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# 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 second 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<sup>43</sup>, 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.

Since the beginning of the 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.

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<sup>43</sup> 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.

The situation as at 30 June 2023 is shown in the following table:

Portfolio	PD - Model Type	LGD - Model Type	EAD - Model Type	Status
<b>Sovereign</b>	Shadow model based on agency rating	Model based on recovery rates estimated by rating agencies	Regulatory parameters	Used for management purposes only; Standardised approach for reporting purposes
<b>Institutions</b>	Default model (Banks) <sup>(4)</sup>	Market model (Banks)	Regulatory parameters (Banks)	AIRB authorised since June 2017
	Default model (Municipalities and Provinces) Shadow model (Regions) <sup>(4)</sup>	Workout model (Municipalities, Provinces, Regions)	Regulatory parameters (Municipalities, Provinces, Regions)	AIRB authorised since June 2017
<b>Corporate</b>	Default model (Corporate)	Workout model (Bank products; Leasing and Factoring)	CCF/K factor model (Bank products) Regulatory parameters (Leasing and Factoring)	FIRB authorised since December 2008, AIRB LGD authorised since December 2010, EAD authorised since September 2017 <sup>(1)</sup>
	Simulation models (Specialised Lending)	Simulation models (Specialised Lending)	Regulatory parameters (Specialised Lending)	AIRB authorised since June 2012
	Expert-Based Model (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Used for management purposes only; Standardised approach for reporting purposes
<b>Retail</b>	Default model (Retail)	Workout model (Retail)	CCF/K factor model (Retail)	IRB Other Retail authorised since September 2018, IRB Mortgage since December 2010 <sup>(2)</sup>
	Default model (Retail SME)	Workout model (Retail SME)	CCF/ K factor model (Retail SME)	IRB PD/LGD authorised since December 2012, EAD authorised since June 2021 <sup>(3)</sup>

- 1) ISP authorised for FIRB from December 2008, for LGD AIRB from December 2010 and for EAD from 2017, Banca IMI (2012, merged by incorporation into the Parent company since 2020), ISP Ireland (2010), VUB (2010), Intesa Sanpaolo Bank (2017), and ISP Luxembourg (2017). From 2017, the Corporate model has also been used to calculate the risk on the Banking book equity portfolio with LGD 65%/90%.
- 2) VUB authorised from June 2012 for PD and LGD of Retail Mortgage models and from December 2022 in reference to PD-LGD-EAD models of Other Retail.
- 3) VUB authorised from June 2014.
- 4) ISP and Banca IMI (merged by incorporation into the Parent company in 2020) authorised from 2017.

With regard to counterparty risk on derivatives (OTC – Over The Counter and ETD – Exchange-Trade-Derivatives) and Securities Financing Transactions (SFTs), the Group has further improved the measurement and monitoring, by refining the instruments required under Basel 3. For reporting purposes, Intesa Sanpaolo has been authorised to use internal models (both for the determination of Exposure at default for replacement risk and for the CVA capital charge for migration risk). There were no changes in the scope of application of the model 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. As at 30 June 2023, the scope of the Advanced Measurement Approach (AMA) is comprised of Intesa Sanpaolo (including the former Banks and Companies merged into it) and the main banks and companies in the Private Banking and Asset Management Divisions, as well as of VUB Banka and Privredna Banka Zagreb Banka.

The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal risk measurement methodologies, internal capital and total capital available, was approved and sent to the ECB in 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](http://group.intesasanpaolo.com)) on a quarterly basis.

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

### Valuation of exposures to counterparties resident in Russia and Ukraine

As stated, as at 30 June 2023 the Group presented 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)

	30.06.2023 (*)				31.12.2022 (**)			
	Gross exposure		Net exposure		Gross exposure		Net exposure	
	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine
<b>Loans to customers</b>	<b>1,141</b>	<b>207</b>	<b>891</b>	<b>113</b>	<b>1,629</b>	<b>216</b>	<b>1,168</b>	<b>103</b>
<i>Banca Intesa Russia</i>	257	-	142	-	372	-	205	-
<i>Pravex</i>	-	93	-	-	-	112	-	-
<i>Cross-border exposures</i>	884	114	749	113	1,257	104	963	103
<b>Due from banks</b>	<b>673</b>	<b>78</b>	<b>664</b>	<b>77</b>	<b>797</b>	<b>63</b>	<b>782</b>	<b>62</b>
<i>Banca Intesa Russia</i>	629	-	622	-	751	-	740	-
<i>Pravex</i>	-	78	-	77	-	63	-	62
<i>Cross-border exposures</i>	44	-	42	-	46	-	42	-
<b>Securities</b>	<b>11</b>	<b>6</b>	<b>10</b>	<b>2</b>	<b>73</b>	<b>11</b>	<b>41</b>	<b>2</b>
<i>Banca Intesa Russia</i>	10	-	10	-	13	-	13	-
<i>Pravex</i>	-	-	-	-	-	-	-	-
<i>IMI C&amp;IB Division</i>	-	-	-	-	31	-	14	-
<i>Insurance Division</i>	1	6	-	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 69 million euro (60 million euro net) at Banca Intesa Russia, and 40 million euro (gross and net value) at Pravex, in addition to 34 million euro (book value nil in net terms) 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 is also 107 million euro (gross and net value) 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 30 June 2023 and the increase of around 10 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 half year, Banca Intesa Russia's remaining on-balance sheet exposures to customers amounted to 257 million euro in gross terms (142 million euro net) and those of Pravex Bank amounted to 93 million euro (zero book value in net terms).

The cross-border exposures to customers resident in Russia (net of ECA guarantees) amounted to 884 million euro (749 million euro net). In addition, there were exposures to banks resident in Russia totalling 673 million euro (664 million euro net) and banks resident in Ukraine totalling 78 million euro (77 million euro net). The exposures in securities were minimal.

The majority of the exposures to Russian<sup>44</sup> and Ukrainian counterparties essentially consist of loans to customers subject to measurement in accordance with IFRS 9 "Financial Instruments".

During the half year, 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 further reductions due to disposals, repayments and settlements (loans and securities) totalling 674 million euro for Russia and substantial stability for Ukraine. Specifically, in the second quarter of 2023, a position classified as UTP was sold for 154 million euro, which generated a recovery on repayment of 51 million euro, and payments falling due were collected regarding another position classified as UTP, whose gross value therefore decreased by around 44 million euro.

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 30 June 2023, in the

<sup>44</sup> For these purposes, the small exposures to Belarusian counterparties have been treated and disclosed together with the exposures to the Russian Federation.

Group companies other than those resident in the countries in conflict, there was a significant decrease compared to 31 December 2022. The on-balance sheet non-performing loans to counterparties resident in Russia amounted to 64 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 52 million euro, while the classification of the entire portfolio of the Ukrainian subsidiary to bad loan status led to the recognition of 93 million euro in bad loans.

In line with the disclosure already provided in the previous Financial Reports, 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<sup>45</sup>, as well as, in line with the treatment set out for capturing the critical issues of another recent emergency situation (COVID-19<sup>46</sup>), using the post-model adjustment 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 39.5% of their gross value.

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, in line with what was initially made available.

For completeness, it should be noted 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 half of the year, before tax, of net recoveries totalling 128 million euro, as the offsetting effect of 167 million euro of net recoveries on loans and 39 million euro of other allowances for 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 write off its equity contribution to the Group’s consolidated financial statements, which was positive at the end of the half year due to the investee’s positive operating performance in the period.

<sup>45</sup> 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.

<sup>46</sup> 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.

