
Risk management

THE BASIC PRINCIPLES OF RISK MANAGEMENT

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 Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework.

The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies.

The Corporate Bodies also benefit from the action of some Managerial Committees on risk management. These committees, which include the Steering Committee, operate in compliance with the primary responsibilities of the Corporate Bodies regarding the internal control system and the prerogatives of corporate control functions, and in particular the risk control function.

Subject to the powers of the Corporate Bodies, the Chief Risk Officer Governance Area – reporting directly to the Managing Director and CEO – is responsible for: (i) 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; (ii) cooperating with the Corporate Bodies in setting the Group's risk management guidelines and policies in accordance with the company strategies and objectives; (iii) coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, also within the various corporate departments; (iv) ensuring the management of the Group's overall risk profile by establishing methods and monitoring exposures to the various types of risk and reporting the situation periodically to the Corporate Bodies; and (v) carrying out level 2 controls on credit and other risks and ensuring the validation of internal risk measurement systems.

The Parent Company performs a guidance and coordination role with respect to the Group companies¹³, 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 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.

Following the merger by incorporation of UBI Banca into Intesa Sanpaolo, approaches and tools for integrating the risk management framework are being shared in order to best take advantage of possible synergies, with the harmonisation of the measurement and valuation processes and the extension of the rating models according to the procedures agreed with the Regulator.

The risk measurement and management tools contribute to defining a risk-monitoring framework at Group level, capable of assessing the risks assumed by the Group from a regulatory and economic point of view. The level of absorption of economic capital, defined as the maximum "unexpected" loss the Group might incur over a year, is a key measure for determining the Group's financial structure, risk appetite and for guiding operations, ensuring a balance between risks assumed and shareholder returns. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario. The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the Risk Committee and the Board of Directors, as part of the Tableau de Bord of the Group Risks. Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures.

¹³ 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 BASEL 3 REGULATIONS

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

With regard to credit risks, the ECB's authorisations to use the new Institutions and Retail SME models for regulatory purposes were implemented starting from June 2021.

The periodic updating and alignment to changes in regulations governing IRB systems and their extension to the Italian subsidiaries originating from the UBI Group and the international subsidiaries (according to the Group's roll-out plan) continue in accordance with the Regulatory Roadmap agreed with the Supervisory Authorities.

With regard to counterparty risk, there were no changes in the scope of application compared to 30 June 2021.

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. There were no changes in the scope of application compared to 30 June 2021.

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

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

The document is published on the website (group.intesasanpaolo.com) on a quarterly basis.

CREDIT RISK

The Intesa Sanpaolo Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk.

In particular, with regard to loans to customers, risk measurement is performed by means of different internal rating models according to borrower segment (Corporate, Retail SME, Retail, Sovereigns, Italian Public Sector Entities and Banks). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a consistent scale of reference.

Ratings and credit-risk mitigating factors (guarantees, loan types and covenants) play a key role in the loan granting and managing process.

Credit quality

	30.09.2021		31.12.2020		Change		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	
Bad loans	9,113	-5,530	3,583	9,594	-5,591	4,003	-420
Unlikely to pay	8,397	-3,436	4,961	10,678	-4,455	6,223	-1,262
Past due loans	746	-149	597	627	-110	517	80
Non-Performing Loans	18,256	-9,115	9,141	20,899	-10,156	10,743	-1,602
<i>Non-performing loans in Stage 3 (subject to impairment)</i>	18,182	-9,101	9,081	20,818	-10,132	10,686	-1,605
<i>Non-performing loans designated at fair value through profit or loss</i>	74	-14	60	81	-24	57	3
Performing loans	450,133	-2,810	447,323	447,650	-2,807	444,843	2,480
<i>Stage 2</i>	64,542	-2,001	62,541	71,037	-2,014	69,023	-6,482
<i>Stage 1</i>	384,492	-809	383,683	375,535	-793	374,742	8,941
<i>Performing loans designated at fair value through profit or loss</i>	1,099	-	1,099	1,078	-	1,078	21
Performing loans represented by securities	6,846	-34	6,812	7,231	-37	7,194	-382
<i>Stage 2</i>	1,959	-23	1,936	3,090	-30	3,060	-1,124
<i>Stage 1</i>	4,887	-11	4,876	4,141	-7	4,134	742
Loans held for trading	19	-	19	22	-	22	-3
Total loans to customers	475,254	-11,959	463,295	475,802	-13,000	462,802	493
<i>of which forbore performing</i>	8,616	-489	8,127	5,560	-304	5,256	2,871
<i>of which forbore non-performing</i>	5,466	-2,222	3,244	5,902	-2,360	3,542	-298
Loans to customers classified as discontinued operations (*)	4,704	-3,046	1,658	29,602	-3,462	26,140	-24,482

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations.

(*) As at 30 September 2021, this caption related to the portfolio of bad loans and unlikely-to-pay exposures soon to be sold.

At 30 September 2021, the Group's gross non-performing loans had fallen to 18.3 billion euro, a decrease of 2.6 billion euro (-12.6%) compared to December 2020. In addition to the de-risking initiatives carried out, the aggregate is benefiting from a significant reduction in inflows from performing loans, both in gross terms (2.4 billion euro in 2021 compared to 3 billion euro in the first nine months of 2020) and in net terms, i.e. net of the outflows to performing loans (1.7 billion euro compared to 2.2 billion euro in the comparison period). As can be noted from the table above, more than 86% of the decrease in gross stocks over the nine months related to unlikely-to-pay loans (-2.3 billion euro, or -21.4%), which in the third quarter of 2021 saw the reclassification of 1.1 billion euro into assets held for sale (see the chapter "The first nine months of 2021").

