocalises each individual asset in Italy and calculates the exposure index for each risk, based on data from the main national and international certified sources, such as SwissRE, Copernicus, INGV, ISPRA, and the Department of Civil Protection. With regard to hydro-geological risk (floods and landslides), also linked to climate change and the potential occurrence of crisis scenarios in Italy that may affect Intesa Sanpaolo's properties, a series of corporate structures will be activated to manage these aspects. In 2024, the platform will also be made operational for the foreign branches and offices, and a function for the computerised management of emergency events will be developed.

The potential impacts, the related time horizon (short, medium and long-term) and the actions identified for each observed potential risk, which are updated annually, for both indirect and direct risks, are set out in the tables below.

INDIRECT RISKS

Transition Risks

Potential risks	Risk type	ST(0-3y)	MT(4-7y)	LT(7-30y)	BdT	CIB	PB	ISB	AuM	INS	CC	Potential Impacts
Climate change risk: *misalignment of economic actors with actions aimed at reducing their CO2 emissions* *via:* • *Policy and Legal Risks* • *Technology Risks* • *Consumer preferences* • *Reputational risks*	**Credit Risk**	⏱	⏱	⏱	○	○	○	○				**Non-financial corporation counterparties:** Introduction of climate policies and technological shifts can weaken companies' competitiveness, affecting their financial statements through reduction of earnings, alteration of business costs, need for investment, impacting their creditworthiness and solvency. **Households and retail customers:** Non-compliance with regulations or shifts in preferences towards low-energy housing may affect collateral value or generate stranded assets. Additionally, higher energy prices or policies promoting green mobility could impact families' costs and spending power and, in turn, their creditworthiness and solvency.
	Market risk	⏱	⏱	⏱		○	○	○	○	○	○	**Non-financial corporation issuers:** Introduction of climate policies and technological shifts can weaken companies' competitiveness, affecting their financial statements through reduction of earnings, alteration of business costs, need for investment, impacting their creditworthiness, solvency and the value of their financial instruments traded on financial markets. **Sovereign issuers:** Impact on real economy and financial system, coupled with social adjustments to support transition, may lead to higher costs for high-emitting nations, which, in turn could impact their creditworthiness, solvency and the value of the financial instruments traded on the financial markets. **Asset Management / Insurance:** Consequences of climate change on companies in the portfolio with consequent possible reduction in the value of assets under management or investments.
	Operational risk	⏱			○	○	○	○	○	○		**Conduct:** Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product or commitments (e.g. greenwashing). **Litigation:** Litigation and liability costs associated with climate-sensitive investments and businesses.
	Liquidity risk	⏱	⏱		○	○	○	○			○	**Credit exposures:** Impact of transition risks on customer exposures could affect the liquidity position of the Group (e.g. undrawn committed lines/default of counterparties). **Funding:** Transition risk factors may affect customers and therefore the Bank's access to stable sources of funding could be reduced. **Market exposures:** Transition impacts on issuers and their financial instruments might reduce the ability for the Bank to trade or liquidate assets computed in the liquidity reserves.
	Reputational risk	⏱	⏱	⏱	○	○	○	○	○	○		Deterioration of the Group's image due to unmet expectations in climate and environmental risk management or business adaptation • Negative perception from stakeholders and in particular from ESG investors due to nil or inadequate management of such risks • Possible exclusion from sustainability (ESG) indices or a worse ESG position or lower ESG rating

Timeframe: The timeframe indicated below considers the analyses carried out by the Banking Group in various climate-related risks assessment exercises. The analyses are not exhaustive regarding the potential impacts that the Bank could face in the short, medium, and long term, and are not indicative of the materiality of the impacts assessed as detailed in the Risk Management chapter.
Business Areas: BdT = Banca dei Territori; CIB = Corporate & Investment Bank; PB = private banking; ISB = International Subsidiary Banks; AuM = Asset Management; INS = Insurance; CC = Corporate Center. The areas where the possibility of observing climate-related risk impacts are here identified, based on the significance of the business for those areas. This does not exclude the possibility that other areas, not indicated, may also have potential impacts. The details of the analyses conducted on the different business areas are visible in the risk management section.

INDIRECT RISKS

Potential risks	Risk type	ST(0-3y)	MT(4-7y)	LT(7-30y)	BdT	CIB	PB	ISB	AuM	INS	CC	Implemented actions	Opportunities
Climate change risk: *misalignment of economic actors with actions aimed at reducing their CO2 emissions* *via:* • *Policy and Legal Risks* • *Technology Risks* • *Consumer preferences* • *Reputational risks*	**Credit Risk**	⏱	⏱	⏱	○	○	○	○				• Assessment of ESG and climate risks in the lending portfolio through Materiality assessment, scenario analysis, Business Environment Scan exercise and transactions risk assessment process • Definition of targets related to the physical intensity of financed counterparties belonging to specific sectors • Limits and monitoring thresholds set within the Risk Appetite Framework • Identification of environmental (e.g. net zero loans and medium-to-long-term financing with SACE green guarantees), social, governance, and other sustainable products and transactions • Implementation of self-regulation policies (credit portfolio)	• Sustainable finance: increase customer support to enforce energy transition by offering products and dedicated financial solutions (e.g. Green and Circular Economy products)
	Market risk	⏱	⏱	⏱		○	○	○	○	○	○	• Assessment of ESG and climate risks in the investment portfolio through Materiality assessment, scenario analysis and Business Environment Scan analysis • Limits and early warning setting within the Risk Appetite Framework • Identification of green, social and sustainable investments • Implementation of self-regulation policies (investment portfolio) • Rebalancing of portfolios	• Increasing and expanding the range of investment products and services
	Operational risk	⏱			○	○	○	○	○	○		• Assessment of ESG and climate risks through Materiality assessment, scenario analysis, Business Environment Scan analysis, and operational losses monitoring	
	Liquidity risk	⏱	⏱		○	○	○	○			○	• Assessment of ESG and climate risks through Materiality assessment and scenario analysis	• Increase in Green and ESG bond issuance
	Reputational risk	⏱	⏱	⏱	○	○	○	○	○	○		• Assessment of ESG and climate risks through transactions risk assessment process • Participation in international working groups on climate change issues (e.g. UNEP FI • Net Zero initiatives) • Stakeholder engagement initiatives • Market perception and ESG rating positioning monitoring	• Improvement of the group's perception/image for both investors and clients
	Cross-risk actions											• Active monitoring of ESG evolving regulations and implementation/integration of internal policies • Active collaboration with policy makers to highlight the need for stable and clear environmental and ESG regulations • Inclusion of climate risk in risk management systems	