## CREDIT RISK

The Intesa Sanpaolo Group's strategies, Risk Appetite Framework, and Powers and Rules for credit granting and management are aimed at:

- achieving a sustainable goal consistent with the Group's risk appetite and value creation objectives, whilst guaranteeing the quality of its lending operations;
- diversifying the portfolio, limiting the concentration of exposures to counterparties/groups, economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency and mitigating potentially associated losses;
- given the current economic climate, favouring lending business aimed at supporting the real economy and production system and at developing relationships with customers;
- constantly monitoring relationships and the related exposures, through the use of both IT procedures and systematic surveillance of positions that show irregularities with the aim of detecting any symptoms of deterioration in a timely manner.

The Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk. In particular, with regard to loans to customers, risk measurement is performed by means of different internal rating models according to borrower segment (Corporate, Retail SME, Retail, Sovereigns, Italian Public Sector Entities and Banks). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a consistent scale of reference. Ratings and credit-risk mitigating factors (guarantees, loan types and covenants) play a key role in the loan granting and managing process.

The Group has always proactively and prudently managed its risk portfolio. In the 2022-2025 Business Plan, the Group intends to pursue a modular de-risking strategy, which was mostly launched during the previous Business Plan, placing it among the best in Europe in terms of non-performing loan ratio and stock and generating a net drop in the cost of risk. Indeed, the latter will always be maintained at a conservative level, due to the extensive reserves of provisions on loans and ongoing prudent credit management.

During the first half, new de-risking initiatives were launched, targeting not only portfolios classified as non-performing loans, but also Stage 2 performing exposures (in this regard, see also that set out in the disclosure on the Business Plan in the introductory chapter of the Half-Yearly Report on Operations).

With regard to the non-performing loans that were reclassified as assets held for sale as at 31 December 2022, all the related project activities, within the scope of the 2021-2022 de-risking plans, were completed in March 2023.

### Credit quality

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management. The overall watch-list and non-performing loan portfolio is subject to a specific management process which, inter alia, entails accurate monitoring through a control system and periodic managerial reporting. In particular, this activity is performed using measurement methods and performance controls that allow the production of synthetic risk indicators. The quality of the loan portfolio is pursued through specific operating checks for all the phases of loan management, through the use of both IT procedures and systematic supervision of positions with the aim of promptly detecting any symptoms of difficulty and promote corrective measures to prevent possible deterioration.

Positions are detected and automatically entered in the credit management processes by way of daily checks using objective risk indicators that allow timely assessments when any anomalies arise or persist and interact with processes and procedures for loan management and monitoring.

Within the Group, in accordance with pre-set rules, positions which are attributed a persistent high-risk rating are intercepted (manually or automatically) and classified to the following categories based on their risk profile, in accordance with the regulatory provisions on credit quality:

- bad loans: the set of "on-" and "off-balance sheet" exposures to borrowers in default or similar situations;
- unlikely to pay: "on-" and "off-balance sheet" exposures which the bank, based on its opinion, does not deem likely to be completely (as principal and/or interest) repaid by the borrowers without the implementation of actions such as enforcement of guarantees. This assessment is conducted regardless of the presence of any amounts (or instalments) due and unpaid;
- non-performing past due exposures: this category includes on-balance sheet exposures, other than those classified as bad loans or unlikely to pay that, as at the reporting date, are past due or overdrawn by over 90 days on a continuous basis. The total exposure to a debtor must be recognised as Past Due if, at the reference reporting date, the amount of the principal, interest and/or fees not paid when due exceeds both of the following thresholds (hereinafter, collectively, the "Relevance Thresholds"):
  - o the absolute limit of 100 euro for retail exposures and of 500 euro for non-retail exposures (the "Absolute Threshold"), to be compared with the total amount past due from the borrower;
  - o the relative limit of 1%, to be compared with the ratio of the total amount past due to the total amount of all on-balance sheet exposures to the same borrower (the "Relative Threshold").

Lastly, non-performing exposures also include the individual forbore exposures which comply with the definition of "Non-performing exposures with forbearance measures" envisaged by the EBA ITS (European Banking Authority - Implementing Technical Standards), which are not a separate category of non-performing assets, but rather a sub-category. Similarly, exposures characterised by "forbearance measures" are also included among performing loans.

The management process for such exposures, in close accordance with regulatory provisions concerning classification times and methods, is assisted by automatic mechanisms that ensure pre-established, autonomous and independent management procedures.

*Macroeconomic scenario for forward-looking conditioning*

For the purposes of forward-looking conditioning of the parameters for estimating the ECL – in accordance with the approach described in Part A - Accounting Policies of the 2022 Financial Statements and in particular in the paragraph “Impairment of assets” – Intesa Sanpaolo’s policy involves the use of the macroeconomic scenario defined and updated by the Research Department.

The table shows the main macroeconomic scenario variables used to determine expected credit losses from a forward-looking perspective, broken down by baseline, best-case and worst-case scenarios. These scenarios were applied in the measurement of loans according to the “Most-Likely scenario + Add-on” model.

**Intesa Sanpaolo macroeconomic scenarios for calculating the ECL as at 30 June 2023**

		Baseline				Mild				Severe			
		2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
<b>Euro Area</b>	Real GDP EUR (annual change)	3.5%	0.7%	1.2%	1.6%	3.5%	0.9%	1.6%	2.0%	3.5%	0.2%	0.3%	0.8%
	CPI EUR (annual change)	8.4%	5.6%	2.4%	2.1%	8.4%	5.6%	2.6%	2.4%	8.4%	5.5%	2.0%	1.8%
	Euribor 3M	0.34	3.49	3.91	3.24	0.34	3.49	4.16	3.38	0.34	3.44	3.56	2.97
	EurIRS 10Y	1.92	3.15	3.63	3.95	1.92	3.15	3.80	4.18	1.92	2.73	2.17	2.86
	EUR/USD	1.05	1.10	1.14	1.15	1.05	1.10	1.14	1.13	1.05	1.10	1.13	1.15
<b>Italy</b>	Real GDP Italy (annual change)	3.8%	1.2%	1.3%	1.2%	3.8%	1.4%	1.6%	1.9%	3.8%	-0.0%	0.2%	0.5%
	CPI Italy (annual change)	8.2%	6.3%	2.3%	2.1%	8.2%	6.4%	2.7%	2.7%	8.2%	6.3%	1.7%	1.5%
	Residential Property Italy (annual change)	3.7%	-0.1%	0.1%	1.0%	3.7%	0.1%	1.0%	1.8%	3.7%	-1.9%	-3.9%	-2.4%
	6-month BOT yield	0.5	3.4	3.9	3.5	0.5	3.3	4.0	3.6	0.5	3.2	3.3	3.1
	10Y BTP yield	3.0	4.4	5.0	5.5	3.0	4.2	5.0	5.6	3.0	4.1	3.7	4.9
	BTP-Bund Spread 10Y (basis points)	188	181	165	167	188	169	155	151	188	193	188	212
<b>Commodities</b>	Italian Unemployment (%)	8.1	8.0	7.8	7.7	8.1	7.9	7.7	7.4	8.1	8.1	8.3	8.5
	Natural gas price (€/MWh)	131	54	48	40	131	54	49	41	131	54	46	39
	Oil price (BRENT)	99.0	80.1	80.0	80.0	99.0	80.5	83.4	82.0	99.0	79.4	74.1	74.8
<b>USA</b>	Real GDP US (annual change)	2.1%	1.4%	0.8%	2.3%	2.1%	1.6%	1.4%	2.9%	2.1%	1.1%	-0.4%	1.7%
	US Unemployment (%)	3.7	3.7	4.3	4.4	3.7	3.5	3.7	3.8	3.7	3.8	4.7	4.9

Scenarios produced in June 2023 by the Research Department. Forecast data for 2023, 2024 and 2025.