At the end of September, the Group's net non-performing loans amounted to 9.1 billion euro, an all-time low. The double-digit reduction (-14.9%) from the beginning of the year confirms the virtuous trend already recorded in previous years. The non-performing assets percentage of total net loans to customers amounted to 2%, a low proportion and down on the figure recorded in December 2020 (2.3%), with an increased coverage ratio for non-performing loans of 49.9%.

In further detail, at the end of September bad loans came to 3.6 billion euro, net of adjustments (-10.5%), and represented 0.8% of total net loans. During the same period, the coverage ratio came to 60.7% (79.7% including the write-offs applied). Loans included in the unlikely-to-pay category amounted to 5 billion euro, down by 20.3%, accounting for 1.1% of total net loans to customers, with a coverage ratio of 40.9%. Past due loans amounted to 597 million euro (+15.5%), with a coverage ratio of 20%. Within the non-performing loan category, forbore exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to approximately 3.2 billion euro, with a coverage ratio of 40.7%, while forbore exposures in the performing loans category amounted to 8.1 billion euro.

The coverage ratio of performing loans was 0.6%, in line with the figure at the end of 2020.

MARKET RISKS

TRADING BOOK

Below is a summary of the daily managerial VaR for the trading book only, which also shows the overall exposure of the main risk taking centres.

Daily managerial VaR of the trading book

	2021					2020				(millions of euro)
	average 3 rd quarter	minimum 3 rd quarter	maximum 3 rd quarter	average 2 nd quarter	average 1 st quarter	average 4 th quarter	average 3 rd quarter	average 2 nd quarter	average 1 st quarter	
Total Group Trading Book (a)	20.4	17.8	24.1	25.8	41.3	59.0	73.3	85.6	41.1	
<i>of which: Group Treasury and Finance Department</i>	<i>2.6</i>	<i>2.3</i>	<i>3.0</i>	<i>2.8</i>	<i>3.2</i>	<i>3.4</i>	<i>9.9</i>	<i>37.9</i>	<i>15.0</i>	
<i>of which: IMI C&IB Division</i>	<i>20.5</i>	<i>17.1</i>	<i>24.7</i>	<i>25.9</i>	<i>38.1</i>	<i>52.5</i>	<i>59.6</i>	<i>47.7</i>	<i>26.1</i>	

Each line in the table sets out past estimates of daily VaR calculated on the historical quarterly time-series of the Intesa Sanpaolo Group (including other subsidiaries), the Group Treasury and Finance Department and the IMI C&IB Division respectively; minimum and maximum values for the overall perimeter are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

(a) The Group Trading Book figure includes the managerial VaR of the Group Treasury and Finance Department, the IMI C&IB Division (Trading Book perimeter) and the other subsidiaries.

During the third quarter of 2021, as shown in both the tables and the graph below, there was a reduction in the overall trading risks compared to the averages for the first and second quarter of 2021 (compared to the second quarter of 2021, from 25.8 million euro to 20.4 million euro) and, more generally, compared to the averages for the full year 2020. These reductions are mainly attributable to the scenario “rolling effect” due to the lower market volatility following the exceptional market shocks related to the spread of the COVID-19 pandemic.

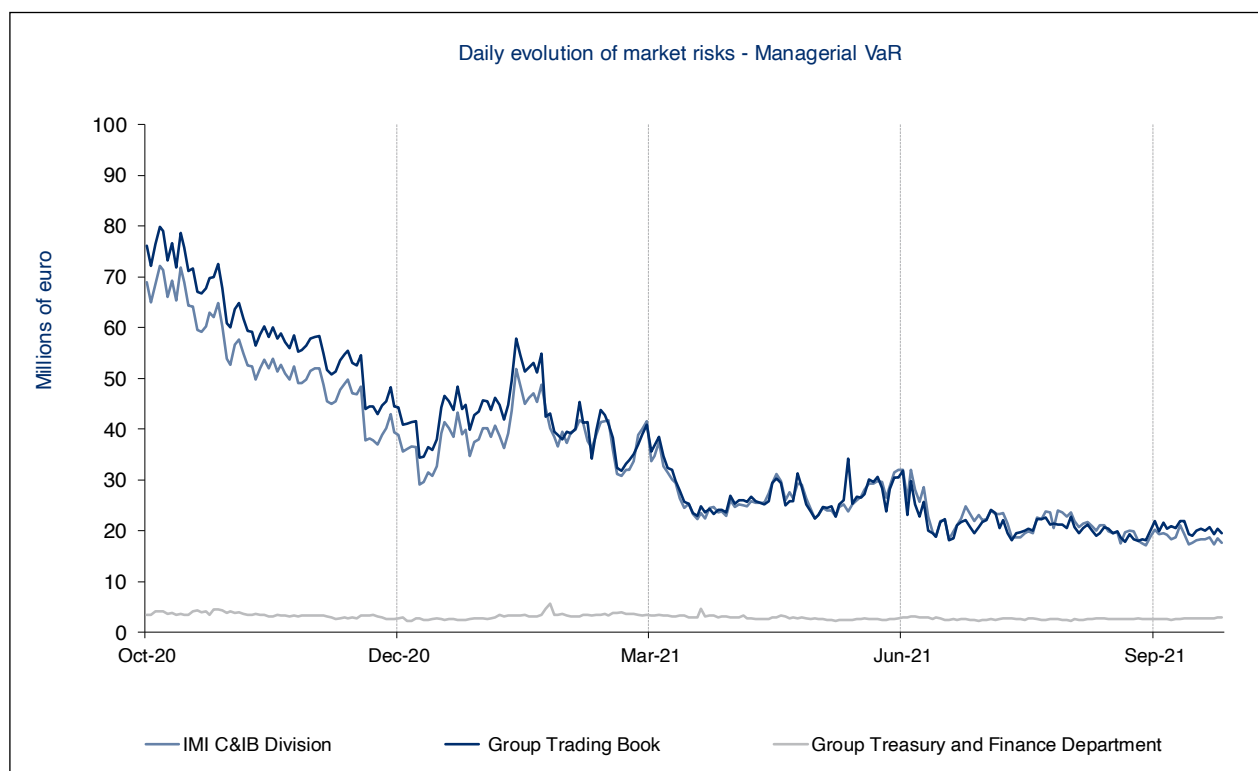
In the interest of completeness, the table below shows the average, minimum and maximum managerial VaR for the first 9 months of 2021 compared with the same period of 2020.

