# Risk management

## THE CORE 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 Risks 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.
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.
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: 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) 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; iii) coordinating and verifying their implementation by the responsible units of the Group, also within the various corporate areas; iv) guaranteeing the measurement and control of the Group's exposure to various types of risk and v) implementing the II level controls on credit and other risks, in addition to ensuring the validation of internal risk measurement and management systems.
The Parent Company performs a guidance and coordination role with respect to the Group companies[19], 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.
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, at a given confidence level, 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 at a forecast level, in line with the Risk Appetite Framework approved by the Group, 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 within the ICAAP.
The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the Risks and Sustainability 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.

With regard to the Russian-Ukrainian conflict, the Group has continued to carefully monitor the evolution of the fallout of the Russian-Ukrainian crisis on the real economy and the main financial variables, also by conducting specific scenario analyses and stress tests to assess the potential impacts in terms of profitability and capital adequacy. Although the situation is constantly evolving, leaving aside extreme scenarios of conflict escalation that could lead to outcomes that are difficult to assess, these analyses confirm the Group's ability to ensure compliance – also through the implementation of specific actions – with the regulatory requirements and the stricter limits set internally.

[19] 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 Articles 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 authorisation to use the new Corporate models for regulatory purposes was implemented starting from March 2023.
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 counterparty risk, there were no changes in the scope of application compared to 31 December 2022.
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 31 December 2022.
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 (group.intesasanpaolo.com) on a quarterly basis.

## THE VALUATION IMPACTS FOR THE ISP GROUP OF THE MILITARY CONFLICT BETWEEN RUSSIA AND UKRAINE

As at 31 March 2023, the Group had the following on-balance sheet exposures to counterparties resident in Russia and Ukraine, net of ECA guarantees and gross/net of value adjustments carried out:

(millions of euro)

| | 31.03.2023 (*) | | | | 31.12.2022 (**) | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross exposure | | Net exposure | | Gross exposure | | Net exposure | |
| | Russia | Ukraine | Russia | Ukraine | Russia | Ukraine | Russia | Ukraine |
| **Loans to customers** | **1,530** | **210** | **1,104** | **108** | **1,629** | **216** | **1,168** | **103** |
| *Banca Intesa Russia* | *321* | *-* | *176* | *-* | *372* | *-* | *205* | *-* |
| *Pravex* | *-* | *101* | *-* | *-* | *-* | *112* | *-* | *-* |
| *Cross-border exposures* | *1,209* | *109* | *928* | *108* | *1,257* | *104* | *963* | *103* |
| **Due from banks** | **764** | **88** | **752** | **87** | **797** | **63** | **782** | **62** |
| *Banca Intesa Russia* | *719* | *-* | *710* | *-* | *751* | *-* | *740* | *-* |
| *Pravex* | *-* | *88* | *-* | *87* | *-* | *63* | *-* | *62* |
| *Cross-border exposures* | *45* | *-* | *42* | *-* | *46* | *-* | *42* | *-* |
| **Securities** | **16** | **5** | **16** | **2** | **73** | **11** | **41** | **2** |
| *Banca Intesa Russia* | *12* | *-* | *12* | *-* | *13* | *-* | *13* | *-* |
| *Pravex* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* |
| *IMI C&IB Division* | *-* | *-* | *-* | *-* | *31* | *-* | *14* | *-* |
| *Insurance Division* | *4* | *5* | *4* | *2* | *29* | *11* | *14* | *2* |

(*) In addition to the on-balance sheet exposures shown in the table, there are off-balance sheet exposures to customers for 115 million euro (106 million euro net) at Banca Intesa Russia, and 45 million euro (gross and net value) at Pravex, in addition to 222 million euro (179 million euro net) in cross-border off-balance sheet exposures to resident customers in Russia, net of ECA, and 25 million euro (gross and net value) to customers resident in Ukraine.
There are also 130 million euro (128 million euro net) in cross-border off-balance sheet exposures to banks resident in Russia and 19 million euro (gross and net value) in cross-border off-balance sheet exposures to banks resident in Ukraine.
On the other hand, the cross-border exposures to customers resident in Ukraine are, for the corporate part, backed by guarantees provided by US persons, while, for the household part, the amounts as at 31 March 2023 and the increase of around 5 million euro compared to 31 December 2022 mainly relate to exposures disbursed by the subsidiary VUB to households with permanent residence in Slovakia.

(**) In addition to the on-balance sheet exposures shown in the table, there are off-balance sheet exposures to customers for 126 million euro (113 million euro net) at Banca Intesa Russia, and 67 million euro (66 million euro net) at Pravex, in addition to 232 million euro (186 million euro net) in cross-border off-balance sheet exposures to resident customers in Russia, net of ECA, and 27 million euro (gross and net value) to customers resident in Ukraine.
There are also 155 million euro (152 million euro net) in cross-border off-balance sheet exposures to banks resident in Russia and 18 million euro (gross and net value) in cross-border off-balance sheet exposures to banks resident in Ukraine.
On the other hand, the cross-border exposures to customers resident in Ukraine are, for the corporate part, backed by guarantees provided by US persons, while, for the household part, they mainly relate to exposures disbursed by the subsidiary VUB to households with permanent residence in Slovakia.

At the end of the quarter, Banca Intesa Russia's remaining on-balance sheet exposures to customers amounted to 321 million euro in gross terms (176 million euro net) and those of Pravex Bank amounted to 101 million euro (zero book value in net terms).
The cross-border exposures to customers resident in Russia (net of ECA guarantees) amounted to 1,209 million euro (928 million euro net). In addition, there were exposures to banks resident in Russia totalling 764 million euro (752 million euro net) and banks resident in Ukraine totalling 88 million euro (87 million euro net). The exposures in securities were minimal.

The majority of the exposures to Russian[20] and Ukrainian counterparties essentially consist of loans to customers subject to measurement in accordance with IFRS 9 "Financial Instruments".

During the quarter, following the significant reduction in credit risks related to the Russia-Ukraine conflict achieved in 2022 mainly as a result of the final disposal of two major exposures (for 2.5 billion euro), there were slight reductions due to extinguishments, repayments and disposals (loans and securities) totalling 189 million euro for Russia and substantial stability for Ukraine.

Starting in March 2022, among the areas receiving the greatest attention in terms of credit assessments in the emergency triggered by the conflict in Ukraine, a specific focus was dedicated to the Group's exposure to counterparties resident in Russia and Ukraine. Specifically, customised measures were implemented to strengthen the oversight of credit risk, also by updating the assessment of creditworthiness, of counterparties with residency or parent companies in the Russian Federation, Belarus or Ukraine. In that context, the deterioration of specific positions was also acknowledged, which were classified among unlikely-to-pay exposures and, as a result, subject to analytical measurement. As at 31 March 2023, in the Group companies other than those resident in the countries in conflict, there were no significant increases compared to 31 December 2022. The on-balance sheet non-performing loans to counterparties resident in Russia amounted to 318 million euro and related to positions already classified as at 30 June 2022, mainly attributable to two counterparties.
The non-performing loans of the Russian subsidiary amounted to 61 million euro, while the classification of the entire portfolio of the Ukrainian subsidiary to bad loan status led to the recognition of 101 million euro in bad loans.
In line with the disclosure already provided in the previous Financial Reports, and most recently in the 2022 Annual Report, for the portfolio for which no impairment has been identified, the methodological choices resulting from the Russian/Ukraine crisis, regarding the valuation of the credit exposures, are substantially the same. The analyses of IFRS 9 and the related Annexes show no indications or examples aimed at setting out specific guidelines for the measurement of Expected Credit Losses (ECLs) in contexts of war or defining specific methods of increasing credit risk due to sudden, serious geopolitical crises such as the current one. The most pertinent references to the current scenario seem to be those set out in the Application Guidance of the standard. These allow/suggest the use of collective assessment to verify the existence of a Significant Increase in Credit Risk (SICR) with a view to staging the credit exposures[21], as well as, in line with the treatment set out for capturing the critical issues of another recent emergency situation (COVID-19[22]), using the management overlay in calculating the ECL, to define the most suitable methods to incorporate the aspects linked to the ongoing conflict into provisions.
With specific reference to cross-border positions, the Group thus decided to adopt a valuation approach strongly guided by the emerging geopolitical risk "via transfer", i.e. the risk that counterparties do not honour their commitments to pay debt following restrictions or decisions by their countries of residence, not due to aspects directly pertaining to their business, thus applied based on the country of residence of the counterparties. That approach was implemented both to determine the SICR and the related classification in Stage 2, and to calculate the ECL by applying a management overlay. This was considered the most appropriate way to incorporate the provisions for country and geopolitical risk related to the current conflict that would otherwise not be properly captured by the risk measurement systems normally used. At the same time, the ratings for the highest risk class already assigned to the most significant counterparties exposed to conflict-related country risk have been maintained.
In detail, the choices made for the purposes of calculating ECL on cross-border exposures were as follows:
- application of PD through the cycle associated with the assigned rating, without forward-looking conditioning. This approach was deemed more prudent, as the conditioning methodology, relating to the approaches currently adopted in the satellite models, would not represent the specific risk linked to the countries in conflict;
- calculation of an additional prudential buffer that ensures equivalence with the use of an estimated loss rate according to an approach based on the transfer of the risk of the country of residence under Pillar 2 modelling (unconditional LGD set by the transfer risk model of 55%);
- introduction of prudent margins in addition to the ECL estimates deriving from the above elements, in relation to potential further worsening of the credit ratings of Russian counterparties.