The updated baseline forecast as at June 2023 of the Research Department provides a relatively favourable assumption on the outlook for growth. Despite the fact that in the main advanced countries growth will remain modest both in 2023 and in 2024, an actual recession is not expected. Inflation is expected to fall to levels relatively consistent with the objectives of stability, due to the direct and indirect effects of the drop in energy prices, the completion of the adjustment processes of service prices and a decrease in the profit margins of companies, which will amortise the increase in the cost of labour due to the rise in wages.

In the Eurozone, following the slight recession that marked the quarters straddling the year, the economy should start growing once again. The recovery, expected in the second half of 2023 and the first half of 2024, will nonetheless be weak overall, burdened by the effects of the monetary restriction. GDP growth will amount to 0.7% in 2023 and 1.2% in 2024. Among the main economies, growth during the current year will be driven by Italy and Spain, due to a much better than expected start to the year and the growth in the tourism sector, while Germany will continue to grow at a pace lower than expected, due to the weakness of the manufacturing sector, before accelerating in 2024.

With regard to capital expenditure, the expectation of interest rates remaining high for a significant period will keep the demand for mortgage loans down and, as a result, residential investments, expected to drop sharply in 2023 and be substantially stagnant in 2024. Investments in businesses are expected to slow due to credit restrictions, despite profits remaining positive. Lastly, the contribution of public investments should be positive overall, especially next year, on the back of the use of the Next Generation EU (NGEU) funds. Consumer spending is expected to decrease, given the rather limited appetite for consumption of households and the increase in the cost of money, which will weight on disposable income, especially in countries where consumers have higher rates of indebtedness.

For companies in the energy sector specifically, despite the drop in energy commodity prices, business is not showing signs of recovery, and the expectations of recovery remain low. Services will drive growth, mainly guided by the segments most penalised by the pandemic, such as tourism, which still have not returned to their pre-COVID levels. Supporting elements that reduce recession risks, at least in the short-term, mainly include the strength of the labour market.

The slowing trend in inflation should continue in the upcoming months, for all the main components, with the important exception of services. Risks on the scenario concerning expectations of inflation tend upwards and are concentrated on the “baseline” component. Sharp growth in wages and maintenance of profits due to demand more resilient than expected, specifically in the services sector, could keep inflation at high levels for longer than forecast.

The forecast of growth for Italy for 2023 comes to 1.2%, due to the positive surprise of the first quarter, driven by private and public consumption. The Italian GDP increased in the initial months of 2023 at a higher pace than the leading countries in the Eurozone: the growth in household spending was particularly positive (driven by consumer spending on durable and non-durable goods), especially if compared with other countries in the Eurozone. The forecast for 2024 comes to +1.3%. In detail,

investments should remain the main growth driver of the GDP in the second half of 2023 and in 2024, also due to increasing incentives linked to the energy and digital transitions. Investment in construction will be impacted by both the increase in interest rates and the reduction of tax incentives, but in the short term, the completion of the works financed by the tax bonuses for construction will continue to support activities, and in the medium term the non-residential segment will benefit from the setup of the construction sites for the infrastructural projects envisaged in the NRRP. Consumer spending will continue to be driven by services, while the drop in real disposable income will weigh on the purchases of goods.

Inflation seems to have definitively passed its peak. The decreasing trend will continue over the coming months, but inflation should return to slightly above 2% only in December 2024. In the short term, Italian inflation will remain higher than the European average, due to the greater contribution of energy prices. Vice versa, core inflation will be lower due to the less positive trend in wages.

Residential property prices have been negatively impacted by the decrease, starting in April, in the tax incentives for construction and the restriction of credit conditions: the expected drop in the demand for credit will mainly regard residential mortgages, with the resulting impacts on property prices.

With regard to employment levels, companies' hiring intentions remain expansive, not only in services but also in manufacturing.

As described in Part A - Accounting Policies of the 2022 Financial Statements, and in particular in the section "Impairment of assets", the methodology adopted by the Group includes taking into account alternative scenarios (best-case/worst-case), which mainly use external information (among others, the minimum and maximum forecasts of a fundamental variable such as GDP based on data from Consensus Economics).

Specifically, highest GDP growth forecasts in the Consensus Economics survey published in June 2023 for the main advanced economies were identified for the favourable scenario, and all the private consumption and fixed investment trends of the baseline scenario were adjusted to provide an annual average GDP growth profile identical to those forecasts. The other variables were recalculated accordingly. Those assumptions provide a scenario characterised by higher real growth rates, higher inflation and a lower unemployment rate: those deviations, however, are relatively small compared to the baseline scenario.

The "adverse" scenario was formulated using the lowest forecasts for GDP growth in the Consensus Economics survey, published in June 2023, for the main advanced countries. The private consumption and fixed investment trends of the baseline scenario were adjusted to yield GDP growth in line with those forecasts, and a negative shock was also applied to the performance of stock market indices and real estate prices, while the other variables were consistently recalculated. The "adverse" scenario generates greater deviations from the baseline compared to the "favourable" scenario. Specifically, the performance of the Italian GDP is expected to be substantially stagnant in the three-year period, lower than that assumed in the baseline scenario, by 120, 110 and 70 basis points over the three years of the forecast. The decline in growth results in a quicker and sharper decrease in inflation, which allows the ECB to implement a less restrictive policy of increasing interest rates. That assumption results in an estimate of short-term rates 27 basis points lower than the central scenario at the end of the three-year period, while 10-year IRS are estimated at 110 points less.

It is recalled the decision made by the Bank in the 2022 Financial Statements to consider the more prudent assumptions used in the less favourable scenario included in the "Macroeconomic projections for the euro area" published by the ECB on 15 December 2022. According to the ECB, a significant risk for the outlook for the euro area related to the possibility of more severe disruptions in European energy supplies, leading to further spikes in energy prices and production cuts. In the assumptions made by the ECB, the less favourable scenario reflected these risks and, in order to take these more drastic assumptions into account, the Bank added a shock to the European natural gas market, calibrated to that predicted in the Eurosystem's adverse scenario for this variable, to the adverse forecast prepared, through a very significant increase in gas prices compared to the baseline scenario forecasts in both 2023 and 2024. As a result, the effects on growth were aggravated to capture possible rationing. These assumptions resulted in a much more aggressive inflation trend than in the baseline scenario and severe impacts on Italian and Euro area GDP, with two years of fall in GDP.

Compared to the forecasts of December 2022, the uncertainties linked to the trend in prices of energy goods decreased. In the June update, the ECB merely provided a sensitivity analysis, which was quite restricted, of the estimates of the GDP and inflation to alternative growth scenarios in energy prices, while continuing to highlight the significant elements of uncertainty that weight on the macroeconomic scenario. Risks for growth are described as focused mainly downwards.

The Research Department also highlighted those risks in the forecast scenario updated to June 2023. Forecast risks remain downwards, in particular as the central forecast for inflation to 2025 is just in line with the target and, therefore, has a very high probability of implicit deviation: inflation exceeding the target also in the next few years could result in more restrictive monetary policy than the one currently affecting prices and, thus, lower growth even in 2024. For Italy, additional downwards risks could derive from possible delays in implementing the NRRP.

In the update for the purpose of assessing loans as at 30 June, the Bank adopted the central and alternative scenarios drawn up by the Research Department, as illustrated above. Overall, an impact of around 100 million euro of recoveries was recognised on the ECL of performing loans due to the macroeconomic scenario during the half year, mainly originating from overcoming the assumptions of the adverse scenario adopted by the ECB at the end of 2022. Given that there continue to be elements of uncertainty on the forecasts, the decisions made by the Bank for the purpose of the 2023 Half-yearly Report were aimed at not currently changing the policies of provisions on performing loans and maintaining coverage ratios substantially unchanged, though in the presence of an improving scenario, by adopting management overlays.