Timeframe: The timeframe indicated below considers the analyses carried out by the Banking Group in various climate-related risks assessment exercises. The analyses are not exhaustive regarding the potential impacts that the Bank could face in the short, medium, and long term, and are not indicative of the materiality of the impacts assessed as detailed in the Risk Management chapter.
Business Areas: BdT = Banca dei Territori; CIB = Corporate & Investment Bank; PB = private banking; ISB = International Subsidiary Banks; AuM = Asset Management; INS = Insurance; CC = Corporate Center. The areas where the possibility of observing climate-related risk impacts are here identified, based on the significance of the business for those areas. This does not exclude the possibility that other areas, not indicated, may also have potential impacts. The details of the analyses conducted on the different business areas are visible in the risk management section.

INDIRECT RISKS

Potential risks	Risk type (1)	ST(0-3y)	MT(4-7y)	LT(7-30y)	BdT	CIB	PB	ISB	AuM	INS(2)	CC	Potential Impacts
Physical Risks – **Climate change risk:** *Risks related to the physical impacts of climate change* (Chronic, Acute)	**Credit Risk**	◷	◷	◷	○	○	○	○				**Non-financial corporations counterparties:** Severe weather events, both acute and chronic, may impact creditworthiness and solvency of corporate counterparties, with impacts varying based on business sector and location, potentially affecting their profitability. **Households and retail costumers:** Acute or chronic climate events can damage or destroy properties, decreasing their value and increasing credit risk.
	Market risk	◷	◷	◷		○	○	○	○	○	○	**Non-financial corporations issuers:** Severe weather events, both acute and chronic, may impact creditworthiness and solvency of corporate counterparties, with impacts varying based on business sector and location, potentially affecting their profitability and the value of their financial instruments traded on the financial markets. **Sovereign issuers:** Severe weather events, both acute and chronic may impact the real economy and financial systems, coupled with social adjustments to support businesses and population in case of physical climate events. This could lead to higher costs for nations more prone to physical risks, which, in turn, could impact their creditworthiness, solvency and the value of the financial instruments traded on the financial markets. **Asset Management / Insurance:** Possible acute and chronic extreme weather events may cause losses on securities in managed portfolios.
	Liquidity risk	◷	◷		○	○	○	○			○	**Credit exposures:** The impact of physical risk on customer exposures could affect the liquidity position of the Group (e.g. undrawn committed lines/default of counterparties). **Funding:** Physical risk factors may affect customers and therefore the Bank's access to stable sources of funding could be reduced. **Market exposures:** Physical impacts on issuers and underlying assets of their financial instruments might reduce the ability, for the Bank, to trade or liquidate assets computed in the liquidity reserves.

(1) In the physical risk section, no potential impacts and actions directly related to reputational risk have been considered. Furthermore, in the context of Physical Risks, the Operational Risk can be considered a "Direct Risk", see next table.
(2) Catastrophic events may adversely affect the profitability of the insurance business with consequent increases in claims and may exceed insurance companies' estimates of expected risks and losses leading to higher insurance premiums with a consequent possible decrease in demand for insurance.
Timeframe: The timeframe indicated below considers the analyses carried out by the Banking Group in various climate-related risks assessment exercises. The analyses are not exhaustive regarding the potential impacts that the Bank could face in the short, medium, and long term, and are not indicative of the materiality of the impacts assessed as detailed in the Risk Management chapter.
Business Areas: BdT = Banca dei Territori; CIB = Corporate & Investment Bank; PB = private banking; ISB = International Subsidiary Banks; AuM = Asset Management; INS = Insurance; CC = Corporate Center. The areas where the possibility of observing climate-related risk impacts are here identified, based on the significance of the business for those areas. This does not exclude the possibility that other areas, not indicated, may also have potential impacts. The details of the analyses conducted on the different business areas are visible in the risk management section.