	2021			2020			(millions of euro)
	average 30.09	minimum 30.09	maximum 30.09	average 30.09	minimum 30.09	maximum 30.09	
Total Group Trading Book (a)	29.0	17.8	57.8	67.4	31.4	98.6	
<i>of which: Group Treasury and Finance Department</i>	<i>2.9</i>	<i>2.3</i>	<i>5.6</i>	<i>20.9</i>	<i>3.1</i>	<i>42.6</i>	
<i>of which: IMI C&IB Division</i>	<i>28.0</i>	<i>17.1</i>	<i>51.9</i>	<i>44.6</i>	<i>20.7</i>	<i>69.1</i>	

Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the first six months of the Intesa Sanpaolo Group (including other subsidiaries), the year respectively of the Group Treasury and Finance Department and the IMI C&IB Division; minimum and maximum values for the overall perimeter are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

(a) The Group Trading Book figure includes the managerial VaR of the Group Treasury and Finance Department, the IMI C&IB Division (Trading Book perimeter) and the other subsidiaries.

With regard to the trend in the trading VaR during the third quarter of 2021, the change was mainly due to the IMI C&IB Division. The movements are shown in the chart below:



The breakdown of the Group's risk profile in the trading book in the third quarter of 2021 shows a prevalence of credit spread risk and interest rate risk, accounting for 38% and 21%, respectively, of the Group's total managerial VaR. Instead, the single risk-taking centres show a prevalence of interest rate risk and exchange rate risk for the Group Treasury and Finance Department (45% and 37%, respectively) and of credit spread and interest rate risk for the IMI C&IB Division (37% and 23%, respectively).

Contribution of risk factors to total managerial VaR^(a)

3rd quarter 2021	Shares	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Group Treasury and Finance Department	10%	45%	8%	37%	0%	0%
IMI C&IB Division	16%	23%	37%	3%	6%	15%
Total	15%	21%	38%	6%	14%	6%

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the third quarter of 2021, broken down between the Group Treasury and Finance Department and IMI C&IB Division and indicating the distribution of the Group's overall capital at risk.

Risk control with regard to the activity of the Intesa Sanpaolo Group also uses scenario analyses and stress tests. The shocks applied to the portfolio were subject to the usual annual assessment and updating. The impact of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads, foreign exchange rates and commodity prices at the end of September is summarised in the following table.

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-5%	+5%	Crash	Bullish
Total Trading Book	87	-9	-33	-16	42	-30	41	-9	-21	22

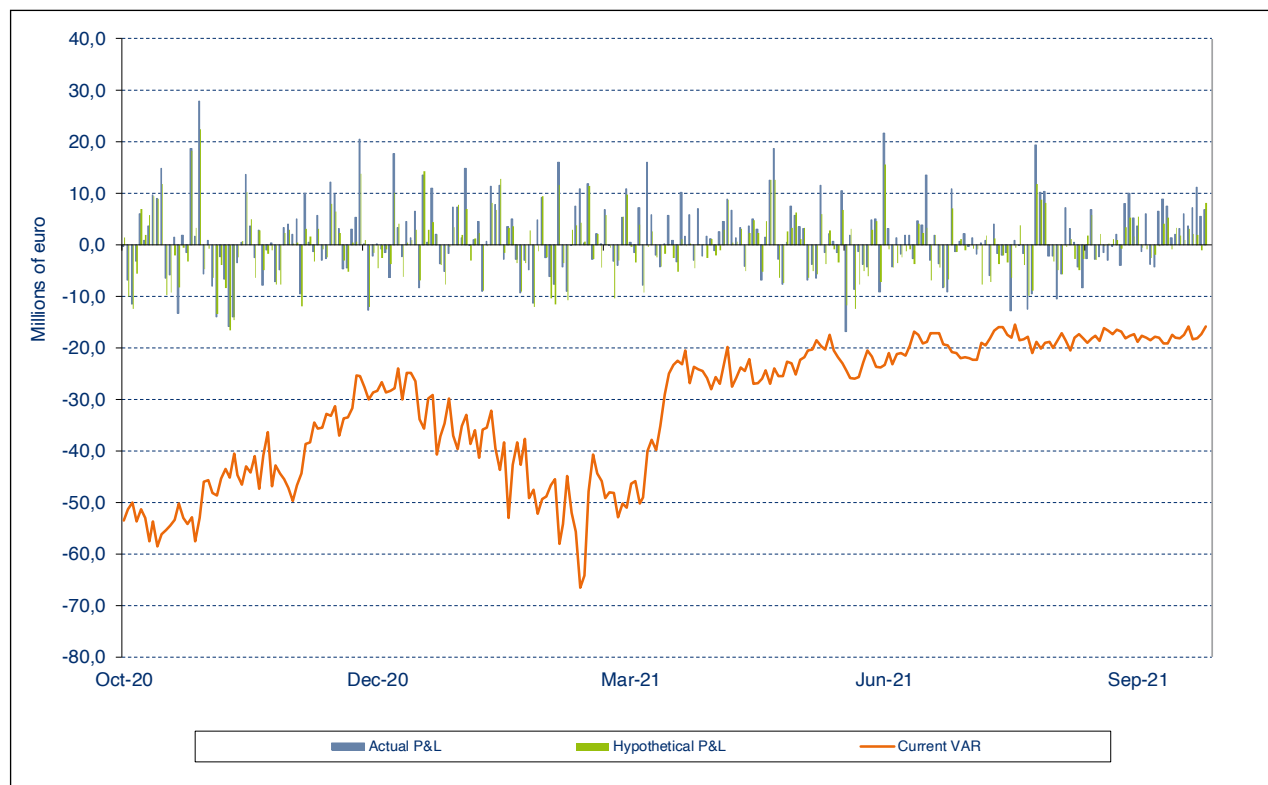
More specifically:

- for stock market positions, there would be potential losses of 9 million euro in the event of a sudden rise in equity prices and a concurrent sharp reduction in volatility;
- for positions in interest rates, there would be potential losses of 33 million euro in the event of a rise in interest rates;
- for positions in credit spreads, a widening of credit spreads of 25 bps would result in an overall loss of 30 million euro;
- for positions in exchange rates, there would be potential losses of 9 million euro in the event of appreciation in the Euro against the other currencies;
- finally, for positions in commodities, there would be a loss of 21 million euro in the event of a fall in prices of commodities other than precious metals.

With regard to the use of the overall limit relating to trading and the hold to collect and sell (HTCS) business model, there was a slight increase in the market managerial VaR in the third quarter from 126 million euro (average managerial VaR in the second quarter 2021) to 144 million euro (average managerial VaR in the third quarter 2021). The increase in average managerial VaR was mainly due to operations in the HTCS portfolio.

Backtesting

In the last twelve months, there were no backtesting exceptions. The Current VaR measure benefited from the reduction in volatility of the main risk factors. Following the sliding out of all COVID-19 scenarios, VaR measure progressively decreased without compromising the performance of the model¹⁴.



¹⁴ From 12 April 2021, estimates include the former UBI's trading book.

BANKING BOOK

At the end of September 2021, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, amounted to -1,167 million euro.

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 1,171 million euro, -889 million euro and 2,315 million euro, respectively, at the end of September 2021.

Interest rate risk, measured in terms of VaR, recorded a value of 342 million euro at the end of September 2021.

Price risk generated by minority stakes in listed companies, mostly held in the HTCS category, amounted to 181 million euro at the end of September 2021.

The table below shows the changes in the main risk measures during the third quarter of 2021 relating to the Intesa Sanpaolo Group.

	3rd quarter 2021			30.09.2021	31.12.2020
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	-1,260	-1,470	-1,094	-1,167	-1,305
Shift Sensitivity of Net Interest Income -50bp	-877	-1,044	-803	-889	-1,011
Shift Sensitivity of Net Interest Income +50bp	1,244	1,143	1,364	1,171	1,312
Shift Sensitivity of Net Interest Income +100bp	2,433	2,264	2,687	2,315	2,581
Value at Risk - Interest Rate	414	342	498	342	492

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock of $\pm 10\%$ for the abovementioned quoted assets recorded in the HTCS category.

Price risk: impact on Shareholders' Equity

	3rd quarter 2021 impact on shareholders' equity at 30.09.2021	2nd quarter 2021 impact on shareholders' equity at 30.06.2021	1st quarter 2021 impact on shareholders' equity at 31.03.2021	Impact on shareholders' equity at 31.12.2020	
Price shock	10%	181	208	152	155
Price shock	-10%	-181	-208	-152	-155

LIQUIDITY RISK

The Group's liquidity position – supported by suitable high-quality liquid assets (HQLA) and the significant contribution from stable customer deposits – remained within the risk limits set out in the current Group Liquidity Policy in the nine months of 2021. Both regulatory indicators, LCR and NSFR, were well above the minimum regulatory requirements.

Over the last 12 months, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, has amounted to an average of 179.5%.

At the end of September 2021, the value of unencumbered HQLA reserves at the various Treasury Departments of the Group, reached a total of 174 billion euro (170 billion euro in December 2020). Including the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, the Group's unencumbered liquidity reserves amounted to 181 billion euro (195 billion euro in December 2020).

At 30 September 2021, the Intesa Sanpaolo Group's NSFR, supported by a solid base of stable deposits from customers, adequate wholesale medium/long-term securities funding and the TLTRO funding from the ECB, was 123.8%. This indicator remains significantly higher than 100%, even excluding the positive contribution from TLTRO funding.

The stress tests, in view of the high availability of liquidity reserves, yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period longer than 3 months.

Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was regularly provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the main risk factors.

INFORMATION ON FINANCIAL PRODUCTS

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Fair value hierarchy – Excluding insurance companies

Assets / liabilities at fair value	30.09.2021			31.12.2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
(millions of euro)						
1. Financial assets measured at fair value through profit or loss	31,600	26,001	3,530	22,890	31,994	3,362
a) Financial assets held for trading	30,372	25,092	187	21,861	30,900	404
<i>of which: Equities</i>	669	-	16	663	-	1
<i>of which: quotas of UCI</i>	153	3	25	169	3	31
b) Financial assets designated at fair value	-	1	3	-	1	2
c) Other financial assets mandatorily measured at fair value	1,228	908	3,340	1,029	1,093	2,956
<i>of which: Equities</i>	168	153	227	10	191	193
<i>of which: quotas of UCI</i>	1,056	150	2,022	1,018	227	1,740
2. Financial assets measured at fair value through other comprehensive income	55,716	8,697	391	49,681	7,747	430
<i>of which: Equities</i>	1,598	1,532	374	1,559	1,754	387
3. Hedging derivatives	-	1,372	-	1	1,118	15
4. Property and equipment	-	-	7,225	-	-	7,252
5. Intangible assets	-	-	-	-	-	-
Total	87,316	36,070	11,146	72,572	40,859	11,059
1. Financial liabilities held for trading	22,649	34,688	196	15,742	43,168	123
2. Financial liabilities designated at fair value	183	3,057	26	-	3,032	-
3. Hedging derivatives	10	5,112	-	1	7,084	3
Total	22,842	42,857	222	15,743	53,284	126