#### *Management overlays*

As for the Financial Statements as at 31 December 2022, also for the purpose of assessing loans as at 30 June, 'post-model adjustments' were made to the results of the ECL estimation methodologies, within the framework of 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 currently 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 anchored to long-term observed relationships, may not be fully adequate in an evolving situation that may arise from unobserved and unpredictable events. That decision is the result of considering the persistent conditions of uncertainty weighing on the

economic forecasts, whose risks continue to be downwards, given the continued, significant inflationary pressures that could lead central banks to considerably extend the restrictive monetary policies, with potential recessive effects, as highlighted above. In that context, the measures adopted in the 2022 Financial Statements were extended to additional portfolios, in order to take greater account of those forecast risks on loan assessments.

With regard to the Parent Company, post-model adjustments were applied to the Retail/SME Retail and SME Corporate segments starting from medium/high risk levels, with specific modulation for sectors particularly exposed to risks deriving from macroeconomic forecasts (commercial real estate perimeter or sectors with negative performance or energy-intensive sectors of the Banca dei Territori Division).

The banks of the International Subsidiary Banks Division have also adopted prudent margins, through management overlays, based on specific assessments of the current and future situation and the characteristics of their portfolios.

On the whole, post-model adjustments of around 0.9 billion euro were applied to the provisions adjusting performing exposures in the first half, in line with that recognised in the 2022 Financial Statements.

#### *ECL sensitivity analysis*

The ECL, calculated in accordance with IFRS 9, was subject to sensitivity analysis aimed at analysing its variability with respect to the individual alternative scenarios in accordance with the ESMA Recommendations (“Report on the application of the IFRS 7 and IFRS 9 requirements regarding banks’ expected credit losses – ECL” of 15 December 2021). That analysis was conducted on a performing loan portfolio (Stage 1 and Stage 2) relating to the scope representing the Group (which includes the Parent Company and the Banks in the IMI C&IB Division that represent around 90% of the Group’s total exposure). It should be noted that, according to the approach adopted by the Group to estimate the ECL, the parameters for calculating it are determined on the basis of the Most-Likely scenario and an Add-on calculated based on the distance between the baseline scenario and alternative scenarios. The sensitivity analysis is determined using the assumptions adopted for the alternative scenarios (best-case and worst-case), produced internally by the Research Department, each weighted at 100%. This result is then compared with the ECL calculated with the Most-Likely plus Add-On scenario. Both comparisons were carried out before applying the overlays.

Applying the downside scenario, 3.6 billion euro in exposures would slide into Stage 2, with an increase in the ECL of 73 million euro and a slight increase in the coverage ratio of 2 basis points. On the other hand, the sensitivity of the portfolio to the best-case scenario would see a decrease of 133 million euro in the ECL, with a return to Stage 1 of 1.9 billion euro of exposures. The coverage ratio for performing exposures would decrease by 3 basis points.



### Counterparty risk

Counterparty risk is a particular type of credit risk, relating to OTC (over the counter) and ETD (exchange-traded derivatives) derivatives and SFTs (Securities Financing Transactions), which refers to the possible default of the counterparty before the expiry of a contract that has a positive market value.

The Group uses techniques to mitigate counterparty risk through bilateral netting arrangements which enable the netting off of credit and debit positions in the event of counterparty default. This is achieved by entering into ISDA (International Swaps and Derivatives Association) agreements, for OTC derivatives, which also reduce the absorption of regulatory capital in accordance with supervisory provisions. In addition, the Bank establishes margining arrangements, where possible, typically with daily frequency, to hedge bilateral OTC derivatives (CSAs or Credit Support Annexes) and SFTs (GMRAs or Global Master Repurchase Agreements and GMSLAs or General Market Securities Lending Agreements). Transactions in ETD is also subject to daily margining, according to the rules of the reference markets.

For reporting purposes, Intesa Sanpaolo has been authorised to use the internal models approach to calculate the counterparty risk requirement for OTC and ETD derivatives and SFTs.

Those advanced risk measurement methods are also used at operational level to perform the “use test”: the IMI C&IB Risk Management Head Office Department calculates, validates and sends the metrics to the credit monitoring systems on a daily basis to measure the use of the credit lines for derivatives and SFTs. The Group’s other banks, which have operations that involve a residual counterparty risk requirement with respect to the Parent Company, apply the advanced metrics in a simplified manner at operational level.

To perform the use test of the model, the Group has implemented the processes required by the “Basel 3” regulations. In particular, stress tests are carried out to measure the impacts on risk measures under extreme market conditions. Backtesting is also conducted to ensure the robustness of the model.

In addition, to complete the risk analysis process, the following corporate processes have been activated:

- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analyses of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty’s probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for margined OTC derivatives and SFTs;
- periodic reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk;
- definition and periodic calculation of back-testing analyses to monitor the predictive performance over time of the model with respect to the movements of the risk factors underlying the transactions in the portfolio.

There were no changes in the scope of application of the model compared to 31 December 2022.

### Impacts of the Russia-Ukraine conflict

The exposure in OTC derivatives to Russian counterparties or subsidiaries of Russian entities, already very low in March 2022, was further decreased due to cash flows or deals that were completed or deals that were unwound. In this period, despite the operational difficulties triggered by the sanctions imposed on Russian counterparties, and the related countermeasures adopted by the Russian Central Bank, no missed payments relating to contracts were recorded. The gradual decrease in prices and volatility of natural gas and electricity, which began in the last few months of 2022, resulted in a lower impact of exposures deriving from commodity derivatives with customers and lower margins paid to central agencies and brokers in this segment.

## MARKET RISKS

### TRADING BOOK

Among risks associated with trading activity, i.e. market risks deriving from the effect that changes in market variables may generate on the Group's various assets and liabilities, the latter are generally quantified through daily and periodic analysis designed to determine the vulnerability of the Intesa Sanpaolo Group's trading book. A list of the main risk factors to which the Group's trading book is exposed is set out below:

- interest rates;
- equities and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

For some of the risk factors cited above and included in the managerial VaR (Value at Risk) measurements, the Supervisory Authority has validated the internal models for the reporting of the capital requirement of Intesa Sanpaolo. More specifically, concerning market risk, the risk profiles validated are: (i) generic/specific on debt securities and on equities; (ii) position risk on quotas of UCI with daily liquidity and (iii) commodity risk.

#### **Managerial VaR**

**Definition:** Value at Risk is a monetary estimate of risk based on statistical techniques capable of summarising the maximum probable loss, with a certain confidence level, that a financial position or portfolio may suffer in a given period (holding period) in response to changes in the risk factors underlying the measurement models caused by market dynamics.

**Method:** the mathematical and statistical models that make it possible to calculate VaR can be divided into two general categories: parametric approaches (variance/covariance) and approaches based on simulation techniques, such as that in use at Intesa Sanpaolo.

Specifically, the approach used in Intesa Sanpaolo has the following characteristics:

- historical simulation model based on the mark-to-future platform;
- a 99th percentile confidence interval;
- disposal period of 1 day;
- full revaluation of existing positions.

Historical simulation scenarios are calculated internally on time series of one-year risk factors (250 observations). For management purposes, a non-equal probability of occurrence is associated with each scenario, decreasing exponentially as a function of time, to privilege the informational content of the most recent data. For regulatory purposes, scenarios are equally weighted when calculating the capital requirement.