INDIRECT RISKS

Potential risks	Risk type	ST(0-3y)	MT(4-7y)	LT(7-30y)	BdT	CIB	PB	ISB	AuM	INS(2)	CC	Implemented actions	Opportunities
Physical Risks (Chronic, Acute)	**Credit Risk**	◷	◷	◷	○	○	○	○				• Assessment of ESG and climate risks in the lending portfolio through Materiality assessment, scenario analysis, Business Environment Scan exercise and transactions risk assessment process • Limits and early warning setting within the Risk Appetite Framework	• Reinforced customer relations. New subsidised loans intended to restore damaged structures • Financing of resilient buildings and infrastructures to adapt to climate change • Insurance policies covering physical risks
	Market risk	◷	◷	◷		○	○	○	○	○	○	• Assessment of ESG and climate risks in the investment portfolio through Materiality assessment, scenario analysis and Business Environment Scan analysis	
	Liquidity risk	◷	◷		○	○	○	○			○	• Assessment of ESG and climate risks through Materiality assessment, scenario analysis	

(1) In the physical risk section, no potential impacts and actions directly related to reputational risk have been considered. Furthermore, in the context of Physical Risks, the Operational Risk can be considered a "Direct Risk", see next table.
(2) Insurance: the potential impacts, defined in note 2 of the previous table, open up opportunities for the development of specific policies for extreme catastrophic events.
Timeframe: The timeframe indicated below considers the analyses carried out by the Banking Group in various climate-related risks assessment exercises. The analyses are not exhaustive regarding the potential impacts that the Bank could face in the short, medium, and long term, and are not indicative of the materiality of the impacts assessed as detailed in the Risk Management chapter.
Business Areas: BdT = Banca dei Territori; CIB = Corporate & Investment Bank; PB = private banking; ISB = International Subsidiary Banks; AuM = Asset Management; INS = Insurance; CC = Corporate Center. The areas where the possibility of observing climate-related risk impacts are here identified, based on the significance of the business for those areas. This does not exclude the possibility that other areas, not indicated, may also have potential impacts. The details of the analyses conducted on the different business areas are visible in the risk management section.

DIRECT RISKS

	Potential risks	Risk type (1)	Timeframe ST(0-3y)	Timeframe MT(4-7y)	Timeframe LT(7-30y)	Potential Impacts	Implemented actions
Transition Risks	*Changes in environmental regulations* ■ *Introduction of new greenhouse gas emission limits or new related reporting systems* ■ *Increase in cost of raw materials* *Changes in environmental regulations and standards that the Group voluntarily adheres to (ISO standards)*	**Operational & Other risks**				• Possible sanctions in the event of failure to comply with new Regulations • Costs for upgrading heating and air conditioning systems and for new monitoring tools • Cost related to potential taxes connected with greenhouse gas emissions • Increase in costs of energy supply • Costs of changing the processes of certification in the event of changes to standards	• Constant and precautionary monitoring of possible changes to national and European regulations • Participation in dedicated training courses or workshops • Own emissions plan implementation and monitoring • 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 • Continuous and precautionary monitoring of possible changes in standards
Physical Risks	Acute *Extreme weather events (floods, landslides, avalanche, mudslides, heavy rainfalls, hailstorms, heavy snowfall, whirlwinds, hurricanes, cyclones, coastal storms)*	**Operational & Other risks**				• Business continuity: extreme weather events may cause material damage and interruptions to the Group's operations • Own assets: extreme weather events may cause material damage the assets of the Group	• 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 • Creation of a platform to identify the risk level of any Intesa Sanpaolo group real estate asset • Insurance to cover the risks and their impacts
Physical Risks	*Increase or reduction in average temperatures, sea level rise, water stress and drought* Chronic	**Operational & Other risks**				• Increase in energy supply costs connected with greater heat or electricity consumption • Power outage risk due to increased energy demand • Sea level rise with consequent impact on buildings close to the sea • Potential fires due to temperature increase in areas close to the Bank's buildings	• 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 buildings • Preventive assessment of the risk of sea level rise • Adoption of a business continuity plan and actions to mitigate/manage possible power outage • ISO 14001, ISO 50001 and ISO 45001 certifications taking into account climate change related risks • Creation of a platform to identify the risk level of any Intesa Sanpaolo real estate asset

(1) Within direct risks, both operational and other types of risks not directly related to the prudential framework of the Group have been considered.

Further information on the monitoring of environmental and climate risks is provided in the Climate Report[102], in the Consolidated Non-Financial Statement and in the Basel 3 Pillar 3 Disclosure.

Risk on owned real-estate assets

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

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

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

Risk related to defined-benefit pension funds

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

Model risk

Model risk is defined as the potential loss an institution may sustain, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models. In continuity with previous years, within the 2023 ICAAP Report, the Internal Validation & Controls Coordination Area updated the model risk assessment (expressed synthetically through a score) of the methodologies supporting the measurement of Pillar 1 and Pillar 2 risks that also contribute to the calculation of the Economic Capital and provided the Enterprise Risk Management Head Office Department with the parameters for the quantification of the model risk economic capital buffer.

[102] Previously the TCFD Report.

Emerging risks

The strengthening of the overall risk management system also involves the identification, understanding and monitoring of so-called emerging risks, i.e. risks characterised by components that are little-known or rapidly evolving, potentially significant in the medium term to the Group's financial position and business model, even though their effects are not easy to assess and cannot yet be fully integrated into the most consolidated risk management frameworks.

The identification of these types of risks derives primarily from the continuous analysis of the external environment and the main findings gathered by the risk management function as part of identifying risk, continuously performed within the Group to maintain ongoing alignment with the changing internal and external context and to guarantee the adequacy of the controls and limits implemented to safeguard long term viability. In addition to being performed as part of the identification and assessment processes, that activity also involves comparison with peers and with market best practices, as well as with the Bank's other control/business functions.