With reference to loans to customers disbursed by Pravex Bank, the absolutely serious situation in all of Ukraine also resulted in the definition, for the purpose of measuring the loan portfolio of the subsidiary Ukraine bank, of a highly specific approach, significantly based on rationales, which consider the uncertainties and the risk elements associated with the military conflict. Therefore, in light of the worsening and continuation of the conflict with the consequent impacts on the Ukrainian economy, the choice adopted in the 2022 Annual Report regarding the classification of the Ukrainian subsidiary's loans to customers as non-performing loans (bad loans), with full write-down of the on-balance sheet component, has been maintained.

With regard to Banca Intesa Russia, specific prudent choices were defined, while also considering the different situation of risk/operations than that of the Ukraine subsidiary. An approach to classifying and measuring performing loans was therefore adopted that strongly considers the geopolitical risk deriving from the ongoing crisis. Therefore, the assessments carried out on the loans of the subsidiary included a centrally determined prudent factor that takes account of the worsening of the domestic economic situation in light of the continuation of the conflict and the increased isolation of the Russian economy. As a result of the provisions made, the total coverage of performing loans of the Russian subsidiary amounted to around 40.4% of their gross value.

[20] For these purposes, the small exposures to Belarusian counterparties have for simplicity been treated and disclosed together with the exposures to the Russian Federation.

[21] In particular, see IFRS 9 B5.5.1, IFRS 9 B5.5.4, IFRS 9 B5.5.5, IFRS 9 B5.5.18 and IFRS 9 B5.5.52.

[22] IFRS 9 and COVID-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID-19 pandemic.

Also of note was the repayment - between the end of March and the beginning of April - of the intragroup amount made available to Banca Intesa Russia and originally intended for a future capital increase (whose implementation had been suspended as a result of the war events).
The sums repaid amounted to an equivalent value of around 200 million euro, substantially in line with what was initially made available.

For completeness, you are reminded that also for the real estate assets, given the extreme uncertainty surrounding the current war scenario and the current absence of a real estate market in Ukraine, it was considered prudent to confirm the write-off of the value of Pravex Bank's investment and branch assets and other properties used in operations. The sole exception was the Kyiv headquarters, for which it was decided, in view of its strategic function for the banking business, the current control that can be exercised over the condition of the building, and its location, to keep its value unchanged. On the other hand, with regard to Banca Intesa Russia's small real estate asset portfolio, essentially consisting of the Moscow headquarters, no items were identified that required a write-down.

Overall, these valuation processes on Russian exposures led to the recognition in the first quarter of the year, before tax, of net recoveries totalling 33 million euro, as the offsetting effect of 52 million euro of net recoveries on loans and 19 million euro of provisions for other risks and charges (in addition to the 80 million euro already set aside as at December 2022), made upon consolidation of the investee Banca Intesa Russia, mainly to zero out its equity contribution to the Group's consolidated financial statements, which was positive at the end of the quarter due to the investee's positive operating performance in the period.

## 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, as well as 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

(millions of euro)

| Captions | 31.03.2023 | | | 31.12.2022 | | | Change |
|---|---|---|---|---|---|---|---|
| | Gross exposure | Total adjustments | Net exposure | Gross exposure | Total adjustments | Net exposure | Net exposure |
| Bad loans | 3,860 | -2,701 | 1,159 | 3,667 | -2,536 | 1,131 | 28 |
| Unlikely to pay | 6,356 | -2,544 | 3,812 | 6,423 | -2,471 | 3,952 | -140 |
| Past due loans | 550 | -142 | 408 | 552 | -139 | 413 | -5 |
| **Non-Performing Loans** | **10,766** | **-5,387** | **5,379** | **10,642** | **-5,146** | **5,496** | **-117** |
| *Non-performing loans in Stage 3 (subject to impairment)* | *10,700* | *-5,371* | *5,329* | *10,597* | *-5,134* | *5,463* | *-134* |
| *Non-performing loans designated at fair value through profit or loss* | *66* | *-16* | *50* | *45* | *-12* | *33* | *17* |
| **Performing loans** | **440,691** | **-2,453** | **438,238** | **437,616** | **-2,590** | **435,026** | **3,212** |
| *Stage 2* | *43,007* | *-1,786* | *41,221* | *45,801* | *-1,936* | *43,865* | *-2,644* |
| *Stage 1* | *396,747* | *-667* | *396,080* | *390,932* | *-654* | *390,278* | *5,802* |
| *Performing loans designated at fair value through profit or loss* | 937 | - | *937* | *883* | - | *883* | *54* |
| **Performing loans represented by securities** | **6,182** | **-24** | **6,158** | **6,274** | **-28** | **6,246** | **-88** |
| *Stage 2* | *901* | *-18* | *883* | *838* | *-23* | *815* | *68* |
| *Stage 1* | *5,281* | *-6* | *5,275* | *5,436* | *-5* | *5,431* | *-156* |
| **Loans held for trading** | **85** | **-** | **85** | **86** | **-** | **86** | **-1** |
| **Total loans to customers** | **457,724** | **-7,864** | **449,860** | **454,618** | **-7,764** | **446,854** | **3,006** |
| ***of which forborne performing*** | ***6,754*** | ***-531*** | ***6,223*** | ***7,473*** | ***-553*** | ***6,920*** | ***-697*** |
| ***of which forborne non-performing*** | ***3,534*** | ***-1,504*** | ***2,030*** | ***3,480*** | ***-1,417*** | ***2,063*** | ***-33*** |
| **Loans to customers classified as non-current assets held for sale** | **1** | **-** | **1** | **754** | **-386** | **368** | **-367** |

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

As at 31 March 2023, the Group's gross non-performing loans totalled around 10.8 billion euro, up slightly from 10.6 billion euro in December 2022. The table shows that the modest change in the aggregate (+1.2%) concerned the bad loan positions, as an effect of transfers from other categories of non-performing loans, given that the direct entries from performing loans into this category are still minimal.
The ratio of gross non-performing loans to total loans to customers was 2.4%, still stable compared to 2.3% at year-end (2% in March 2023 and 1.9% in December 2022 according to the EBA definition). Within the aggregate, the exposures to Russia and Ukraine remained unchanged at 0.5 billion euro[23].
After the significant reduction in 2022 (-4.6 billion euro) following the disposal of the portfolios that had not been reclassified in accordance with IFRS 5 but had been accounted for on the basis of IFRS 9, i.e. by factoring in a probabilistic scenario of sale based on market prices, at the end of March 2023 all the project activities included in the 2021-2022 de-risking plans had been completed. As shown in the table, the stock of loans that were reclassified as assets held for sale as at 31 December 2022 had almost been reduced to nil following their sale.

The overall inflows from performing loans remained low. The first quarter recorded gross flows of 0.7 billion euro, in line with the same period in 2022, but down from 1.1 billion euro in the fourth quarter. In net terms, i.e. net of outflows to performing

[23] 0.2 billion euro net of value adjustments.

loans, the inflow was 0.4 billion euro, unchanged from the first quarter of 2022, but down from 0.8 billion euro in the fourth quarter.

At the end of the first quarter of 2023, the Group's net non-performing loans had decreased to 5.4 billion euro from 5.5 billion euro in December 2022 (-117 million euro; -2.1%). The ratio of net non-performing loans to total net loans to customers remained stable at 1.2% (1% in both periods according to the EBA definition), with the coverage ratio increasing from 48.4% to 50%. More specifically: as at March 2023, loans classified as bad loans, net of adjustments, amounted to 1.2 billion euro (+2.5%), with a ratio to total net loans to customers of 0.3% and coverage ratio up at 70%. Unlikely-to-pay loans, amounting to 3.8 billion euro (-3.5%), represented 0.8% of the total, with the coverage ratio increasing to 40%. Past-due loans amounted to 408 million euro (-1.2%), representing 0.1% of the total, with the coverage ratio increasing to 25.8%.
Performing loans rose to 438.2 billion euro (+3.2 billion euro; +0.7%), with a further decrease in the portion classified in Stage 2. Their coverage ratio remained unchanged at 0.6%.