Please note that, in the first quarter of 2023, on the ordinary annual update of the market risk managerial framework, the Board of Directors (as part of the 2023 Group Risk Appetite Framework) confirmed the specific limit for trading within an overall limit for trading and the hold to collect and sell (HTCS) business model.

#### **Sensitivity and greeks**

**Definition:** sensitivity measures the risk attributable to a change in the theoretical value of a financial position to changes of a defined quantity of risk factors connected thereto. It therefore summarises:

- the extent and direction of the change in the form of multipliers or monetary changes in theoretical value;
- without explicit assumptions on the time horizon;
- without explicit assumptions of correlation between risk factors.

**Method:** the sensitivity indicator can be constructed using the following techniques:

- calculation of prime and second derivatives of the valuation formulae;
- calculation of the difference between the initial value and that resulting from the application of unidirectional shocks independent of risk factors (delta, gamma, vega, CR01 and PV01).

Sensitivity measures make risk profiling more accurate, especially in the presence of option components. These measure the risk attributable to a change in the value of a financial position to predefined changes in valuation parameters including a one basis point increase in interest rates.

#### **Level measures**

**Definition:** Level measures, used also as ratios, are indicators supporting synthetic risk metrics which are based on the assumption of a direct relationship between the size of a financial position and the risk profile. In particular, level measures make it possible to monitor the nature of exposures to certain issuers and economic groups.

The main level measure indicators are nominal (or equivalent) position and average duration metrics; level indicators also include the Negative Maximum Exposure of the Valuation Reserve measures characteristic of the HTCS business model.

**Method:** nominal (or equivalent) position is determined by identifying:

- the notional amount;

- the mark to market;
- the conversion of the position of one or more instruments to that of a given benchmark (equivalent position);
- the FX exposure.

When determining the equivalent position, risk is defined as the value of the various assets, converted into an aggregate position that is “equivalent” in terms of sensitivity to the change in the risk factors investigated.

At Intesa Sanpaolo the approach is characterised by extended use of ceilings in terms of MtM, as representative of the value of the assets as recognised.

### **Stress tests**

**Definition:** stress tests are conducted periodically to identify and monitor potential vulnerabilities in trading books upon the occurrence of extreme, rare events not fully captured by VaR models.

**Method:** Stress tests for management purposes are applied periodically to market risk exposures, typically adopting:

- sensitivity analysis, which measures the potential impact on the main risk metrics of a change in a single risk factor or simple multi-risk factors;
- scenario analysis, which measures the potential impact on the main risk metrics of a certain scenario that considers multiple risk factors.

The following stress exercises are included in the Group’s Stress Testing Programme:

- multi-risk exercise, based on scenario analysis, which enables the forward-looking assessment of the simultaneous impact on the Group of multiple risk factors, also taking into account the interrelationships between them and, where applicable, the top management’s reaction capacity;
- regulatory multi-risk exercise, ordered and coordinated by the supervisor/regulator which defines its general assumptions and scenarios, requires the full revaluation of the impacts with the resulting need of contributions from the specialist departments of the Chief Risk Officer and Chief Financial Officer Governance Areas;
- situational exercise, ordered by the top management or by the supervisor/regulator in order to assess the impact of particular events (relating to the geopolitical, financial, economic, competitive environment, etc.) from a forward-looking perspective;
- a single or specific risk exercise to assess the impact of scenarios (or single or more specific risk factors) on specific risk areas.

### **Stressed VaR**

**Definition:** the stressed VaR metric is based on the same measurement techniques as VaR. In contrast to the latter, it is calculated by applying market stress conditions recorded over an uninterrupted 12-month historical period.

**Method:** that period was identified considering the following guidelines:

- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors for the portfolio of Intesa Sanpaolo;
- the period must allow real time series to be used for all portfolio risk factors.

While using the historical simulation approach for VaR calculation, the latter point is a discriminating condition in the selection of the holding period. Actually, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.

As at the date of preparation of the Half-yearly Report as at 30 June 2023, the period for the measurement of Stressed VaR for Intesa Sanpaolo was from 3 October 2011 to 20 September 2012.

For managerial purposes, the stressed VaR metric is calculated on the entire set of the Group’s portfolios measured at fair value (trading and FVOCI in the banking scope) and the stressed period is revised at least annually, together with the annual update to the market risk management framework (Risk Appetite Framework).

### **Incremental Risk Charge (IRC)**

**Definition:** The Incremental Risk Charge (IRC) is the maximum potential loss in the credit trading book resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level. This measure, which is additional to the VaR, is applied to the entire trading book of Intesa Sanpaolo (just as for the other regulatory metrics, it is not applied to the sub-portfolios).

The IRC enables the correct representation of the specific risk on debt securities and credit derivatives because, in addition to idiosyncratic risk, it also captures event and default risk.

This measure applies to all financial products that are sensitive to credit spreads included in the trading book except for the securitisations.

**Method:** The simulation is based on a Modified Merton Model. The probabilities of transition and default are those observed through the historical matrices of the main rating agencies, applying a probability of default minimum value higher than zero. The asset correlation is inferred from the equity correlation of the issuers. The model is based on the assumption of a constant position with a holding period of one year.

A regular stress program is applied to the model’s main parameters (correlation, and transition, default and credit spread matrices).

### Daily managerial VaR of the 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.

(millions of euro)

	2023			average 1 <sup>st</sup> quarter	2022			
	average 2 <sup>nd</sup> quarter	minimum 2 <sup>nd</sup> quarter	maximum 2 <sup>nd</sup> quarter		average 4 <sup>th</sup> quarter	average 3 <sup>rd</sup> quarter	average 2 <sup>nd</sup> quarter	average 1 <sup>st</sup> quarter
<b>Total Group Trading Book <sup>(a)</sup></b>	35.5	26.9	45.9	27.9	26.6	26.0	22.8	21.4
<i>of which: Group Treasury and Finance Department</i>	4.4	3.5	5.6	5.1	6.6	7.2	6.1	3.8
<i>of which: IMI C&amp;IB Division</i>	33.7	25.5	43.7	25.3	24.7	26.0	21.2	17.5

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

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

During the second quarter of 2023, as shown in the table above, compared to the averages of the first quarter of 2023, there was an increase in managerial risk of the trading book, from 27.9 million euro (2023 first quarter average) to 35.5 million euro (2023 second quarter average). The increase is mainly attributable to the management of exposure to interest rate risk of the trading book.

Also with regard to the overall performance in the first half of 2023 compared to the same period in 2022, there was an 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.