Any emerging risks for which a model for calculating economic capital has not been developed are assessed, in any event, using expert-based approaches or using proxies or simplified calculation models in order to guarantee a prudent assessment of the economic capital absorbed.

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

– IT and Cyber risks, in relation to: (i) the increasing dependence on ICT systems and the resulting increase in the number of users of virtual channels and interconnected devices, (ii) exponential growth in the quantity of data managed, which must be high quality and protected, (iii) greater use of IT services offered by third parties (Open Banking, Fintech, Cloud systems), and (iv) low production costs of new attack techniques with the presence of organisation with specific skills and experience;
– risks connected with the digital transformation process linked to the increase in competition triggered by digitalisation in the financial sector (e.g. entry of new competitors) and the vulnerability that still marks the current operating context (e.g. costs of the digitalisation process, obsolescence of legacy systems and fragmentation of the regulatory framework);
– third party risk, in relation to: (i) greater dependence on systems and services offered by third parties (both regarding the outsourcing of company processes and the growing dependence on providers of cloud or IT services in general);
– risks associated with Artificial Intelligence (AI) supporting the execution of business processes, through the development of use cases involving the application of techniques differentiated according to the objectives and corporate functions involved. The potential impact of risks associated with these applications is assessed in relation to: i) possible implications in terms of regulatory compliance (Artificial Intelligence Act); ii) ethical and responsible use of AI solutions; and iii) governance of AI solutions and assessment of the associated technological, reputational and model risks. The management of AI solutions and the related risks is ensured by updating and supplementing the applicable company regulations, while the monitoring of ongoing initiatives is performed through specific project activities. Specific statements have also been established within the Group Risk Appetite, together with indicators to monitor compliance with those statements.

In addition, in view of the rapidly evolving world of digital assets, the Group has launched a series of project initiatives aimed at studying and gradually implementing use cases regarding the provision of services related to digital assets and the application of the associated technologies (Blockchain, Distributed Ledger Technology - DLT, Metaverse). Although the current progress of the work does not allow for an overall assessment of the risk associated with these ecosystems, from the preliminary analyses carried out, it is reasonable to expect that transactions in digital assets and the use of new technology will have the same categories of risk as traditional finance products, but with increased significance due to the following factors:

– vulnerabilities of the new technologies not fully explored;
– technological standards being defined;
– absence of a reference regulatory/legal framework;
– absence of safeguards and guarantee schemes;
– presence of non-regulated entities and/or entities based in non-EU/OECD jurisdictions;
– continuous evolution of the related laws and regulations.

The risks associated with the ongoing initiatives are assessed in the ordinary clearing processes and are monitored under the Risk Appetite Framework (overview of initiatives under study and implementation, limitations in terms of customer segments potentially affected by the initiatives, and very strict operating limits).

The continuous evolution of the operational environment, both internal and external, requires the continuous updating of the current analysis frameworks (e.g. portfolio development policies, internal control system, payment systems, cybersecurity safeguards, anti-money laundering and counter-terrorism financing safeguards, and accounting, tax and prudential treatment of the assets) in order to take into account the new/altered operations and maximise the effectiveness of the controls for the identification and mitigation of the Group's potential exposure. In this regard, the work is continuing in the project initiatives aimed at optimising the Group's resilience profile.

Absorption of Economic Capital by type of risk and Business Unit

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

The absorption of Economic Capital by Business Unit reflects the distribution of the Group's various activities and the specialisations of the business areas.

The majority of risk is concentrated in the "IMI Corporate & Investment Banking" Business Unit (38% of the total Economic Capital): this is attributable to the type of customers served (Corporate and Financial Institutions) and Capital Market activities. This Business Unit is assigned a significant share of credit risk and trading book risk. The "Banca dei Territori" Business Unit (18.2% of the total Economic Capital) is a significant source of absorption of Internal Capital, in line with its role as core business of the Group, serving Retail, Private and Small/Middle Corporate customers. It is assigned a sizeable portion of credit risk and operational risk. Most of the insurance risk is assigned to the "Insurance" Business Unit (14.6% of the total Economic Capital). The "International Subsidiary Banks" Business Unit is assigned 7.4% of the total risk, predominantly credit risk. In addition to credit risk, the "Corporate Centre" is attributed with the risks typical of this Business Unit, namely those resulting from investments, the risks pertaining to the exposures in default, the Banking Book interest rate and exchange rate risk, as well as the risks arising from the management of the Parent Company's FVOCI portfolio (17.7% of the overall Economic Capital).

Absorption of Economic Capital by the "Private Banking" and "Asset Management" Business Units is marginal (3% and 1.1%, respectively) due to the nature of their business, which is predominantly aimed at asset management activities.

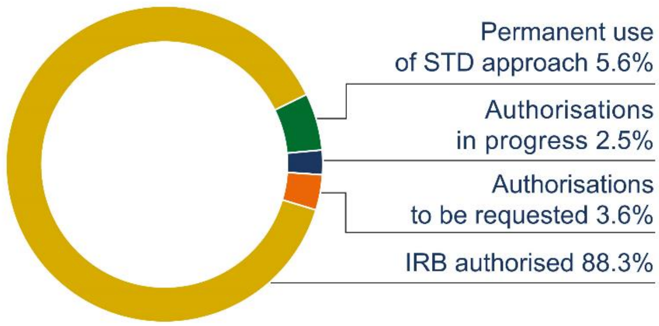
The Basel 3 regulations

In view of compliance with the reforms of the previous accords by the Basel Committee ("Basel 3"), the Intesa Sanpaolo Group has undertaken adequate project initiatives in order to improve the measurement systems and the related risk management systems. In 2023, the project work began on the preparations for the incorporation of the restructuring of the Basel Committee agreements ('Basel 4').