*Macroeconomic scenario for forward-looking conditioning*
For the purposes of forward-looking conditioning of the ECL estimation parameters, Intesa Sanpaolo's policy envisages the use of the macroeconomic scenario produced and updated by the Research Department on at least a half-yearly basis (June/December). During 2022, in order to factor in the most up-to-date forecasts in an exceptional environment, such as that resulting from the start of the Russia/Ukraine conflict, these updates were more frequent.
The forecasts updated as at March 2023 by the Research Department for the baseline macroeconomic scenario contain aspects of improvement compared to the scenario used for the 2022 Annual Report, as a result of the decrease in the tensions in the energy market. However, the economic outlook is still characterised by high uncertainty, to which further factors have been added, such as the recent tensions in the financial markets, also as an indirect consequence of the sharp rise in interest rates and less clear monetary policy stances.
In view of the continuing forecast risks and the emergence of additional uncertainty, it was decided not to update the forecast scenario for the purpose of the forward-looking conditioning of the ECL estimation parameters. The scenario used for the 2022 Annual Report already considered significant uncertainty through the asymmetry of the alternative scenarios, especially the "downside" scenario, on which a more prudent approach was also incorporated to consider assumptions more consistent with those envisaged by the ECB, and this prudence has been maintained in this Report.

*Management overlays*
With regard to the management overlays for sector-specific vulnerabilities, Intesa Sanpaolo decided, for the purposes of the Interim Statement as at 31 March 2023, to adopt the same methodology as that used for the 2022 Annual Report.
You are reminded that, as at 31 December 2022, 'post-model adjustments' were made to the results of the ECL estimation methodologies, within the flexibility allowed by IFRS 9 and in light of the greater prudence required due to the significant uncertainties arising from the current and prospective situation.
Indeed, despite incorporating forward-looking approaches and updates to the macroeconomic scenario, the results of the above-mentioned methodologies were considered insufficient to take better account of the uncertainties and risks of the forecasts, in addition to the fact that the estimation characteristics adopted, which are based on modelling that is strongly anchored to long-term observed relationships, may not be fully adequate in an evolving situation that may arise from unobserved and unpredictable events such as conflicts and serious crises. In the first quarter of the year, the uncertainties that weighed on the economic forecasts at the end of the previous year were mitigated by the evolution of the energy crisis, although risks related to the emergence of tensions in the financial markets and a more confused monetary policy outlook remained, as noted in the paragraph above.
In this context, the measures adopted in the Annual Report were maintained in full in terms of approach. You are reminded that post-model adjustments were applied, with reference to the Parent Company, to counterparty exposures:
- belonging to sectors that are particularly exposed to risks deriving from the macroeconomic outlook, with negative sector trends or energy-intensive sectors, belonging to the Banca dei Territori Division, as these are portfolios for which it is considered that the expected economic slowdown may lead to less resilience and greater difficulties compared to Large Corporate counterparties; the scope of application of this overlay was also determined taking into account not only the sector-specific vulnerability but also the counterparty credit risk, as measured by the rating;
- belonging to the Commercial Real Estate scope in order to add a prudent margin to the assessment of the counterparties operating in the sector and with high risk;
- of the Retail and Retail SME segments, which are predominantly composed of consumer households and SMEs. This was aimed at capturing the potential negative effects on their future risk levels due to rising interest rates and lower disposable income as a result of high inflation. Consequently, the scope of application – which is within the BdT Division – has been defined for counterparties at medium or higher risk.

The banks of the International Subsidiary Banks Division, in a large number of cases, have also adopted prudent margins, through management overlays, based on specific assessments of the current and future situation and the characteristics of their portfolios.
With regard to the impacts as at 31 March 2023, there were minor changes in the amount of overlays. Overall, the adjustment allowances for performing exposures in the first quarter of the year included prudential elements of around 0.9 billion euro, including the additional prudential factor mentioned in the paragraph above on the macroeconomic scenario; this figure was in line with December 2022.

# 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

(millions of euro)

| | 2023 | | | 2022 | | | |
|---|---|---|---|---|---|---|---|
| | average 1st quarter | minimum 1st quarter | maximum 1st quarter | average 4th quarter | average 3rd quarter | average 2nd quarter | average 1st quarter |
| **Total GroupTrading Book (a)** | **27.9** | **21.5** | **36.9** | **26.6** | **26.0** | **22.8** | **21.4** |
| *of which: Group Treasury and Finance Department* | *5.1* | *4.4* | *6.3* | *6.6* | *7.2* | *6.1* | *3.8* |
| *of which: IMI C&IB Division* | *25.3* | *19.5* | *34.8* | *24.7* | *26.0* | *21.2* | *17.5* |

Each line in the table sets out past estimates of daily VaR calculated on the histrorical 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 first quarter of 2023, as shown in the table above, compared to the averages for the fourth quarter of 2022, trading managerial risks were substantially stable (27.9 million euro in the first quarter of 2023 and 26.6 million euro in the fourth quarter of 2022).
With regard to the overall performance in the first quarter of 2023 compared to the same period in 2022, there was a slight increase in the trading managerial VaR. This increase was attributable both to portfolio actions for interest rate risk management and to market scenarios characterised by higher volatility than in the same period of 2022.

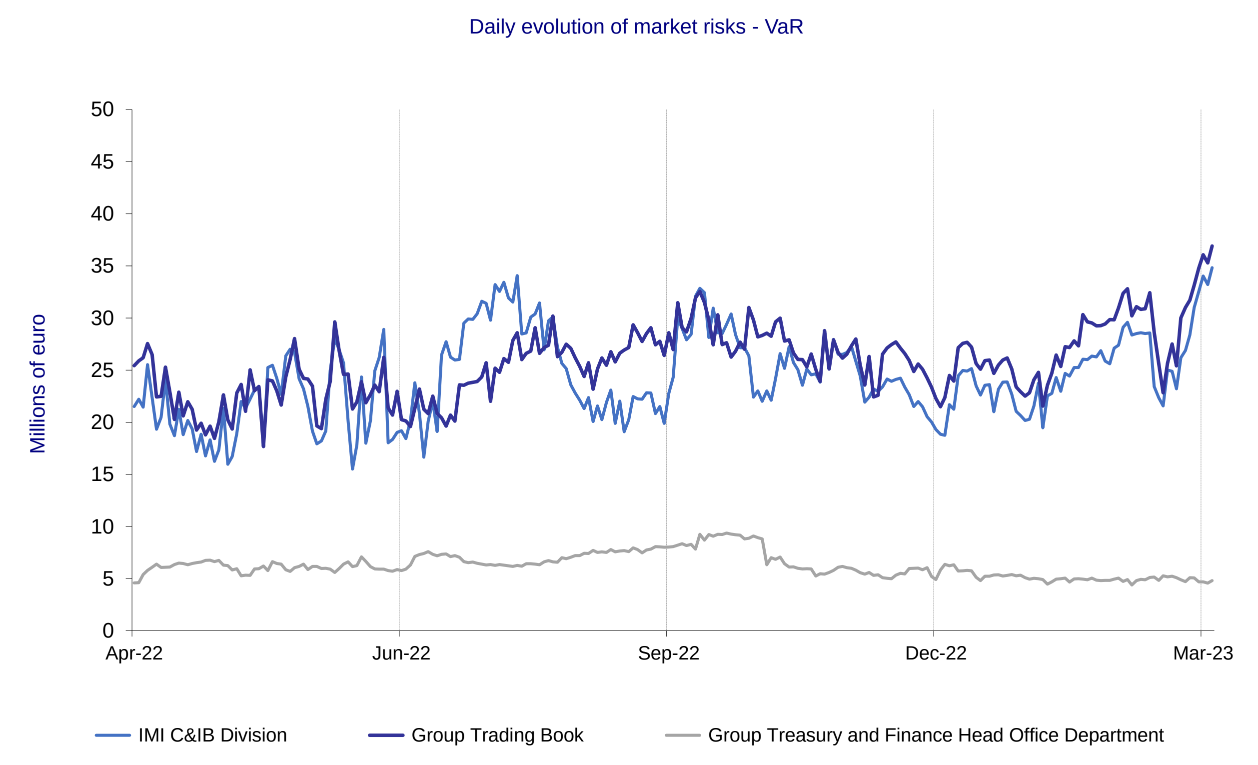
(millions of euro)

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | average 1st quarter | minimum 1st quarter | maximum 1st quarter | average 1st quarter | minimum 1st quarter | maximum 1st quarter |
| **Total GroupTrading Book (a)** | **27.9** | **21.5** | **36.9** | **21.4** | **15.4** | **28.0** |
| *of which: Group Treasury and Finance Department* | *5.1* | *4.4* | *6.3* | *3.8* | *2.4* | *5.2* |
| *of which: IMI C&IB Division* | *25.3* | *19.5* | *34.8* | *17.5* | *13.9* | *23.2* |

Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the first three 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.