The Group's assets measured at fair value (excluding the insurance companies), primarily consisted of level 1 instruments (around 65% of the total assets measured at fair value as at 30 September 2021 compared to around 58% at the end of 2020), measured using market prices and therefore without any discretion by the valuator. The Level 1 assets increased by 14.7 billion euro compared to December 2020, mainly due to the debt securities component.

As at 30 September 2021, level 3 assets, which are subject to greater discretion in determining fair value, made up approximately 8% of the total assets measured at fair value, a slight decrease compared to 31 December 2020 (around 9%). In contrast, the stock of Level 3 assets increased slightly (1%) compared to December 2020. The most significant component of the Level 3 assets was property and equipment.

For the Level 2 assets, there was a decrease in the percentage of total assets measured at fair value compared to 31 December 2020 (from approximately 33% to approximately 27%). This decrease was also driven by the reduction in exposures to OTC derivatives, which had a similar effect on liabilities.

As far as liabilities are concerned, level 3 instruments remain at essentially insignificant levels (well below 1% of total liabilities), whereas level 2 instruments, mostly OTC derivatives, continue to prevail.

Fair value hierarchy – Insurance companies

Assets / liabilities at fair value	(millions of euro)					
	30.09.2021			31.12.2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	316	351	389	321	33	47
<i>of which: Equities</i>	-	-	-	-	-	-
<i>of which: quotas of UCI</i>	122	-	49	120	-	47
2. Financial assets designated at fair value through profit or loss	97,372	26	596	86,779	51	377
<i>of which: Equities</i>	3,171	-	-	2,749	-	-
<i>of which: quotas of UCI</i>	89,103	-	-	79,538	-	-
3. Financial assets available for sale	93,000	9,503	3,743	82,076	4,845	2,192
<i>of which: Equities</i>	2,073	-	60	1,713	-	43
<i>of which: quotas of UCI</i>	10,632	66	3,431	10,271	20	2,138
4. Hedging derivatives	-	335	-	-	449	-
5. Property and equipment	-	-	8	-	-	8
6. Intangible assets	-	-	-	-	-	-
Total	190,688	10,215	4,736	169,176	5,378	2,624
1. Financial liabilities held for trading	3	121	-	4	54	-
2. Financial liabilities designated at fair value through profit or loss	-	82,969	-	-	77,149	-
3. Hedging derivatives	-	-	-	-	-	-
Total	3	83,090	-	4	77,203	-

For the insurance companies, 93% of the financial assets measured at fair value were measured using market prices (level 1 inputs) and therefore without any discretion by the valuator.

Level 3 instruments, which are subject to greater discretion in determining fair value, made up 2% of the total assets, a slight increase compared to 31 December 2020 (1.5%).

Liabilities at fair value were almost entirely measured using level 2 inputs.

The most significant changes compared to December 2020 are due to the new entries into the consolidation scope of Assicurazioni Vita S.p.A. (formerly Aviva Vita), Lombarda Vita S.p.A., and Cargeas Assicurazioni S.p.A. (although the changes attributable to Cargeas are less significant).

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products came to 3,266 million euro as at 30 September 2021, a net increase of 537 million euro compared to the stock of 2,729 million euro as at 31 December 2020. The exposure includes investments in ABSs (Asset-Backed Securities) of 1,698 million euro, in CLOs (Collateralised Loan Obligations) of 1,493 million euro and, to a residual extent, in CDOs (Collateralised Debt Obligations) of 75 million euro, which continued to be a marginal activity also in 2021.

Accounting categories	(millions of euro)						
	30.09.2021			31.12.2020		changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	355	584	-	939	849	90	10.6
Financial assets mandatorily measured at fair value	-	3	-	3	4	-1	-25.0
Financial assets measured at fair value through other comprehensive income	758	893	-	1,651	1,119	532	47.5
Financial assets measured at amortised cost	380	218	75	673	757	-84	-11.1
Total	1,493	1,698	75	3,266	2,729	537	19.7

In this disclosure, structured credit products include debt securities held by the Group divided into tranches upon issue consisting of various degrees of subordination and not issued within the framework of transactions originated by entities of the

Intesa Sanpaolo Group or by public entities, in addition to transactions whereby the Group finances its corporate and financial institution customers (operations implemented by the Group through the subsidiary Duomo Funding Plc).

The strategy for transactions in structured credit products shows a prevalence of investments aimed at exploiting market opportunities over disposals of the portfolio during the period.

The exposure in ABSs and CLOs measured at fair value went from 1,972 million euro in December 2020 to 2,593 million euro in September 2021, a net increase of 621 million euro, mainly attributable to operations on positions of the IMI Corporate & Investment Banking Division, in the assets measured at fair value through other comprehensive income portfolio and to a lesser extent in the assets held for trading portfolio.

The exposure to debt securities classified as assets measured at amortised cost amounted to 673 million euro in September 2021, compared with an exposure of 757 million euro in December 2020.

From a profit or loss perspective, a profit of +10 million euro was posted as at 30 September of 2021, a significant improvement on -17 million euro recorded in the first nine months of 2020.