With regard to credit risks, the ECB authorisations to use the new Corporate (from March 2023) and Specialised Lending models (from December 2023) for regulatory purposes have been implemented.
The periodic updating and alignment to changes in regulations governing IRB systems and their extension continue in accordance with the Regulatory Roadmap agreed with the Supervisory Authorities.

With regard to the progress of the roll-out plan for the internal models for credit risk (IRB regulatory Roadmap), the share of exposures authorised for the IRB system is 88.3% of the loans portfolio. There are no pending authorisations on portfolios not yet validated, while requests to be made for the remaining portfolios of the Group's Italian and international banks represent 3.6% of the portfolio. For the residual component, equal to 8.1%, the permanent use of the Standardised approach has been reported to the supervisory authorities and authorisation has been received for 5.6% and is still being awaited for 2.5%.

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



(*) Percentages calculated based on the full standard RWA amounts as at 31.12.2023. The portfolios are considered to be covered by IRB models when the authorisation has been received, from the Supervisory Authority, for use of the internal model for at least one of the risk parameters.
(**) The following are excluded from the Portfolio:
- risk-weighted exposures with counterparties classified as Sovereigns and DTAs
- exposures to Group Companies that, based on the product classification in the Group Map at the monitoring reference date, do not come under one of the following categories: Banking Companies, Other Financial Intermediaries, and "Cards and Payment Systems" companies.

With regard to counterparty risk, the Banking Group has improved its measurement and monitoring by refining the instruments required under Basel 3. For reporting purposes, the Parent Company is authorised to use the internal models approach for the reporting of the requirement with respect to counterparty risk both for derivatives and for SFTs (Securities Financing Transactions, i.e. repos/reverse repos and securities lending/borrowing). This authorisation was obtained for derivatives from the first quarter of 2014, and for SFTs from the report as at 31 December 2016.
For management purposes, the advanced risk measurement approaches have been implemented for the OTC derivatives of the Parent Company since 2010 and were subsequently extended in 2015 to Securities Financing Transactions.
Compared to 31 December 2022, starting from the fourth quarter of 2023, for counterparties with margin contracts, a monitoring process was introduced for the impact of potential missing payments that could occur before the close-out of the positions, in the event of default. To mitigate these impacts, a process has been introduced for detecting and managing high-risk counterparties with a low credit rating and subject to settlement risk.

With regard to operational risk, the Group obtained authorisation to use the Advanced Measurement Approach (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009. As at 31 December 2023, the scope of the Advanced Measurement Approach (AMA) is comprised of Intesa Sanpaolo (including the banks and companies merged into it) and the main banks and companies in the Private Banking and Asset Management Divisions, as well as of VUB Banka and Privredna Banka Zagreb.

The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal risk measurement methodologies, internal capital and total capital available, was approved and sent to the ECB in March 2023.

As part of its adoption of Basel 3, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled "Basel 3 - Pillar 3" or simply "Pillar 3".
The document is published on the website (www.group.intesasanpaolo.com) each quarter.

Other risk factors

In addition to the above risks, the Intesa Sanpaolo Group is carefully assessing the aspect detailed below.

Interest Rate Benchmark Reform – General aspects
Initiated in 2016, following the publication of the EU Benchmark Regulation (Regulation (EU) 2016/1011), over the last few years, the benchmark reform has been characterised in particular by the following:
- in 2019, the start of a new Euribor survey completed by EMMI (European Money Market Institute);
- in 2019, the €STR rate – calculated and published daily by the ECB – replaced the previous fixing of the Eonia rate, also laying the foundations, with the recording of the compound rates and the €STR index, for a Euribor fallback rate, to be indicated in fallback contractual clauses and to be used in the event of any future permanent cessation of publication of the Euribor;
- in 2021, the Financial Conduct Authority (FCA) confirmed that the Libor would no longer be published or would lose validity (i) immediately after 31 December 2021 for all maturities of Pound Sterling, Euro, Swiss Franc and Japanese Yen and 1-week and 2-month maturities for the US dollar and (ii) immediately after 30 June 2023 for the remaining maturities on the US dollar (i.e. overnight, 1-month, 3-month, 6-month and 12-month);
- in 2023, the FCA announced its decision to request the administrator to continue with the publication for 1- 3- 6-month maturities of the synthetic USD LIBOR also after the termination date of 30 June 2023 and until September 2024 in order to facilitate the transition of legacy contracts (other than in cleared derivatives).

The following is a summary of the framework of risk-free rates:

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

Source: ICE Benchmark Administration, Intesa Sanpaolo

With regard to the LIBOR, in its announcement of 5 March 2021, the Financial Conduct Authority (FCA) established that the LIBOR would no longer be published or would lose validity immediately from 31 December 2021 for all maturities of Pound Sterling, Euro, Swiss Franc and Japanese Yen and 1-week and 2-month maturities for the US dollar. The final phase was activated after 30 June 2023 for the remaining maturities on the US dollar (i.e. overnight, 1-month, 3-month, 6-month and 12-month).