The trend in the trading VaR in the first quarter of 2023 was mainly marked by transactions conducted by the IMI C&IB Division. In particular, as shown in the chart below, there was a gradual increase attributable both to portfolio actions for interest rate risk management and to new market volatility (entry of new tail scenarios).




The breakdown of the Group's risk profile in the trading book in the first quarter of 2023 shows a prevalence of credit spread risk and interest rate risk, accounting for 38% and 34%, respectively, of the total managerial VaR. Instead, the single risk-taking centres show a prevalence of exchange rate risk and interest rate risk for the Group Treasury and Finance Department (47% and 40%, respectively) and of credit spread and interest rate risk for the IMI C&IB Division (42% and 31%, respectively).

### Contribution of risk factors to total managerial VaR[(a)]

| 1st quarter 2023 | Shares | Interest rates | Credit spreads | Foreign exchange rates | Other parameters | Commodities |
|---|---|---|---|---|---|---|
| Group Treasury and Finance Department | 6% | 40% | 7% | 47% | 0% | 0% |
| IMI C&IB Division | 11% | 31% | 42% | 5% | 6% | 5% |
| **Total** | **9%** | **34%** | **38%** | **10%** | **5%** | **4%** |

(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 first quarter of 2022, 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 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 March is summarised in the following table:

(millions of euro)

| | EQUITY | | INTEREST RATES | | CREDIT SPREADS | | FOREIGN EXCHANGE RATES | | COMMODITIES | | INFLATION | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Crash | Bullish | +40bps | lower rate | -25bps | +25bps | -5% | +5% | Crash | Bullish | Up | Down |
| Total Trading Book | 18 | 33 | -31 | 40 | -8 | 9 | 9 | -5 | -23 | -3 | 4 | -4 |

In particular:
- for stock market positions, there would not be potential losses either in the case of sudden increases in stock prices or in the case of sharp decreases therein;
- for positions in interest rates, there would be potential losses of 31 million euro in the event of a rise in interest rates;
- for positions in credit spreads, a tightening of credit spreads of 25 bps would result in an overall loss of 8 million euro;
- for positions in exchange rates, there would be potential losses of 5 million euro in the event of appreciation in the Euro against the other currencies;
- for positions in commodities, there would be a loss of 23 million euro in the event of a fall in prices of commodities other than precious metals and a loss of 3 million euro in the event of a rise;
- lastly, for the inflation-indexed positions, there would be potential losses of 4 million euro in the event of a reduction in inflation.

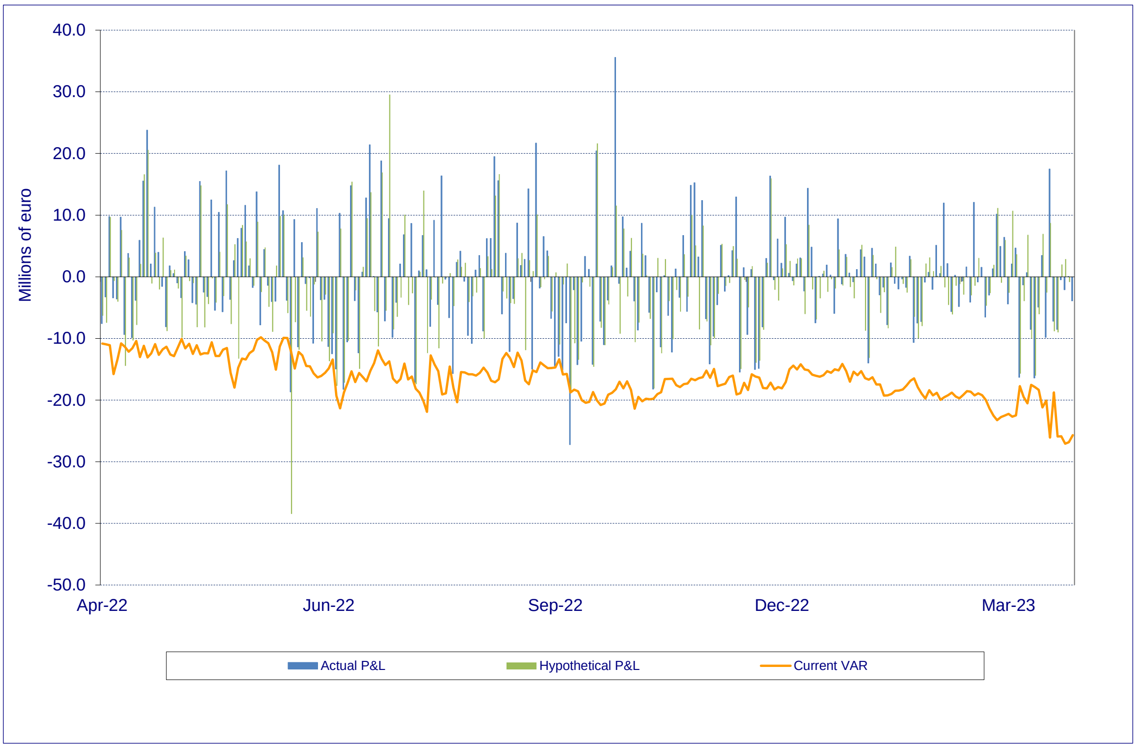
With regard to the use of the overall limit relating to trading and the Hold to Collect and Sell (HTCS) business model, there was an increase in market managerial VaR in the first quarter from 155 million euro[24] to 178 million euro[25].

### Backtesting

The soundness of the VaR calculation methods must be monitored daily via backtesting which, for the regulatory backtesting, compares:
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting: these include, for example, fees and financial costs of managing the positions that are regularly reported within the managerial area.

Backtesting allows verification of the model's capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the internal model are represented by situations in which daily profits/losses based on backtesting highlight more than four occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual and hypothetical P&L series.

As shown in the graph below, during the last year the regulatory VaR measure for Intesa Sanpaolo was sufficiently conservative, recording only two backtesting exceptions due to volatility peaks on interest rate and credit risk factors[26]. There were no exceptions in the first quarter of 2023.




[24] Fourth quarter 2022, average managerial VaR.

[25] First quarter 2023, average managerial VaR.

[26] In the last 250 observations, the Bank recorded two Actual P&L exceptions and two Hypothetical P&L exceptions. For the total calculation, as per the reference regulations, the maximum between Actual P&L and Hypothetical P&L exceptions are counted. Accordingly, there were two backtesting exceptions in the last year.

### Impacts of the Russia-Ukraine conflict

There were no significant impacts of the Russia-Ukraine conflict on the metrics for measuring market risk in the Group's trading book.

## BANKING BOOK

At the end of March 2023, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, amounted to -826 million euro.
The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 223 million euro, -487 million euro and 253 million euro, respectively, at the end of March 2023.
Interest rate risk, measured in terms of VaR, recorded a value of 522 million euro at the end of March 2023.
The price risk generated by the minority stakes in listed companies, measured with a price shock of +/-10%, amounted to 65 million euro at the end of March 2023.

The table below shows the changes in the main risk measures during the first quarter of 2022, with regard to the Group's banking book.

(millions of euro)

| | 1st quarter 2023 | | | 31.03.2023 | 31.12.2022 |
|---|---|---|---|---|---|
| | average | minimum | maximum | | |
| Shift Sensitivity of the Economic Value +100 bp | -964 | -826 | -1,087 | -826 | -1,810 |
| Shift Sensitivity of Net Interest Income -50bp | -503 | -448 | -575 | -487 | -782 |
| Shift Sensitivity of Net Interest Income +50bp | 363 | 223 | 495 | 223 | 920 |
| Shift Sensitivity of Net Interest Income +100bp | 25 | 134 | -313 | 253 | 1,622 |
| Value at Risk - Interest Rate | 496 | 427 | 538 | 522 | 546 |

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 ±10% for the above-mentioned minority interests, mainly held under the HTCS business model.

### Price risk: impact on Shareholders' Equity

(millions of euro)

| | | Impact on shareholders' equity at 31.03.2023 | Impact on shareholders' equity at 31.12.2022 |
|---|---|---|---|
| Price shock | 10% | 65 | -166 |
| Price shock | -10% | -65 | 166 |

### Impacts of the Russia-Ukraine conflict

There were no significant impacts of the Russia-Ukraine conflict on the metrics for measuring market risk in the Group's banking book.

## LIQUIDITY RISK

The Group's liquidity position, supported by suitable high-quality liquid assets (HQLA) and the significant contribution from stable customer deposits, remained largely within the risk limits set out in the current Group Liquidity Policy in the first quarter of 2023.
The levels for both the regulatory indicators – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) – are above the minimum regulatory requirements.
Over the last 12 months, the Liquidity Coverage Ratio of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, has amounted to an average of 175.6% (181.9% in December 2022).
At the end of March 2023, the value of all the Group's unencumbered liquidity reserves totalled 166 billion euro (177.7 billion euro at the end of December 2022), of which 148.3 billion euro (172.5 billion euro at the end of 2022) represented by unencumbered HQLA reserves with the Group Treasuries and 17.7 billion euro (5.2 billion euro as at 31 December 2022) relating to other marketable reserves and/or eligible reserves for Central Banks, including retained self-securitisations.