The profit on trading – caption 80 of the income statement – amounts to +10 million euro and relates to the exposures in ABSs and CLOs, as a result of valuation effects of +5 million euro and realised gains of +5 million euro. As at 30 September 2020, this caption showed a loss of -18 million euro, resulting from valuation effects attributable to the downturn in the markets in the period due to the COVID-19 health emergency.

The profit from financial assets mandatorily measured at fair value was +1 million euro, compared to a loss of 1 million euro in the first nine months of 2020.

The exposures to debt securities classified as assets measured at fair value through other comprehensive income recorded a net increase in fair value of +3 million euro in the first nine months of 2021 through a shareholders' equity reserve (from a reserve of -4 million euro in December 2020 to -1 million euro in September 2021); on the other hand, there was no impact from sales from the portfolio as at 30 September 2021, against an impact of +4 million euro in the first half of 2020.

As at 30 September 2021, there were adjustments of -1 million euro on the debt securities classified as assets measured at amortised cost, compared to -2 million euro recognised in the first nine months of 2020.

Income statement results broken down by accounting category	30.09.2021			Total	30.09.2020	(millions of euro) changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations		absolute	%	
Financial assets held for sale	3	7	-	10	-18	28	
Financial assets mandatorily measured at fair value	-	1	-	1	-1	2	
Financial assets measured at fair value through other comprehensive income	-	-	-	-	4	-4	
Financial assets measured at amortised cost	-	-1	-	-1	-2	-1	-50.0
Total	3	7	-	10	-17	27	

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPES)

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective (raising funds on the market, acquiring/selling/managing assets both for asset securitisations, acquisition of funding through self-securitisations and the issue of covered bonds, developing and/or financing specific business initiatives, undertaking leveraged buy-out transactions, or managing credit risk inherent in an entity's portfolio) are considered Special Purpose Entities (SPEs).

The sponsor of the transaction is normally an entity which requests the structuring of a transaction that involves the SPE for the purpose of achieving certain objectives. In some cases, the sponsor may be the Bank itself, which establishes a SPE to achieve one of the aims mentioned above.

As to the SPE categories identified as non-consolidated structured entities, no changes have been made to the criteria applied by the Intesa Sanpaolo Group to decide whether to include said entities in the scope of consolidation, compared to the information already provided in the 2020 Annual Report.

In the third quarter of 2021, there were no changes in the notional amounts of the covered bonds issued under Intesa Sanpaolo's programmes.

INFORMATION ON LEVERAGED TRANSACTIONS

In 2017, the ECB published specific Guidance on Leveraged Transactions, which applies to all the significant entities subject to direct supervision by the ECB. The stated purpose of the guidance is to strengthen company controls over "leveraged" transactions, in view of the global increase in leveraged finance activities and the highly competitive market, characterised by a prolonged period of very low interest rates and the ensuing search for yields.

The scope of the ECB Guidance includes exposures in which the borrower's level of leverage, measured as the ratio of total financial debt to EBITDA, is greater than 4, as well as exposures where the borrower is owned by one or more financial sponsors. Moreover, counterparties with Investment Grade ratings, private individuals, credit institutions, financial institutions and companies in the financial sector in general, public entities, non-profit entities, as well as counterparties with credit facilities below a certain materiality threshold (5 million euro), Retail SME counterparties and Corporate SME counterparties (the latter if not owned by financial sponsors) are explicitly excluded from the scope of Leveraged Transactions. Specialised

lending transactions (project finance, real estate and object financing) and certain other types of credit, such as trade finance transactions, are also excluded.

As at 30 September 2021, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions as per the ECB Guidance amounted to 30 billion euro, relating to 2,373 credit lines (compared to 31 billion euro as at 31 December 2020, net of the positions classified as Leveraged Transactions and then sold in the context of the sale of branches associated with the merger of UBI Banca).

In accordance with the requirements of the ECB Guidance, as part of the Credit Risk Appetite a specific limit for the outstanding stock of leveraged transactions and limits on new transaction flows were submitted for approval to the Board of Directors, in line with the Bank's risk appetite on these types of operations.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Hedge Fund portfolio as at 30 September 2021 amounted to 27 million euro for the trading book and 213 million euro for the banking book, compared to 39 million euro and 277 million euro respectively in December 2020.

The investments in the banking book are recognised under financial assets mandatorily measured at fair value and pertain to funds that adopt medium/long-term investment strategies and redemption times that are longer than those of UCITS (Undertakings for Collective Investment in Transferable Securities) funds.

During the first nine months of 2021, the stock of these investments decreased by 76 million euro compared to 31 December 2020. Of this decrease, 64 million euro concerned the banking book (mainly due to the disposals in the period) while 12 million euro concerned the trading segment.

In terms of income statement effects, a profit of +14 million euro was recorded as at 30 September 2021 (compared to a loss of -15 million euro as at 30 September 2020). This result comprised +10 million euro attributable to the valuation component of the funds in the portfolio, and +4 million euro attributable to the realisation component.

The profits (losses) on trading – caption 80 of the income statement (trading book) – showed a loss of -6 million euro as at 30 September 2021, mainly attributable to valuation losses, compared to a loss of -23 million euro in the first nine months of 2020, mainly attributable to sales during the period.

The net profit (loss) on financial assets mandatorily measured at fair value – caption 110 of the income statement (banking book portfolio) – recorded a profit of +20 million euro (compared to +8 million euro in September 2020). This result was comprised of +16 million euro for valuation effects and +4 million for realisation impacts.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 30 September 2021, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 7,601 million euro (8,934 million euro as at 31 December 2020). The notional value of these derivatives totalled 79,683 million euro (75,296 million euro as at 31 December 2020).