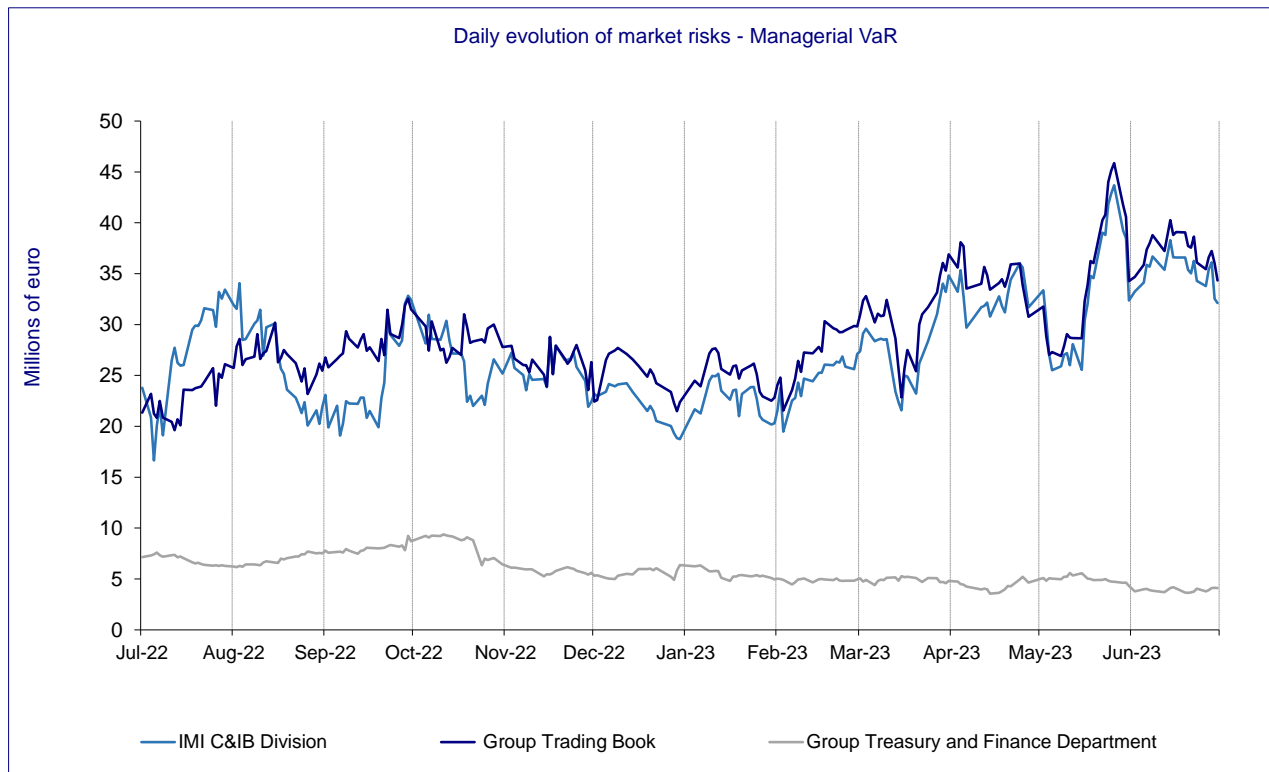
(millions of euro)

	2023			2022		
	average 1 <sup>st</sup> half	minimum 1 <sup>st</sup> half	maximum 1 <sup>st</sup> half	average 1 <sup>st</sup> half	minimum 1 <sup>st</sup> half	maximum 1 <sup>st</sup> half
<b>Total Group Trading Book (a)</b>	31.6	21.5	45.9	22.1	15.4	29.6
<i>of which: Group Treasury and Finance Department</i>	4.8	3.5	6.3	5.0	2.4	7.1
<i>of which: IMI C&amp;IB Division</i>	29.3	19.5	43.7	19.4	13.9	28.9

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

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

The trend in the trading VaR in the second quarter of 2023 was mainly marked by transactions conducted by the IMI C&IB Division. Specifically, as shown in the chart below, there was an initial increase and then a reduction, mainly attributable to the management of interest rate risk of the trading book.



The breakdown of the Group's risk profile in the trading book in the second quarter of 2023 shows a prevalence of credit spread risk and interest rate risk, accounting for 41% and 35%, respectively, of the Group's 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 (49% and 37%, respectively) and of credit spread and interest rate risk for the IMI C&B Division (42% and 34%, respectively).

#### Contribution of risk factors to total managerial VaR<sup>(a)</sup>

2 <sup>nd</sup> quarter 2023	Shares	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Group Treasury and Finance Department	8%	37%	6%	49%	0%	0%
IMI C&B Division	10%	34%	42%	5%	5%	4%
<b>Total</b>	<b>9%</b>	<b>35%</b>	<b>41%</b>	<b>7%</b>	<b>4%</b>	<b>4%</b>

(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 second quarter of 2023, broken down between the Group Treasury and Finance Department and IMI C&B 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 June 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	64	94	-30	51	-3	9	16	-10	-10	0	6	-6

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 30 million euro in the event of a rise in interest rates;
- for positions in credit spreads, a tightening of credit spreads of 25 basis points would result in an overall loss of 3 million euro;
- for positions in exchange rates, there would be potential losses of 10 million euro in the event of appreciation in the Euro against the other currencies;
- for positions in commodities, there would be a loss of 10 million euro in the event of a fall in prices of commodities other than precious metals;
- lastly, for the inflation-indexed positions, there would be potential losses of 6 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 a slight reduction in managerial VaR in the second quarter of 2023 from 178 million euro (average managerial VaR first quarter of 2023) to 166 million euro (average managerial VaR second quarter of 2023).

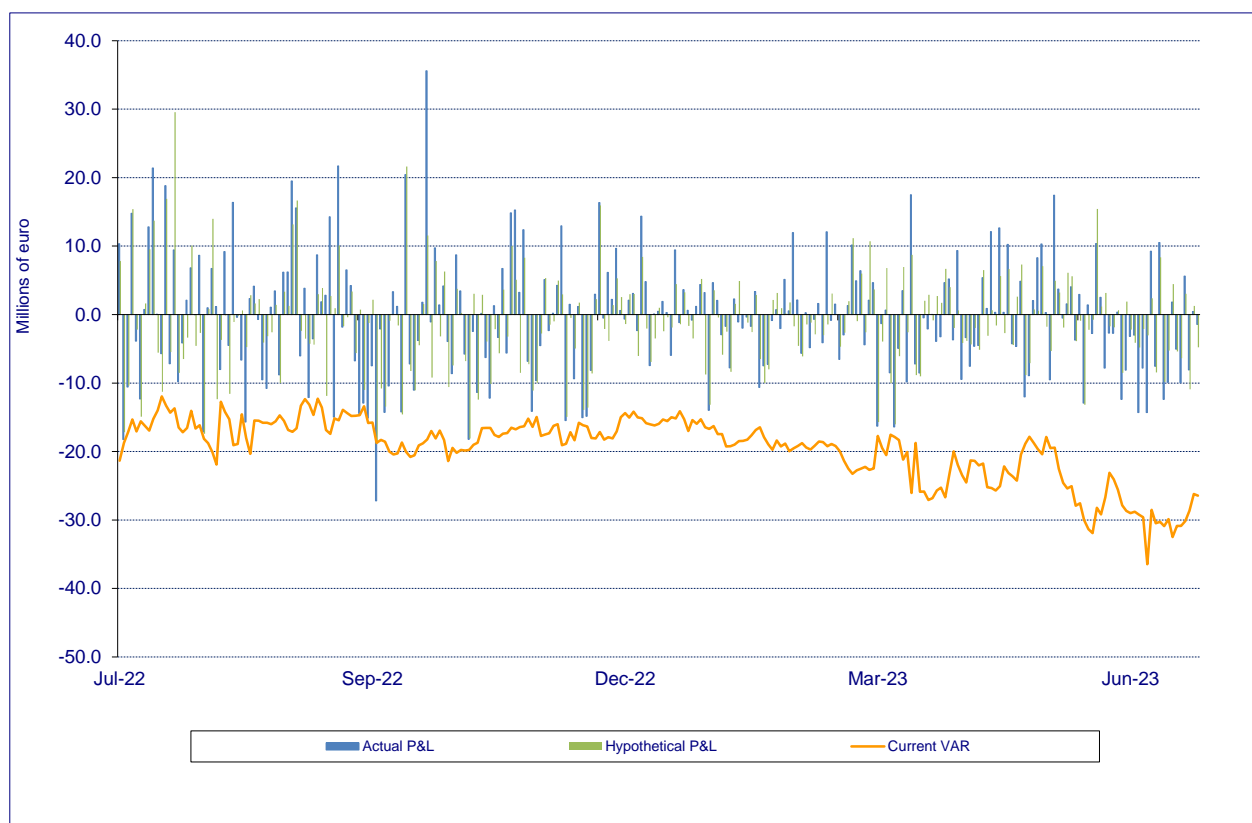
### Backtesting

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.