(millions of euro)

| | Unencumbered (net of haircut) | |
|---|---|---|
| | 31.03.2023 | 31.12.2022 |
| **HQLA Liquidity Reserves** | **148,267** | **172,528** |
| Cash and Deposits held with Central Banks (HQLA) | 69,344 | 109,792 |
| Highly liquid securities (HQLA) | 70,845 | 55,931 |
| Other HQLA securities non included in LCR | 8,078 | 6,805 |
| **Other eligible and/or marketable reserves** | **17,713** | **5,222** |
| **Total Group's Liquidity Buffer** | **165,980** | **177,750** |

As at 31 March 2023, 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 124.6% (126% at the end of December 2022).
The stress tests, in view of the high 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.

### Impacts of the Russia-Ukraine conflict

In light of the low exposure to Russian and Ukrainian counterparties, there were no significant impacts on the Group's consolidated liquidity position deriving from the Russia-Ukraine conflict.

## FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

**Fair value hierarchy – *Assets and liabilities measured at fair value on a recurring basis: fair value by level (Banking and Insurance Segment)***

(millions of euro)

| Assets / liabilities at fair value | 31.03.2023 | | | 31.12.2022 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Financial assets designated at fair value through profit or loss | 110,612 | 30,891 | 8,658 | 108,649 | 33,035 | 8,932 |
| a) Financial assets held for trading | 11,716 | 29,787 | 187 | 10,381 | 32,043 | 183 |
| *of which: Equities* | *978* | *-* | *22* | *860* | *-* | *22* |
| *of which: quotas of UCI* | *295* | *4* | *21* | *264* | *5* | *21* |
| b) Financial assets designated at fair value | - | 1 | - | - | 1 | - |
| c) Other financial assets mandatorily designated at fair value | 98,896 | 1,103 | 8,471 | 98,268 | 991 | 8,749 |
| *of which: Equities* | *5,301* | *128* | *319* | *5,059* | *107* | *309* |
| *of which: quotas of UCI* | *87,339* | *195* | *6,702* | *87,284* | *191* | *6,655* |
| 2. Financial assets designated at fair value through other comprehensive income | 116,356 | 10,446 | 543 | 108,301 | 10,567 | 640 |
| *of which: Equities* | *443* | *514* | *322* | *513* | *517* | *325* |
| 3. Hedging derivatives | - | 9,112 | - | - | 10,075 | - |
| 4. Property and equipment | - | - | 7,102 | - | - | 7,151 |
| 5. Intangible assets | - | - | - | - | - | - |
| **Total** | **226,968** | **50,449** | **16,303** | **216,950** | **53,677** | **16,723** |
| 1. Financial liabilities held for trading | 7,553 | 37,994 | 135 | 7,285 | 39,085 | 142 |
| 2. Financial liabilities designated at fair value | 147 | 64,814 | 31 | - | 62,977 | 30 |
| 3. Hedging derivatives | - | 5,216 | - | - | 5,517 | - |
| **Total** | **7,700** | **108,024** | **166** | **7,285** | **107,579** | **172** |

The table above shows the figures for the entire Group, including the insurance companies, which, as mentioned in the Introduction to the Interim Statement, are applying IFRS 9 Financial Instruments for the first time, for which the application had been deferred under the Deferral Approach. The balance sheet figures are compared with 31 December 2022, adjusted following the retrospective application of the above-mentioned standard.

Looking at the table, with regard to assets, level 3 instruments, which allow for more discretion in fair value measurement, they represent a small portion of the portfolio, with an impact of 5.55% on total assets (5.82% as at 31 December 2022). The majority of level 3 financial assets is represented by quotas of UCIs, of which, under Financial assets mandatorily measured at fair value, 287 million euro is represented by units of the Atlante Fund and the Italian Recovery Fund put in place as part of the regulations to support the banking system.
Property and equipment measured at level 3 fair value includes real estate assets and valuable art assets, which represent 43.56% of the balance sheet assets at level 3 fair value.
A total of 77.3% of assets measured at fair value are determined based on market prices, and therefore without any discretion by the valuator.
A total of 93.21% of the liabilities at fair value are attributable to Level 2 and in particular to Financial liabilities designated at fair value.

**Fair value hierarchy –** ***Assets and liabilities measured at fair value on a recurring basis: fair value by level (of which Banking Segment)***

| Assets / liabilities at fair value | 31.03.2023 | | | 31.12.2022 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Financial assets designated at fair value through profit or loss | 12,950 | 30,507 | 3,636 | 11,311 | 32,672 | 3,594 |
| a) Financial assets held for trading | 11,686 | 29,779 | 187 | 10,331 | 32,008 | 183 |
| *of which: Equities* | *978* | *-* | *22* | *860* | *-* | *22* |
| *of which: quotas of UCI* | *295* | *4* | *21* | *264* | *5* | *21* |
| b) Financial assets designated at fair value | - | 1 | - | - | 1 | - |
| c) Other financial assets mandatorily designated at fair value | 1,264 | 727 | 3,449 | 980 | 663 | 3,411 |
| *of which: Equities* | *124* | *128* | *241* | *122* | *107* | *242* |
| *of which: quotas of UCI* | *1,140* | *195* | *2,428* | *858* | *191* | *2,401* |
| 2. Financial assets designated at fair value through other comprehensive income | 47,442 | 6,935 | 406 | 41,937 | 7,422 | 357 |
| *of which: Equities* | *443* | *508* | *322* | *513* | *510* | *325* |
| 3. Hedging derivatives | - | 9,084 | - | - | 10,062 | - |
| 4. Property and equipment | - | - | 7,095 | - | - | 7,144 |
| 5. Intangible assets | - | - | - | - | - | - |
| **Total** | **60,392** | **46,526** | **11,137** | **53,248** | **50,156** | **11,095** |
| 1. Financial liabilities held for trading | 7,553 | 37,993 | 135 | 7,285 | 39,085 | 142 |
| 2. Financial liabilities designated at fair value | 147 | 10,715 | 31 | - | 8,765 | 30 |
| 3. Hedging derivatives | - | 5,106 | - | - | 5,346 | - |
| **Total** | **7,700** | **53,814** | **166** | **7,285** | **53,196** | **172** |

For the banking companies, the Level 3 instruments represent 9.43% of portfolio assets (9.69% as at 31 December 2022).
Property and equipment measured at level 3 fair value includes real estate assets and valuable art assets, which represent 63.7% of the balance sheet assets at level 3 fair value.
A total of 51.16% of the financial assets measured at fair value in the banking segment are allocated to Level 1.
The liabilities at fair value are mainly measured using Level 2 inputs (87.25% of total liabilities).

**Fair value hierarchy –** ***Assets and liabilities measured at fair value on a recurring basis: fair value by level (of which Insurance Segment)***

(millions of euro)

| Assets / liabilities at fair value | 31.03.2023 | | | 31.12.2022 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Financial assets designated at fair value through profit or loss | 97,662 | 384 | 5,022 | 97,338 | 363 | 5,338 |
| a) Financial assets held for trading | 30 | 8 | - | 50 | 35 | - |
| *of which: Equities* | - | - | - | - | - | - |
| *of which: quotas of UCI* | - | - | - | - | - | - |
| b) Financial assets designated at fair value | - | - | - | - | - | - |
| c) Other financial assets mandatorily designated at fair value | 97,632 | 376 | 5,022 | 97,288 | 328 | 5,338 |
| *of which: Equities* | *5,177* | - | *78* | *4,937* | - | *67* |
| *of which: quotas of UCI* | *86,199* | - | *4,274* | *86,426* | - | *4,254* |
| 2. Financial assets designated at fair value through other comprehensive income | 68,914 | 3,511 | 137 | 66,364 | 3,145 | 283 |
| *of which: Equities* | - | *6* | - | - | *7* | - |
| 3. Hedging derivatives | - | 28 | - | - | 13 | - |
| 4. Property and equipment | - | - | 7 | - | - | 7 |
| 5. Intangible assets | - | - | - | - | - | - |
| **Total** | **166,576** | **3,923** | **5,166** | **163,702** | **3,521** | **5,628** |
| 1. Financial liabilities held for trading | - | 1 | - | - | - | - |
| 2. Financial liabilities designated at fair value | - | 54,099 | - | - | 54,212 | - |
| 3. Hedging derivatives | - | 110 | - | - | 171 | - |
| **Total** | **-** | **54,210** | **-** | **-** | **54,383** | **-** |

With regard to insurance companies, level 3 instruments represent a very small portion of the portfolio. In relation to the Assets they amount to 2.94% (3.26% as at 31 December 2022).
A total of 94.8% of the insurance segment's financial assets measured at fair value are allocated to Level 1.
Liabilities at fair value were entirely measured using level 2 inputs.

## INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products, came to 3,454 million euro as at 31 March 2023, a net increase of 151 million euro compared to the stock of 3,303 million euro as at 31 December 2022. The exposure includes investments in CLOs (Collateralised Loan Obligations) of 1,864 million euro, in ABSs (Asset-Backed Securities) of 1,519 million euro and in CDOs (Collateralised Debt Obligations) of 71 million euro, which continued to be a marginal activity also in 2023.

(millions of euro)

| Accounting categories | 31.03.2023 | | | | 31.12.2022 | changes | |
|---|---|---|---|---|---|---|---|
| | Collateralized Loan Obligations | Asset Backed Securities | Collateralized Debt Obligations | Total | | absolute | % |
| Financial assets held for sale | 345 | 468 | - | **813** | **817** | -4 | -0.5 |
| Financial assets mandatorily measured at fair value | - | 3 | - | **3** | **3** | - | - |
| Financial assets measured at fair value through other comprehensive income | 930 | 766 | - | **1,696** | **1,545** | 151 | 9.8 |
| Financial assets measured at amortised cost | 589 | 282 | 71 | **942** | **938** | 4 | 0.4 |
| **Total** | **1,864** | **1,519** | **71** | **3,454** | **3,303** | **151** | **4.6** |

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 performance of the portfolio in the first quarter of 2023, still focused on taking advantage of market opportunities, reflected overall higher investments than disposals and redemptions of 151 million euro and was mainly attributable to the operations of the IMI Corporate & Investment Banking Division.
Specifically, exposures measured at fair value (ABS and CLO debt securities), which went from 2,365 million euro in December 2022 to 2,512 million euro in March 2023, an increase of 147 million euro, were attributable to higher investments in financial assets measured at fair value through other comprehensive income of +151 million euro and higher redemptions and disposals of assets held for trading of -4 million euro, in addition to net increases of +4 million euro in assets measured at amortised cost (ABS, CLO and CDO debt securities) which, from 938 million euro in December 2022, stood at 942 million euro in March 2023.
From the income statement perspective, the overall result as at 31 March 2023 was income of 3 million euro compared to a loss of 4 million euro for the first quarter of 2022.
The performance of assets held for trading, caption 80 of the income statement, amounted to +1 million euro and related to the ABS and CLO exposures, +3 million euro from realisation impacts and -2 million euro from valuation effects, whereas as at 31 March 2022 it amounted to -4 million euro, related to valuation effects of -5 million euro and realised gains of +1 million euro.
The profits (losses) from financial assets mandatorily measured at fair value were nil as at 31 March 2023, as in the first quarter of the previous year.
The exposures to debt securities classified as assets measured at fair value through other comprehensive income recorded an increase in fair value as at 31 March 2023 of +4 million euro through a shareholders' equity reserve (from a reserve of -44 million euro in December 2022 to -40 million euro in March 2023). In the current year, there have been no impacts from sales on the portfolio, compared to -1 million euro in the previous year.
For debt securities classified as assets measured at amortised cost, the result as at 31 March 2023 was +2 million euro, substantially attributable to valuation components for writebacks, compared with the impact of +1 million euro in the first quarter of 2022, also due to valuation effects.

(millions of euro)

| **Income statement results broken down by accounting category** | **31.03.2023** | | | | **31.03.2022** | **changes** | |
|---|---|---|---|---|---|---|---|
| | Collateralized Loan Obligations | Asset Backed Securities | Collateralized Debt Obligations | **Total** | | **absolute** | **%** |
| Financial assets held for sale | - | 1 | - | **1** | **-4** | 5 | |
| Financial assets mandatorily measured at fair value | - | - | - | **-** | **-** | - | - |
| Financial assets measured at fair value through other comprehensive income | - | - | - | **-** | **-1** | -1 | |
| Financial assets measured at amortised cost | - | 2 | - | **2** | **1** | 1 | |
| **Total** | **-** | **3** | **-** | **3** | **-4** | **7** | |

## 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.
SPE categories are non-consolidated structured entities, and no changes in criteria were made compared to the information provided in 2022 Annual Report.
With regard to the Covered Bond issue programme, as part of the covered bond issue programme guaranteed by ISP CB Pubblico, the 14th retained series was partially redeemed in January for an amount of 200 million euro, bringing the remaining nominal amount to 800 million euro.
Under the covered bond programme guaranteed by UBI Finance, the 18th series matured in January for an amount of 1.250 billion euro.
As part of the programme guaranteed by ISP OBG, in February, the 19th retained series reached maturity, for 1.375 billion euro.
Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the 19th series matured in March for an amount of 1.250 billion euro.

## 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 facilities, such as trade finance transactions, are also excluded.
As at 31 March 2023, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions as per the ECB Guidance amounted to approximately 26.2 billion euro, relating to 1,891 credit lines. The stock was in line with the figures for the last quarter of 2022 (26.2 billion euro as at 31 December 2022). The change was mainly driven by new entries, which offset exits and balance reductions on positions already in the portfolio.
In accordance with the requirements of the ECB Guidance, as part of the Credit Risk Appetite specific limits 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 Parent Company's hedge fund portfolio as at 31 March 2023 amounted to 198 million euro for the trading book and 186 million euro for the banking book for a total of 384 million euro, compared to 173 million euro and 184 million euro, respectively, as at 31 December 2022, for a total of 357 million euro.
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 Schemes in Transferable Securities) funds.
In the first quarter of 2023, there was an increase in stocks compared to the end of the previous year of 27 million euro, a performance that reflected greater investment activity, with priority given to UCITS (Undertakings for Collective Investment Schemes in Transferable Securities) hedge funds that better meet the capital absorption requirements, in continuity with the action taken in 2022 and in compliance with the CRR2 that came into force on 30 June 2021.
In terms of income statement effects, as at 31 March 2023, overall income was recorded of +4 million euro, relating entirely to valuation effects of funds held in the portfolio within the financial assets mandatorily measured at fair value (+3 million euro) and assets held for trading (+1 million euro), whereas in the first quarter of the previous year an overall income performance of +3 million euro was recorded, entirely attributable to valuation components of financial assets held for trading.
In the Intesa Sanpaolo Group, in addition to the Parent Company, as at 31 March 2023, Eurizon Capital SGR had hedge funds in its portfolio amounting to 51 million euro (50 million euro as at December 2022), with an impact on the income statement for the year of +1 million euro from valuation effects (-1 million euro as at 31 March 2022). Hedge funds are held according to a seeding approach that involves setting up a service portfolio consisting of shares of mutual funds for which marketing has begun in support of the funds.

## INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 31 March 2023, 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 2,833 million euro (3,049 million euro as at 31 December 2022). The notional value of these derivatives totalled 31,838 million euro (29,872 million euro as at 31 December 2022).
The positive fair value of contracts outstanding with the 10 customers with the highest exposures was 1,697 million euro (1,726 million euro as at 31 December 2022).
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 5,198 million euro as at 31 March 2023 (6,149 million euro as at 31 December 2022). The notional value of these derivatives totalled 72,195 million euro (74,174 million euro as at 31 December 2022).
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 31 March 2023, this led to a negative impact of 4 million euro under "Profits (Losses) on trading" in the income statement (positive impact of 102 million euro as at 31 December 2022).
For details of the methodologies used in determining the fair value of financial instruments, see the paragraphs specifically dedicated to this subject in the 2022 Annual Report.
Please note that the figures reported above do not include fair value of derivatives embedded in structured bond issues as well as the related hedges taken out by the Group.

# OPERATIONAL RISK

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events[27].
The Intesa Sanpaolo Group has long defined the overall operational risk governance 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 2,039 million euro as at 31 March 2023, unchanged compared to 31 December 2022.

### Impacts of the Russia-Ukraine conflict

With regard to operational risks, there are no specific updates to report for the first quarter of 2023, and readers are referred to the description provided in the same section of the Consolidated Financial Statements as at 31 December 2022.

## Legal risks

Legal risks are thoroughly analysed by the Parent Company and 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.
For the main pending disputes, the significant developments in the quarter are described below. For previous disputes and a detailed illustration of significant individual disputes, see the Notes to the 2022 Consolidated Financial Statements of the Intesa Sanpaolo Group.