The positive fair value of contracts outstanding with the 10 customers with the highest exposures was 4,820 million euro (5,802 million euro as at 31 December 2020).

Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 2,098 million euro as at 30 September 2021 (1,460 million euro as at 31 December 2020). The notional value of these derivatives totalled 22,685 million euro (19,222 million euro as at 31 December 2020).

The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 30 September 2021, this led to a positive effect of 73 million euro being recorded under "Profits (Losses) on trading" in the income statement.

As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs of the section on accounting policies in the Notes to the 2020 consolidated financial statements and the information on risk management in the Half-yearly Report as at 30 June 2021.

OPERATIONAL RISK

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events¹⁵.

The Intesa Sanpaolo Group has long defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

To determine its capital requirements, the Group uses a combination of the methods allowed under applicable regulations (advanced measurement approach partially used along with the standardised approach and basic indicator approach). The capital absorption resulting from this process amounted to 2,110 million euro as at 30 September 2021, unchanged compared to 30 June 2021.

Legal risks

Legal risks are carefully analysed by the Parent Company and the individual Group companies. Provisions are made to the allowances for risks and charges in the event of disputes for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated. There were no new significant legal disputes during the third quarter. For the main pending disputes, the significant developments in the quarter are described below. For details of the previous disputes, see the Notes to the 2020 Annual Report and the Half-yearly Report 2021 of the Intesa Sanpaolo Group.

Judgement of the Court of Cassation on derivatives entered into with local entities

With regard to ruling no. 8770/2020 of the Joint Sections of the Court of Cassation on derivative financial instruments entered into by local authorities, there were no new disputes.

With regard to the current disputes with companies owned by local authorities and Regional governments, in the case brought by EUR S.p.A. against Intesa Sanpaolo and other intermediaries, Intesa Sanpaolo filed an appearance before the Court raising a number of preliminary objections, including: the lack of jurisdiction of the Italian court and the *lis pendens* and/or international connection in view of the claim form submitted by another bank in the pool of lending banks before the High Court of Justice of London. In addition, a petition has been filed with the Court of Justice of the European Union to verify that the EU legislation is being correctly applied in Italy, in light of Court of Cassation ruling no. 8770/2020. The first hearing has been adjourned to 22 November 2021.

With regard to disputes with private individuals, in a case concerning currency options, the Bologna Court of Appeal, in a ruling dated 13 September 2021, confirmed the suspension of the provisional enforceability of the first instance ruling, which had ordered the Bank to pay around 13 million euro, in application of the principles set out in the above-mentioned Court of Cassation ruling concerning IRSs to the currency options contracts, without considering the difference between the two instruments. The order by the Court strengthens the Bank's defence both with regard to the merits of the case and the risk associated with possible payment. As a result, the Bank is not currently obliged to make any payment to the counterparty.

S.e.l.a.r.l. Bruno Raulet (former Dargent Tirmant Raulet) Dispute

In a ruling delivered on 27 July 2021, the Metz Court of Appeal partially upheld the receivership's claim for 55.6 million euro for wrongful granting of credit and ordered the Bank to pay around 20 million euro, plus legal costs of the various instances of the proceedings (for a total of 20.6 million euro).

The Court quantified the damage suffered by the insolvency estate as being equal to the loan granted by the Bank, less the proceeds from the sale of the asset given as security.

In the opinion of the external lawyers assisting Intesa Sanpaolo, there are grounds for a revision of the ruling. An appeal before the Court of Cassation is therefore being prepared.

Disputes arising from the acquisition of certain assets, liabilities and legal relationships of Banca Popolare di Vicenza S.p.A. in compulsory administrative liquidation and Veneto Banca S.p.A. in compulsory administrative liquidation

With regard to the claims already filed, the deadline for the submission of objections by the compulsory administrative liquidation has been extended to 30 April 2022 and no objections have been raised to date.

In the proceedings relating to the Excluded Disputes brought for the alleged misselling of BPV shares in which Intesa Sanpaolo is also a party, the Court of Florence, by order of 20 July 2021, referred the question of the constitutionality of Law Decree 99/2017 to the Constitutional Court.

With regard to the criminal proceedings before the Court of Vicenza against BPV senior officers and executives, charged with market-rigging, obstructing banking supervisory authorities and financial reporting irregularities, last June a ruling was issued against them and BPV in compulsory administrative liquidation for corporate liability pursuant to Legislative Decree no. 231/01 (the summons of Intesa Sanpaolo for civil liability was rejected). The position of the former CEO Samuele Sorato was excluded from the main proceedings due to his poor health. Recently, the Court of Vicenza upheld the request for the summons of the bank for civil liability in relation to the charges against Sorato, authorising the summons for the hearing of 10 November 2021. In this regard, Intesa Sanpaolo will file an entry of appearance requesting its exclusion pursuant to Article 86 of the Code of Criminal Procedure in accordance with the provisions of Law Decree no. 99/2017 and of the sale agreement of 26 June 2017.

¹⁵ As far as the financial losses component is concerned, the Operational risk includes: legal and compliance risk, conduct risk, IT and Cyber risk, physical security risk, business continuity risk, financial crime and financial reporting risk, third-party and model risk. Strategic risk and reputational risk are not included.

Tax litigation

The outstanding tax litigation risks are covered by adequate allowances for risks and charges.

During the quarter, there were no new disputes of a significant amount involving Intesa Sanpaolo and no significant events were reported for the Italian and international subsidiaries.

As at 30 September 2021, Intesa Sanpaolo had 701 pending litigation proceedings (687 as at 31 December 2020) for a total amount claimed (taxes, penalties and interest) of 142.5 million euro (138.6 million euro as at 31 December 2020), considering both administrative and judicial proceedings at various instances.