Interest Rate Benchmark Reform – Intesa Sanpaolo's activities
In recent years, Intesa Sanpaolo has closely monitored the developments relating to benchmarks, and in 2016 it launched a dedicated project involving the participation of all the corporate and business functions involved in various capacities.
Leveraging the work of the special project streams and within the expenditure limits set out in the project capital budget, the completion of the transition to the new indices on the various product types was managed in 2023. The activities were concluded in December 2023, after the project objectives were considered to have been achieved. The activities of the project streams have ended, but some residual activities have been directed to and taken over by the respective owners, who will manage them in the ordinary course of operations.
Again in 2023, the Intesa Sanpaolo Group participated in the activities of working groups at European level, organised by EMMI and ESMA. In this latter area in particular, until the final completion of the work in November 2023, Intesa Sanpaolo acted as a voting member and participant to a workstream of the Working Group on euro risk free rates dedicated to monitoring developments in relation to the use of €STR as a Euribor fallback rate but also as a reference rate for the derivatives market and, in the long run, also potentially for other products.

In referring to these Consolidated notes to the financial statements - Part A, Section 5 - Other aspects for a more detailed analysis of the financial instruments impacted by the IBOR Reform at the reporting date and the methods for managing the transitions adopted by the Group, it is noted that, in light of the regulatory measures and actions undertaken, no critical issues were identified in completing the transition by the planned deadlines. Specifically, to manage the stock of existing instruments, the Group set out the mass adoption of the new Risk Free Rates (RFR) on the financial instruments newly subscribed, thus abandoning the use of the benchmarks impacted by the reform and stabilising the stock of transactions to be transitioned, on the one hand, while setting up the solutions for the transition to the new RFR, defined based on the main international recommendations, capable of minimising the financial impacts of the transition, on the other.

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

SECTION 1 – RISKS OF THE CONSOLIDATED BOOK

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

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

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

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

A.1.1. Breakdown of financial assets by portfolio classification and credit quality (book values)

(millions of euro)

Portfolios/quality		Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	TOTAL
1. Financial assets measured at amortised cost		936	3,638	457	3,779	510,140	518,950
2. Financial assets measured at fair value through other comprehensive income		-	-	-	99	139,355	139,454
3. Financial assets designated at fair value		-	-	-	-	1	1
4. Other financial assets mandatorily measured at fair value		1	47	-	6	9,018	9,072
5. Non-current financial assets held for sale		-	122	-	-	17	139
Total	**31.12.2023**	**937**	**3,807**	**457**	**3,884**	**658,531**	**667,616**
Total	**31.12.2022**	**1,177**	**4,308**	**413**	**5,150**	**643,958**	**655,006**

A.1.1. Breakdown of financial assets by portfolio classification and credit quality (book values)

(of which: Banking Group)

(millions of euro)

Portfolios/quality		Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	TOTAL
1. Financial assets measured at amortised cost		936	3,589	457	3,779	500,368	509,129
2. Financial assets measured at fair value through other comprehensive income		-	-	-	-	67,326	67,326
3. Financial assets designated at fair value		-	-	-	-	1	1
4. Other financial assets mandatorily measured at fair value		1	47	-	6	872	926
5. Non-current financial assets held for sale		-	122	-	-	17	139
Total	**31.12.2023**	**937**	**3,758**	**457**	**3,785**	**568,584**	**577,521**
Total	**31.12.2022**	**1,177**	**4,277**	**413**	**3,773**	**557,960**	**567,600**

A.1.1. Breakdown of financial assets by portfolio classification and credit quality (book values)
(of which: Insurance companies)

(millions of euro)

Portfolios/quality		Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	TOTAL
1. Financial assets measured at amortised cost		-	-	-	-	5	5
2. Financial assets measured at fair value through other comprehensive income		-	-	-	99	72,029	72,128
3. Financial assets designated at fair value		-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value		-	-	-	-	8,146	8,146
5. Non-current financial assets held for sale		-	-	-	-	-	-
Total	**31.12.2023**	**-**	**-**	**-**	**99**	**80,180**	**80,279**
Total	**31.12.2022**	**-**	**-**	**-**	**1,377**	**75,681**	**77,058**

A.1.1. Breakdown of financial assets by portfolio classification and credit quality (book values)
(of which: Other companies)

(millions of euro)

Portfolios/quality		Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	TOTAL
1. Financial assets measured at amortised cost		-	49	-	-	9,767	9,816
2. Financial assets measured at fair value through other comprehensive income		-	-	-	-	-	-
3. Financial assets designated at fair value		-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value		-	-	-	-	-	-
5. Non-current financial assets held for sale		-	-	-	-	-	-
Total	**31.12.2023**	**-**	**49**	**-**	**-**	**9,767**	**9,816**
Total	**31.12.2022**	**-**	**31**	**-**	**-**	**10,317**	**10,348**

A.1.2. Breakdown of financial assets by portfolio classification and credit quality (gross and net values)

(millions of euro)

Portfolios/quality		NON-PERFORMING ASSETS				PERFORMING ASSETS			TOTAL (net exposure)
		Gross exposure	Collective adjustments	Net exposure	Total partial write-offs	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets measured at amortised cost		10,026	-4,995	5,031	1,795	516,513	-2,594	513,919	518,950
2. Financial assets measured at fair value through other comprehensive income		36	-36	-	-	139,559	-105	139,454	139,454
3. Financial assets designated at fair value		-	-	-	-	X	X	1	1
4. Other financial assets mandatorily measured at fair value		78	-30	48	-	X	X	9,024	9,072
5. Non-current financial assets held for sale		163	-41	122	-	18	-1	17	139
Total	**31.12.2023**	**10,303**	**-5,102**	**5,201**	**1,795**	**656,090**	**-2,700**	**662,415**	**667,616**
Total	**31.12.2022**	**11,554**	**-5,656**	**5,898**	**3,082**	**643,518**	**-2,781**	**649,108**	**655,006**