*Dispute between Intesa Sanpaolo Vita S.p.A. and RB Hold S.p.A. and the Favaretto family*

In May 2020, Intesa Sanpaolo Vita S.p.A. (ISP Vita) completed an investment in RBM Assicurazione Salute S.p.A. (now Intesa Sanpaolo RBM Salute S.p.A.), held by RB Hold S.p.A. referring to the family of Roberto Favaretto. In May 2022, ISP Vita sent the non-controlling shareholder RB Hold an indemnity request pursuant to and in accordance with the investment contract, in relation to the emerging situations that gave rise (or could give rise) to liabilities currently quantifiable at over 129 million euro.
RB Hold rejected all charges and, in the third week of July, along with the Favaretto family, submitted a petition to the Arbitration Chamber of Milan against ISP Vita, claiming the invalidity of several clauses in the investment contract and shareholders' agreement of 2020, breaches of contract and the breach of the rules of good faith and fairness, with a request for compensation for damages totalling 423.5 million euro.
ISP Vita, filed its defence at the Arbitration Chamber by the assigned deadline of 5 September 2022, fully contesting the adverse party's arguments and also making a counterclaim for the payment of a total amount of 129.4 million euro, for the breach, by RB Hold S.p.A., of the representations and warranties issued and commitments undertaken through the investment contract, as well as the obligation to act in accordance with fairness and good faith, making full reference to the claims set out in the indemnity request of May 2022.
In March 2023, ISP Vita, RB Hold and the Favaretto family reached an agreement, by which, in addition to regulating the immediate transfer by RB Hold of the residual shareholding in Intesa Sanpaolo RBM Salute in favour of ISP Vita, now 100% owner, the parties agreed to amicably resolve, without any admission of the claims mutually advanced, the Arbitration referred to above, agreeing to proceed to formalize the Milan Chamber of Arbitration the waver of the claims respectively introduced.

*Lawsuit against two Hungarian subsidiaries of Intesa Sanpaolo*

The lawsuit is connected with a lease agreement terminated by one of the subsidiaries in 2010. During 2011, the tenant initiated proceedings in civil court, and during 2021 it supplemented its initial claim, formulating new claims and, as a result, increasing the total of the claims to around 31 million euro.
In July 2022, the Court rejected all the plaintiff company's claims, finding that it lacked standing. The plaintiff filed an appeal against that decision.
In December 2022, the Court of Appeal partially upheld the adverse party's appeal, ordering one of the two defendant companies to pay around 9.5 million euro. The decision was appealed before the Hungarian Supreme Court, which suspended the enforcement of the challenged ruling.

A ruling in favour of the subsidiary, upholding its arguments, was issued on 11 April 2023.
Intesa Sanpaolo's subsidiaries took action in 2012 for the recognition of their receivables claimed against the tenant resulting from unpaid lease rentals. These proceedings are currently pending.

*Offering of diamonds*

As regards the criminal proceedings pending before the Public Prosecutor's Office of Milan, in January 2023 the filing was confirmed of the request to dismiss the case against the two relationship managers under investigation, on the grounds of "the act not constituting an offence". The request for dismissal was also made in respect of two other employees, on the grounds of "not having committed the act", as no evidence against them had emerged during the investigation. The Preliminary Investigation Judge will now need to rule on these requests for dismissal.

[27] As far as the financial losses component is concerned, the Operational risk includes the following risks: legal, conduct, compliance, financial crime, fiscal, IT and Cyber, physical security, business continuity, third-party, data quality, fraud, process and employer. Strategic and reputational risk are not included.

*Contingent assets*

As for contingent assets, and the IMI/SIR dispute in particular, it should be recalled that following the final ruling of 2006 establishing the criminal liability of the corrupt judge Metta (and his accomplices Rovelli, Acampora, Pacifico, and Previti), the defendants were ordered to pay compensation for damages, with the determination of those damages referred to the civil courts. Intesa Sanpaolo then brought a case before the Court of Rome to obtain an order of compensation for damages from those responsible.

In its ruling of May 2015, the Court of Rome quantified the financial and non-financial damages in favour of Intesa Sanpaolo and ordered Acampora and Metta – the latter also jointly liable with the Prime Minister's Office (pursuant to Law no. 117/1988 on the accountability of the judiciary) – to pay Intesa Sanpaolo 173 million euro net of tax, plus legal interest accruing from 1 February 2015 to the date of final payment, plus legal expenses. The amount ordered took account of the amounts received in the meantime by the Bank as part of the settlements with the Rovelli family and with the adverse parties Previti and Pacifico.

In July 2016, the Rome Court of Appeal stayed the enforcement of the judgment of first instance with respect to the amount in excess of 130 million euro, in addition to ancillary charges and expenses, and adjourned the hearing of the final pleadings to June 2018. As a result of this decision, in December 2016 the Office of the President of the Council of Ministers credited Intesa Sanpaolo with the sum of 131,173,551.58 euro (corresponding to the 130 million euro of the order, in addition to legal interest and reimbursement of expenses). To avoid dispute, only the exact amount of the order, without applying the gross-up, was demanded and collected. On 16 April 2020, the ruling of the Rome Court of Appeal was filed, which essentially upheld the Court's ruling, while reducing the sum of non-financial damages to 8 million euro (compared to 77 million euro that had been quantified by the court of first instance), and set the amount to be paid at 108 million euro (instead of 173 million euro), to be considered net of tax, plus legal interest and expenses.

In the second quarter of 2020, the Bank filed a petition for the correction of a material error contained in the finding regarding the calculation of the damages liquidated; the Court of Appeal rejected the petition by ruling filed on 7 December 2020, holding that the error claimed by the Bank could be remedied by means of an appeal before the Court of Cassation. In May 2021, the Bank filed an appeal with the Court of Cassation against the Rome Court of Appeal's ruling of 16 April 2020 on the following main grounds:

a) the reduction to 8 million euro of the non-financial damages made by the Court of Appeal, compared to the 77 million euro recognised in the first instance ruling was arbitrary and devoid of any sound legal or logical reasoning;
b) even accepting the reduction under point a), the Court made a miscalculation when redetermining the amount of total damages. That aspect was already the subject of an application for material correction filed in 2020, rejected by the Court as it was deemed to be an issue that could be remedied through appeal.

By ruling no. 5682/2023, the Court of Cassation partially upheld the grounds of appeal filed by Acampora and the Prime Minister's Office, overturning the second instance ruling, in relation to the claims upheld, and referring the case back to the Rome Court of Appeal for the application of the principles of law set forth in the ruling. The outcome differs both from the rulings made at the previous instances and from the conclusions, consistent with them, filed last December by the General Prosecutor at the Court of Cassation.

The Court applied a rule of pre-emption according to which the action for revocation should precede the exercise of the action for damages, in clear conflict with the principles set out in the criminal proceedings in 2006 according to which the independence and dissimilarity of the two actions (the action for damages and the action for extraordinary revocation) "*rule out any interference between them and place each in its own sector, with the only limitation of not allowing the duplication of coinciding outcomes in terms of compensation and, therefore, undue enrichment*".

In addition, it introduced a further and unprecedented rule of a procedural nature according to which, without prejudice to the right to obtain lost earnings and non-pecuniary damage, in order to claim compensation from the perpetrators of the offence (i.e. Acampora, Metta and the Government) for the damage arising, the injured party, Intesa Sanpaolo, must prove that it has acted without success to recover what the party benefiting from the corrupt ruling had received from the Bank.

The legal initiatives to protect the Bank's claims are currently being assessed, also in view of the conflict between the principles expressed by the Court of Cassation in the criminal proceedings in 2006, on which the Bank legitimately relied in making its procedural choices, and those expressed by the same Court in the civil proceedings in ruling no. 5682/2023.

*Labour litigation*

In line with the situation as at 31 December 2022, as at 31 March 2023 there were no significant cases of labour litigation from either a qualitative or quantitative standpoint. In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

## Tax litigation

The Group's tax litigation risks are covered by adequate provisions for risks and charges. No new disputes of a significant amount involving Intesa Sanpaolo arose during the quarter. There are also no significant events to report for the Italian and international subsidiaries, except for the following.

With regard to the order to file an appearance received by Eurizon Capital SGR (EC ITA) on 22 December 2022 relating to 2016 IRES and IRAP (see the detailed discussion in the Notes to the Consolidated Financial Statements 2022 for more information), during the quarter intensive discussions took place with the Assessment Office, at the end of which the Office revised its initial position.

It is recalled that in the order to file an appearance, the Italian Revenue Agency proposed the transfer for taxation in Italy applicable to EC ITA of 151.1 million euro (out of 208 million euro) of EC LUX's income, resulting in higher IRES and IRAP of 50 million euro, "full" penalties of 45 million euro and interest of 9.6 million euro, for a total initial claim of 104.6 million euro.