In relation to these proceedings, the provision as at 30 September 2021 was quantified at 61.4 million euro (57 million euro as at 31 December 2020).

Compared to 30 June 2021, the main events that influenced the reduction in the amount claimed (-7.6 million euro) consisted of the positive conclusion of a dispute concerning the applicability of motor vehicle tax on leased vehicles (2.4 million euro), the settlement of two IRES (corporate income tax) and IRAP (regional production tax) disputes and a dispute concerning municipal waste taxes (so-called TARSU/TARI) ((4.5 million euro), and the settlement of municipal property (so-called IMU) tax disputes (1.2 million euro).

More specifically: (i) the Court of Cassation definitively annulled the claims of 2.4 million euro made by the Emilia-Romagna Region for the 2010 tax year in relation to motor vehicle taxes, recognising that the tax is payable by the user of the leased asset rather than the leasing company (in this case, the former Neos Finance); (ii) the Court of Cassation also closed the disputes regarding two notices of assessment for IRES (corporate tax) and IRAP (regional production tax) for the year 2008 – in which the non-deductibility for tax purposes of negative components relating to hedging instruments had been contested (value 2 million euro) – due to the settlement of the pending disputes in accordance with Article 6 of Law Decree no. 119 of 2018; and (iii) the Municipality of Naples definitively recognised the validity of the Bank's arguments with regard to a dispute concerning municipal waste tax (so-called TARSU) (value 1.6 million euro).

As noted above, with regard to the main outstanding disputes there were no significant changes during the quarter and, therefore, reference should be made to the Half-yearly report for a detailed analysis.

Lastly, below is a summary of the audits and checks currently being conducted by the tax authorities, which have not yet given rise to any claims.

With regard to the questionnaires notified between the end of 2020 and March 2021, more details are provided in the December 2020 and March 2021 reports.

Moreover on 6 August 2021, the Italian Revenue Agency – Lombardy Regional Directorate – Large Taxpayers Office served a notice to attend for cross examination, requesting information and documentation regarding the invoicing of nautical leasing services provided by Mediocredito Italiano under the non-taxable VAT regime pursuant to Article 8-bis of Presidential Decree no. 633/72, in the 2016 tax year. Clarifications and documentation have been provided in response to the various points of the questionnaire. Given that the aforementioned audit is a logical consequence of the assessments already carried out for the tax years 2014 and 2015 on the same subject, a provision of 1.3 million for taxes and interest had already been made in 2019 for the above-mentioned tax year. No claims have been made for the time being.

On 17 September 2021, a questionnaire was sent by the Italian Revenue Agency – Emilia Romagna Regional Directorate – Large Taxpayers Office requesting information and documentation regarding the opening of a credit line by the merged Cassa di Risparmio di Bologna to a company declared bankrupt in 2006, and the subsequent sale of that credit in 2018 as part of a securitisation transaction. The deadline for providing responses to the questionnaire was extended to 31 October 2021.

INSURANCE RISKS

Investment portfolios

The investments of the insurance companies of the Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life, Fideuram Vita, Intesa Sanpaolo RBM Salute, BancAssurance Popolari, Assicurazioni Vita, Lombarda Vita and Cargeas) are made with their shareholder fund and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.

The companies Assicurazioni Vita, Lombarda Vita and Cargeas became part of the Insurance Group during the second quarter, and a project for their integration into the Insurance Group has been launched, with the objective, among others, of achieving their gradual alignment with the Insurance Group's risk management framework. The analysis provided below already includes the effect of the acquisition.

As at 30 September 2021, the investment portfolios, recorded at book value, amounted to 208,895 million euro. Of these, a part amounting to 111,305 million euro relates to traditional revaluable life policies (the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on assets subject to segregated management are determined), non-life policies and free capital. The other component, whose risk is borne solely by the policyholders, consists of investments related to Unit-linked policies and pension funds and amounted to 97,590 million euro.

Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets held to cover traditional revaluable life policies, non-life policies and shareholder fund.

In terms of breakdown by asset class, net of derivative financial instruments, 84.9% of assets, i.e. 94,281 million euro, were bonds, whereas equity instruments represented 1.9% of the total and amounted to 2,136 million euro. The remainder (14,607 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (13.2%).

The carrying value of derivatives came to approximately 281.3 million euro, of which -53.8 million euro relating to effective management derivatives¹⁶, and the remaining portion (335.1 million euro) is attributable to hedging derivatives.

At the end of the first nine months of 2021, investments made with the shareholder fund of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 1,801 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 20 million euro.

The breakdown of the bond portfolio in terms of fair value sensitivity to interest rate changes showed that a +100 basis points parallel shift in the curve leads to a decrease of approximately 6,434 million euro.

The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 8.3% of total investments and A bonds approximately 7.4%. Low investment grade securities (BBB) were approximately 80.1% of the total and the portion of speculative grade or unrated securities was minimal (4.2%).

A considerable portion of the BBB area is made up of securities issued by the Italian Republic.

The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central Banks made up approximately 78.7% of the total investments, while financial companies (mostly banks) contributed approximately 12.4% of exposure and industrial securities made up approximately 8.9%.

At the end of the third quarter of 2021, the fair value sensitivity of bonds to a change in issuer credit rating, intended as a market credit spread shock of +100 basis points, was 6,603 million euro, with 5,582 million euro due to government issuers and 1,021 million euro to corporate issuers (financial institutions and industrial companies).

¹⁶ ISVAP Regulation 36 of 31 January 2011 on investments defines as "effective management derivatives" all derivatives aimed at achieving pre-established investment objectives in a faster, easier, more economical or more flexible manner than would have been possible acting on the underlying assets.