(millions of euro)

Portfolios/quality		ASSETS OF EVIDENTLY LOW CREDIT QUALITY		OTHER ASSETS
		Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading		-19	17	35,781
2. Hedging derivatives		-	-	7,006
Total	**31.12.2023**	**-19**	**17**	**42,787**
Total	**31.12.2022**	**-27**	**22**	**51,488**

A.1.2. Breakdown of financial assets by portfolio classification and credit quality (gross and net values)
(of which: Banking Group)

(millions of euro)

Portfolios/quality	NON-PERFORMING ASSETS				PERFORMING ASSETS			TOTAL (net exposure)
	Gross exposure	Collective adjustments	Net exposure	Total partial write-offs	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets measured at amortised cost	9,977	-4,995	4,982	1,795	506,732	-2,585	504,147	509,129
2. Financial assets measured at fair value through other comprehensive income	36	-36	-	-	67,403	-77	67,326	67,326
3. Financial assets designated at fair value	-	-	-	-	X	X	1	1
4. Other financial assets mandatorily measured at fair value	78	-30	48	-	X	X	878	926
5. Non-current financial assets held for sale	163	-41	122	-	18	-1	17	139
Total 31.12.2023	**10,254**	**-5,102**	**5,152**	**1,795**	**574,153**	**-2,663**	**572,369**	**577,521**
Total 31.12.2022	**11,523**	**-5,656**	**5,867**	**3,082**	**563,390**	**-2,758**	**561,733**	**567,600**

(millions of euro)

Portfolios/quality	ASSETS OF EVIDENTLY LOW CREDIT QUALITY		OTHER ASSETS
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-19	17	35,754
2. Hedging derivatives	-	-	6,980
Total 31.12.2023	**-19**	**17**	**42,734**
Total 31.12.2022	**-27**	**22**	**51,389**

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

(millions of euro)

Portfolios/quality	NON-PERFORMING ASSETS				PERFORMING ASSETS			TOTAL (net exposure)
	Gross exposure	Collective adjustments	Net exposure	Total partial write-offs	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets measured at amortised cost	-	-	-	-	5	-	5	5
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	72,156	-28	72,128	72,128
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	8,146	8,146
5. Non-current financial assets held for sale	-	-	-	-	-	-	-	-
Total 31.12.2023	**-**	**-**	**-**	**-**	**72,161**	**-28**	**80,279**	**80,279**
Total 31.12.2022	**-**	**-**	**-**	**-**	**69,801**	**-13**	**77,058**	**77,058**

(millions of euro)

Portfolios/quality	ASSETS OF EVIDENTLY LOW CREDIT QUALITY		OTHER ASSETS
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	27
2. Hedging derivatives	-	-	24
Total 31.12.2023	**-**	**-**	**51**
Total 31.12.2022	**-**	**-**	**98**

A.1.2. Breakdown of financial assets by portfolio classification and credit quality (gross and net values)
(of which: Other companies)

(millions of euro)

Portfolios/quality	NON-PERFORMING ASSETS				PERFORMING ASSETS			TOTAL (net exposure)
	Gross exposure	Collective adjustments	Net exposure	Total partial write-offs	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets measured at amortised cost	49	-	49	-	9,776	-9	9,767	9,816
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	-	-
5. Non-current financial assets held for sale	-	-	-	-	-	-	-	-
Total 31.12.2023	**49**	**-**	**49**	**-**	**9,776**	**-9**	**9,767**	**9,816**
Total 31.12.2022	**31**	**-**	**31**	**-**	**10,327**	**-10**	**10,317**	**10,348**

(millions of euro)

Portfolios/quality	ASSETS OF EVIDENTLY LOW CREDIT QUALITY		OTHER ASSETS
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	-
2. Hedging derivatives	-	-	2
Total 31.12.2023	**-**	**-**	**2**
Total 31.12.2022	**-**	**-**	**1**

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

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

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

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

B.1. Consolidated structured entities

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

B.2. Structured entities not consolidated in the accounts

B.2.1. Prudential consolidation of structured entities

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

B.2.2. Other structured entities

Qualitative information

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

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

For the purposes of this section, operations carried out through securitisation vehicles, that is vehicles established to acquire, sell and manage specific assets, separating them from the financial statements of the Originator, for the purpose of carrying out securitisations of assets or for acquiring funding through self-securitisations and issues of Covered Bonds (CB), shall not be relevant. For those types of vehicle companies, reference should be made to section “C. Securitisations” and section “D. Sales” of Part E of the Notes to the consolidated financial statements.
In some cases, the Group sponsors the SPE by structuring the transaction to pursue specific objectives, such as raising funds, securitising its own assets also for the purposes of funding or offering financial services to customers.
In detail, the Group's operations are carried out through the following types of structured entities represented by special purpose entities (SPEs).