In the course of the discussions, the Group put forward its arguments asserting: 1) the lack of attributability to EC ITA of the above-mentioned intangible and, in any case, its immateriality for the purposes of setting the correct transfer prices; 2) the total transparency by the company, also within the previous proceedings relating to the 2011-2015 tax periods, regarding the nature of the above-mentioned intangible; and therefore 3) the entitlement to the penalty protection provided to companies that produce appropriate transfer pricing documentation. The appropriateness of the Comparable Uncontrolled Price Method (CUP) as a transfer pricing method was also reaffirmed, but with openness to discussion of the placement of the consideration due from EC LUX to EC ITA within the benchmark range identified by the company through the CUP.

At the end of these discussions, in which the Intesa Sanpaolo Group maintained that the Agency's arguments were unfounded, the Office, effectively accepting practically all the requests submitted by the Group: 1) abandoned the claim of materiality of the intangible; 2) accepted the suitability of the TP documentation produced by the company; and 3) therefore ruled out the application of the penalties. On the merits, the Office first broadened the sample of transactions considered comparable and then moved the placement of the correct transfer price from the first to the third quartile.

In light of the above, the Office revised its position proposing the signing of a tax settlement agreement on the basis of a higher taxable income in Italy of 26.8 million euro resulting in higher taxes of 8.8 million euro plus interest of 1.8 million euro, without the application of any penalties. Eurizon Capital signed the tax settlement agreement on 28 April 2023.

In December 2022, the companies In.fra Investire nelle Infrastrutture S.r.l. (INFRA), Compagnia Italiana Finanziaria S.r.l. (CIF) and Iniziative Logistiche S.r.l. (IL) received orders to file appearances from the Italian Revenue Agency – Provincial Directorate I of Milan relating to the year 2016. In these orders to appear, the above-mentioned ISP Group Companies were charged with having failed to apply withholding taxes on income paid to foreign banks (the value of the claims for tax, penalties and interest amounted to 2.9 million euro for INFRA, 13.6 million euro for CIF, and 6.8 million euro for IL, for a total of 23.3 million euro). The claim arose from the sale carried out in September 2016 by INFRA, CIF and IL, and others, of the equity investment in Reconsult Infrastructures to Abertis Infraestructuras SA (Abertis).

Notwithstanding the full conviction of the correctness of their actions, in order to avoid a burdensome tax dispute, which would last for years and whose outcome was by no means certain, discussions were immediately initiated (i) with the Italian Revenue Agency on the merits of the matter, putting forward numerous grounds contesting the arguments made in the orders to appear; and (ii) with Abertis, which, on the basis of the agreements entered into at the time of the transaction, must bear 50% of the tax charges arising from the transaction.

Both discussions were concluded during the quarter with a satisfactory outcome. The Italian Revenue Agency revised its initial position in three respects:

– it limited its claim solely to the financial component (and not also to the credit component relating to the setting of the discount against the assignment of the loans);
– it agreed that the applicable tax rate on this component should not be the 26% rate, but the reduced rate provided for in the existing double taxation treaties between Italy and Spain (12%) and Austria (10%);
– it reduced the penalties to one eighteenth of the minimum pursuant to Article 1, paragraph 179 of Law 197/2022, proposing, therefore, to settle the total claim for withholding tax, penalties and interest (amounting, as mentioned above, to an initial 23.3 million euro) with 2.9 million euro (of which 0.4 million euro borne by INFRA, 1.7 million euro borne by CIF and 0.8 million euro borne by IL).

At the same time, discussions took place with Abertis and its Italian tax advisors, who, having positively assessed the outcome towards which the proceedings concerning CIF, INFRA and IL with the Italian Revenue Agency were directed, gave their consent to the conclusion of the proceedings and confirmed their willingness to bear 50% of the charges as quantified above.

In consideration of both the reduction of the initial claim (2.9 million euro against 23.3 million euro) and the expediency of immediately closing the case also in the relations with Abertis, it was decided to settle the dispute by means of the settlement procedure, which was completed on 8 March 2023. The amount due was paid on 21 March 2023 and the partial "reimbursement" by Abertis took place on 28 March 2023.

As a result, a tax litigation (and potential civil litigation with Abertis) for significant amounts, the outcome of which was by no means certain, and which would have lasted for years, ended with a final net charge in the consolidated accounts for the first quarter of 1.3 million euro (this amount is already net of the portion attributable to the non-controlling interests in both CIF and IL).

Also, on 4 April 2023 the Italian Revenue Agency – Lombardy Regional Directorate – Large Taxpayers Office initiated a tax audit on Epsilon SGR S.p.A. with regard to the year 2017 concerning direct taxes, IRAP, VAT and obligations of tax collection agents. The required documents (accounting and tax records, 2017 trial balance, statement of changes in tax base for IRES and IRAP purposes, and documentation on intragroup transfer pricing) are being prepared by the company.

With regard to the foreign subsidiaries, for UBI Trustee S.A. (a trust company resident in Luxembourg) the dispute concerning four trusts managed by it (see the Notes to the 2022 Consolidated Financial Statements for details) was definitively closed with rulings no. 244 and 245 of the First Instance Milan Tax Court filed on 26 January 2023, which declared the cases dismissed due to devoid of purpose, following the settlement of similar disputes involving the trusts and their beneficial owners.

With regard to Intesa Sanpaolo, as of 31 March 2023, there were 441 pending litigation proceedings (473 as at 31 December 2022) for a total amount claimed (taxes, penalties and interest) of 125.4 million euro (126.1 million euro as at 31 December 2022), considering both administrative and judicial proceedings at various instances.
In relation to these proceedings, the provision as of 31 March 2023 was quantified at 56.3 million euro (56.8 million euro as at 31 December 2022).

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 Notes to the 2022 Consolidated Financial Statements for a detailed analysis.

With regard to the so called "tax truce", i.e. the regulations set forth in the 2023 Budget Act (Law no. 197/2022) concerning the settlement of pending litigation and other tax disputes, including non-litigious disputes, discussed in the Notes to the 2022 Consolidated Financial Statements (which should therefore be referred to for details), Law Decree no. 34 of 31 March 2023 (the "bills decree") extended various deadlines for the fulfilment of the related requirements. Specifically, the deadline was extended from 31 March 2023 to 31 October 2023 for the payment of the first or single instalment of the amount of 200 (two hundred) euro per year for the amnesty for formal irregularities (Article 1, Law 197/2022, paragraph 167); the deadline was extended from 31 March 2023 to 30 September 2023 for the payment of the first or single instalment of the amount due (tax, interest and penalty reduced to 1/18th of the minimum amount) for the "special" remediation (paragraph 174); the deadline was extended from 30 June 2023 to 30 September 2023 for the payment of the amount due and the submission of the application for the settlement of pending disputes (paragraph 194); the suspension of the time limits for appeals of settleable disputes expiring between 1 January 2023 and 31 October 2023 was extended from nine to eleven months (paragraph 199). The impact of this provision for the ongoing disputes is being assessed.

The Parent Company and its main Italian subsidiaries have already subscribed to the amnesty for the tax irregularities.

With regard to Intesa Sanpaolo's branches located abroad, see the Notes to the 2022 Consolidated Financial Statements and please also note that on 4 January 2023, Intesa Sanpaolo's London branch received a questionnaire from the UK Revenue Service with regard to the year 2020. The branch replied to the questionnaire and there are currently no issues to report.

# 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 and Intesa Sanpaolo RBM Salute) are made with their shareholder fund and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, unit-linked policies, pension funds and non-life policies.
As at 31 March 2023, the investment portfolios of Group companies, recorded at IFRS 9 carrying values, amounted to 174,865 million euro. Of these, a part amounting to 88,018 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 shareholder fund. 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 86,847 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, 85.7% of assets, i.e. around 75,459 million euro, were bonds, whereas equity instruments represented 0.3% of the total and amounted to 233 million euro. The remainder (12,371 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (14%).
The carrying value of derivatives came to around -44.6 million euro, of which around 37.8 million euro relating to effective management derivatives[28], and the remaining portion (around -82.4 million euro) is attributable to hedging derivatives.
At the end of the first three months of 2023, investments made with the shareholder fund of Intesa Sanpaolo Vita and Fideuram Vita amounted to around 1,204 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of around 9 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 around 4,427 million euro.
The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented around 6.5% of total investments and A bonds around 9.5%. Low investment grade securities (BBB) were around 80.3% of the total and the portion of speculative grade or unrated was minimal (3.7%).
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 around 76.4% of the total investments, while financial companies (mostly banks) contributed around 14.2% of exposure and industrial securities made up around 9.4%.
At the end of the first quarter of 2023, 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 4,694 million euro, with 3,899 million euro due to government issuers and 795 million euro to corporate issuers (financial institutions and industrial companies).

### Impacts of the Russia-Ukraine conflict

Following the escalation of the geopolitical tensions between Russia and Ukraine, the Risk Management Department has constantly monitored the evolution of the risks and their effects on the business of the Insurance Group, with a specific focus on exposures to countries directly involved in the conflict. In that area, exposure is residual (less than 0.1% of total assets).

[28] 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.