Project Financing SPEs

These are financing instruments for capital intensive projects, which are based on the economic or financial validity of the industrial or infrastructural project, and are independent from the standing/creditworthiness of the sponsors who developed the “entrepreneurial” idea. The financing of the initiative is based on the project’s capacity to generate positive cash flows, sufficient to reimburse loans received and guarantee an adequate risk-adjusted return on invested capital.
The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

Asset Backed SPEs

These are transactions aimed at acquisition/construction/management of physical assets by SPEs financed by one or more entities. Their recovery prospects mostly depend upon the cash flows generated by the assets. The assets generate cash flows in their recurring operations (e.g. rentals, goods transportation contracts, etc.) or in their non-recurring operations (e.g. a real estate development or disposal plan). Generally, the assets are also the collateral for the financing disbursed to the vehicle.
The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without any direct equity investments or any other interests which might lead to presume the role of sponsor. The risk undertaken is always a normal credit risk and the benefits are represented by the return on the financing granted.

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

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

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

Quantitative information

(millions of euro)

Captions / Type of structured entity		Accounting portfolios under assets	Total assets (A)	Accounting portfolios under liabilities	Total liabilities (B)	NET BOOK VALUE (C = A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and book value (E = D - C)
1.	**Special purpose vehicle**		**2,531**		**594**	**1,937**	**2,976**	**1,039**
		Financial assets held for trading	101	Due to customers	496			
		Other financial assets mandatorily measured at fair value	3	Financial liabilities held for trading	98			
		Financial assets measured at fair value through other comprehensive income	18		-			
		Financial assets measured at amortised cost - Loans to customers	2,409					
2.	**UCI**		**4,016**		**211**	**3,805**	**4,200**	**395**
		Financial assets held for trading	451	Due to customers	209			
		Financial assets designated at fair value	3,367	Financial liabilities held for trading	2			
		Assets measured at amortised cost Loans to customers	198		-			

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

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

(millions of euro)

Type of structured entity sponsored	Interest	Fees and commissions	Dividends	Other revenue	TOTAL
UCI	148	2,042	100	-	2,290
Special-purpose vehicles	154	8	-	72	234

SECTION 2 – RISKS OF THE PRUDENTIAL CONSOLIDATION

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

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

(millions of euro)

Assets		31.12.2023 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2023 Regulatory-scope balance sheet
10.	Cash and cash equivalents	89,270	-680	88,590
20.	Financial assets measured at fair value through profit or loss	144,594	-101,006	43,588
	a) financial assets held for trading	*38,163*	*49*	38,212
	b) financial assets designated at fair value	*1*	-	1
	c) other financial assets mandatorily measured at fair value	*106,430*	*-101,055*	5,375
30.	Financial assets measured at fair value through other comprehensive income	140,753	-72,135	68,618
40.	Financial assets measured at amortised cost	518,950	650	519,600
	a) due from banks	*32,899*	*4*	32,903
	b) loans to customers	*486,051*	*646*	486,697
50.	Hedging derivatives	7,006	-26	6,980
60.	Fair value change of financial assets in hedged portfolios (+/-)	-5,695	-	-5,695
70.	Investments in associates and companies subject to joint control	2,501	7,045	9,546
80.	Insurance assets	813	-813	-
	a) insurance contracts issued that are assets	*412*	*-412*	-
	b) reinsurance contracts held that are assets	*401*	*-401*	-
90.	Property and equipment	9,825	-541	9,284
100.	Intangible assets	9,524	-525	8,999
	of which:	-	-	-
	- goodwill	*3,672*	*-426*	3,246
110.	Tax assets	14,533	-571	13,962
	a) current	*1,932*	*-80*	1,852
	b) deferred	*12,601*	*-491*	12,110
120.	Non-current assets held for sale and discontinued operations	264	-52	212
130.	Other assets	31,232	-3,412	27,820
Total Assets		**963,570**	**-172,066**	**791,504**

Liabilities and Shareholders' Equity		31.12.2023 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2023 Regulatory-scope balance sheet
10.	Financial liabilities measured at amortised cost	642,119	1,082	643,201
	a) due to banks	*93,242*	*-863*	92,379
	b) due to customers	*440,449*	*2,346*	442,795
	c) securities issued	*108,428*	*-401*	108,027
20.	Financial liabilities held for trading	43,493	75	43,568
30.	Financial liabilities designated at fair value	72,782	-51,438	21,344
40.	Hedging derivatives	5,188	-84	5,104
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	-3,967	-	-3,967
60.	Tax liabilities	1,946	-849	1,097
	a) current	*458*	*-100*	358
	b) deferred	*1,488*	*-749*	739
70.	Liabilities associated with non-current assets held for sale and discontinued operations	2	-	2
80.	Other liabilities	12,741	-869	11,872
90.	Employee termination indemnities	767	-5	762
100.	Allowances for risks and charges	4,523	-102	4,421
	a) commitments and guarantees given	*524*	*1*	525
	b) post-employment benefits	*98*	-	98
	c) other allowances for risks and charges	*3,901*	*-103*	3,798
110.	Insurance liabilities	119,849	-119,849	-
	a) insurance contracts issued that are liabilities	*119,674*	*-119,674*	-
	b) reinsurance contracts held that are liabilities	*175*	*-175*	-
120.	Valuation reserves	-2,009	-	-2,009
130.	Redeemable shares	-	-	-
140.	Equity instruments	7,948	-	7,948
150.	Reserves	14,697	-	14,697
155.	Interim dividends (-)	-2,629	-	-2,629
160.	Share premium reserve	28,003	-	28,003
170.	Share capital	10,369	-	10,369
180.	Own shares (-)	-140	-	-140
190.	Minority interests (+/-)	164	-27	137
200.	Net income (loss) (+/-)	7,724	-	7,724
Total Liabilities and Shareholders' Equity		**963,570**	**-172,066**	**791,504**

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