During the last year the regulatory VaR measure for Intesa Sanpaolo was sufficiently conservative, recording only one backtesting exception. There were no exceptions in the second quarter of 2023.



### 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

### Qualitative information

The “banking book” is defined as the trade portfolio consisting of all on-balance sheet and off-balance sheet items that are part of the Intesa Sanpaolo Group’s lending and deposit collecting activities. Therefore, the interest rate risk of the banking book (hereinafter “interest rate risk” or IRRBB) refers to the current and prospective risk of changes in the Group’s banking book due to adverse changes in interest rates, which are reflected in both economic value and net interest income.

The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mainly held by the Parent Company.

The internal system for measuring interest rate risk assesses and describes the effect of changes in interest rates on the economic value and the net interest income and identifies all significant sources of risk that affect the banking book:

- repricing risk, i.e. the risk associated with lags in maturity dates (for fixed-rate positions) or in the interest rate revision date (for floating-rate positions) of the assets, liabilities and off-balance sheet items;
- yield curve risk, i.e. the risk associated with changes in the inclination and shape of the yield curve;
- basis risk, i.e. the risk arising from imperfect correlation in the adjustment of lending and deposit rates on different instruments, but with otherwise similar repricing characteristics. As interest rates change, these differences can lead to unexpected changes in cash flows and yield spreads between assets, liabilities and off-balance sheet positions having similar maturities or rate revision frequencies;
- optionality risk, i.e. the risk associated with the presence of automatic or behavioural options in the Group’s assets, liabilities and off-balance sheet instruments.

Intesa Sanpaolo’s current measurement system also allows the risk profile to be examined on the basis of two distinct but complementary perspectives:

- **economic value perspective** (EVE – Economic Value of Equity), which considers the impact of interest rate fluctuations and the associated volatility on the present value of all future cash flows;
- **net interest income perspective** (NII - Net Interest Income), which aims to analyse the impact of interest rate fluctuations and their associated volatility on net interest income;

The economic value perspective assesses the medium-to-long term impacts of interest rate fluctuations, while the net interest income perspective provides a short-term assessment.

Interest rate risk is managed by setting limits to both perspectives. Said limits comprise:

- consolidated limits, which are defined in the RAF and approved by the Board of Directors, both in terms of change in EVE (shift sensitivity or  $\Delta$ EVE) and net interest income sensitivity ( $\Delta$ NII). The consolidated  $\Delta$ EVE limits reflect, consistent with the context and regulatory instructions, the average expected exposure of the Group’s EVE. The expected average level is quantified within the RAF and defined as the average exposure that the Group expects to take during the year. The Group’s consolidated sensitivity limits EVE and NII are accompanied by two risk indicators, which constitute an “early warning” threshold, and are approved within the RAF, which make it possible to control exposure to the risk of yield curve twists;
- individual shift sensitivity and net interest income sensitivity limits, which are part of the “cascading” process of the Group’s RAF limit, and are proposed, after being shared with the operating structures, by the Market and Financial Risk Management Head Office Department and approved by the Group Financial Risk Committee (GFRC). These limits take account of the characteristics of the banks/divisions’ portfolios, with particular reference to intermediated volumes, average durations, the type of instruments traded and the Company’s strategic mission within the Group.

The Market and Financial Risk Management Head Office Department performs monthly checks that the limits and early warning level approved in the Risk Appetite Framework (RAF) are observed at the consolidated and individual level. In addition, the Group has adopted a specific internal policy document regarding interest rate risk (the IRRBB Guidelines) subject to approval by the Board of Directors, which governs the Group’s entire interest rate risk management framework and in particular the aspects of governance, methods of use and formulation of scenarios.

The IRRBB Guidelines define the methods for measuring the financial risks generated by the Group’s banking book:

1. Sensitivity of economic value ( $\Delta$ EVE);
2. Net interest income sensitivity ( $\Delta$ NII);
3. Credit Spread Risk of the Banking Book (CSRBB);
4. Value at Risk (VaR).

These measures are available for each relevant currency in the banking book.

The **shift sensitivity of the economic value** (or fair value shift sensitivity) measures the change in the economic value of the banking book and is calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks and based on historical stress simulations aimed at identifying the worst and best cases. It reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet). The cash flows used to determine the present value are developed at the risk-free rate (Euribor/Libor) and discounted according to risk-free discount curves.

To control the exposure and monitor the limits, the calculation involves determining the algebraic sum of the equivalent in euro of the shift sensitivities of the positions in the various currencies by applying a parallel shock of +100 basis points to the interest rate curves in the various currencies. The calculation for non-parallel shocks for the purposes of controlling the exposure and monitoring the early warning level is performed similarly. The sensitivity of the relevant currencies is then corrected, according to a "currency aggregation" management technique, to take account of the imperfect correlation with the rates of the main currency (the euro).

The **sensitivity of net interest income** focuses the analysis on the impact that changes in interest rates can have on the Group's ability to generate stable profit levels. The component of profits measured is represented by the difference between the net interest income generated by interest-bearing assets and liabilities, including the results of hedging activities through the use of derivatives. The time horizon of reference is commonly limited to the short and medium term (from one to three years) and the impact is assessed on a going concern basis. The change in net interest income is estimated under expected scenarios as well as under potential interest rate shocks and stress scenarios. Further assumptions are made regarding customer behaviour (differentiated according to interest rate scenarios) and market behaviour and the response of Group/Bank management to changes in the economy. Thus, the projection of the net interest income and its sensitivity to changes in market factors require a series of modelling assumptions for the development of volumes and rates (fixed/floating), the reference time horizon, the relevant currencies, as well as the behavioural models introduced (prepayment, core deposits, etc.) and the assumptions regarding the evolution of the portfolio (run-off, constant or dynamic balance sheet).

The net interest income sensitivity limits are defined on the basis of an instantaneous and parallel interest rate shock of +/-50 basis points, with a reference time horizon of 1 year and assuming a constant balance sheet. The net interest income sensitivity limit is defined as the limit on the loss in the income statement and, therefore, is exclusively negative (limit on the potential reduction in the net interest income): the use of the limit is represented by the sensitivity that generates a greater reduction in net interest income in the two scenarios of a parallel rise and fall in interest rates. The total sensitivity exposure of net interest income is given by the algebraic sum of the exposure of individual currencies.

The GFRC is also tasked with allocating sub-limits on net interest income sensitivity to the individual Banks/Companies, and may also define sub-limits on net interest income sensitivity by currency. The limit assigned to each Company is defined consistently with the strategies and limits defined for the sensitivity of economic value.

The **Credit Spread Risk of the Banking Book (CSRBB)** is defined as the risk caused by changes in the price of credit risk, liquidity premium and potentially other components of instruments with credit risk that cause fluctuations in the price of credit risk, liquidity premium and other potential components, which is not explained by the interest rate risk of the banking. The reference area is represented by the HTCS securities portfolio, whose changes in value have an immediate impact on the Group's capital.

**Value at Risk (VaR)** is a probability-based metric that expresses the maximum potential loss of portfolio value that could be incurred within a specific time horizon, at a pre-defined confidence level. VaR is also used to consolidate exposure to financial risks of the various Group companies which perform banking book activities, also taking into account the benefits of diversification and the correlation between various risk factors and different currencies. This measure is calculated and monitored, for the entire scope, by the Market and Financial Risk Management Head Office Department.

In calculating the above risk measures, Intesa Sanpaolo adopts behavioural models for representing capital items.

For mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding). The prepayment ratios for Retail mortgages are estimated through a Survival Analysis that expresses the repricing portfolio of each single mortgage, based on several fundamental variables:

- macroeconomic variables (consumer price index (CPI) - inflation, trend in market IRS rates, etc.);
- personal details of the counterparty (age, region of location);
- financial variables (original duration, seasoning, type of rate, unpaid instalments, incentive).

For core deposits (customer current accounts), a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations. The model is continuously monitored and periodically revised to promptly reflect changes in volumes and customer characteristics over time, as well as in the relevant regulatory framework.

In order to measure the Group's vulnerability to market turbulence, the interest rate risk measurement system measures the impacts on the economic value and net interest income produced by strains on the market ("scenario analysis"), i.e. sudden changes in the general level of interest rates, changes in the relationships between fundamental market rates (basis risk), in the slope and shape of the yield curve (yield curve risk), in the liquidity of the main financial markets or in the volatility of market rates.

These analyses are conducted by subjecting the portfolio to various interest rate change scenarios:

- regulatory scenarios produced by the Supervisory Outlier Test (SOT), which introduces an "early warning" referring to changes in economic value of 15% of Tier 1, calculated with reference to the BCBS scenarios (Parallel shock up, Parallel shock down, Steepener shock, Flatteners shock, Short rates shock up and Short rates shock down);
- shocks diversified by reference curve of the main risk factors and calculated as the difference between the yields of the curves of the individual factors and those of a curve relating to the selected pivot parameter (basis risk);



– stress scenarios in historical simulation.

Stress tests on behavioural models are also carried out to verify the financial impact of alternative assumptions underlying the behavioural parameters estimated in the models. The methodological assumptions underlying the assumptions contained in the stress scenarios are duly described in the detailed methodologies.

**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.

**Quantitative information**

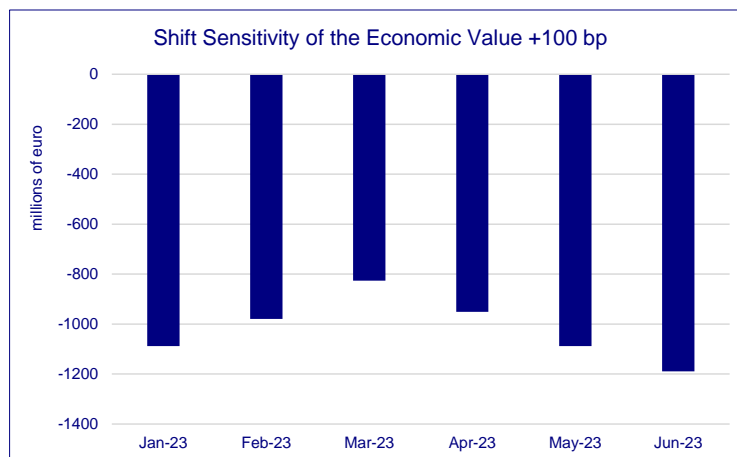
**Banking book: internal models and other sensitivity analysis methodologies**

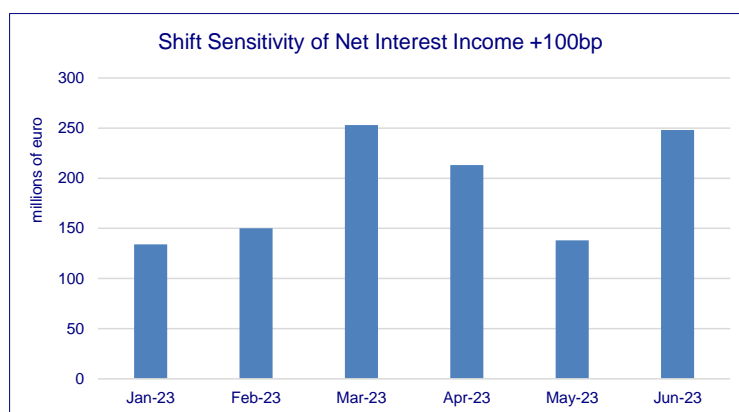
In the first half of 2023, interest rate risk generated by the Intesa Sanpaolo Group’s banking book, measured through shift sensitivity of economic value, averaged -1,020 million euro, with a minimum of -826 million euro and a maximum value of -1,189 million euro, with the latter coinciding with the value at the end of June 2023. The latter figure increased by -173 million euro on the end of 2022, when it came to -1,016 million euro. This was due to the increase in exposure of the portfolio of securities HTC and HTCS recorded during the half year, and to new derivatives hedging core deposits, partially offset by new derivatives hedging fixed-rate loans to customers.

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 160 million euro, -424 million euro and 248 million euro, respectively, at the end of June 2023. The latter figure was stable (-3 million euro) on the value at the end of 2022, amounting to 251 million euro. The decrease in the measure due to the reduction in volumes of demand deposits from customers during the half year, the new derivatives hedging the core deposits model and the repricing of floating-rate loans to customers, was offset by a decline in implicit reactivity of core deposits, specifically starting in March.

The table and charts below provide a representation of the performance of the sensitivity of economic value (or the sensitivity of fair value) and the sensitivity of net interest income.

	1st half 2023			30.06.2023	(millions of euro) 31.12.2022
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	-1,020	-826	-1,189	-1,189	-1,016
Shift Sensitivity of Net Interest Income -50bp	-474	-424	-575	-424	-668
Shift Sensitivity of Net Interest Income +50bp	269	157	495	160	633
Shift Sensitivity of Net Interest Income +100bp	189	134	253	248	251





Interest rate risk, measured in terms of VaR, averaged 517 million euro in the first half of 2023, with a maximum value of 584 million euro, reached in April, and a minimum value of 427 million euro, recorded in January 2023. The figure at the end of June 2023 came to 475 million euro, up on the value at the end of December 2022, equal to 442 million euro, due to the increased exposure to increases in interest rates.

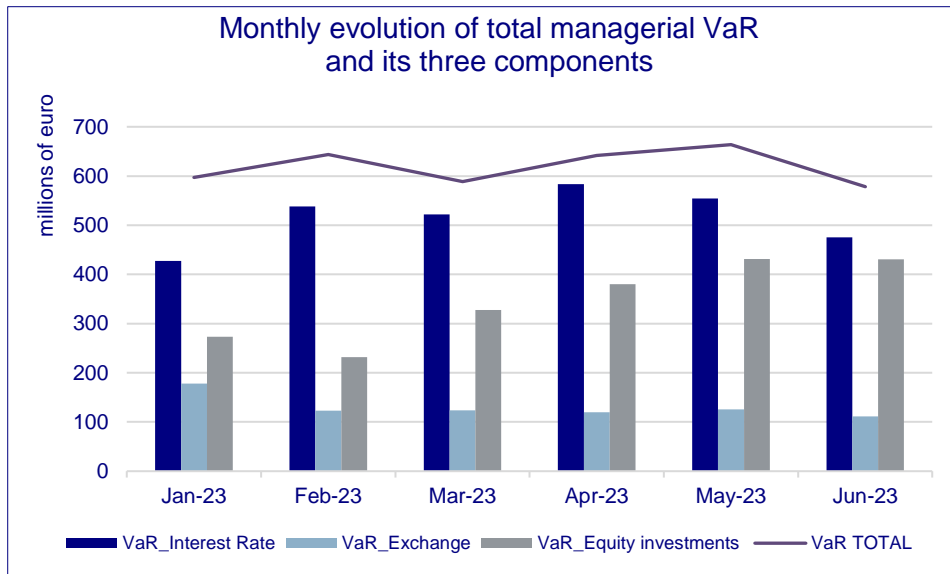
Foreign exchange risk, expressed by equity investments in foreign currency (banking book) and measured in terms of VaR, averaged 130 million euro in the first half of 2023, with a maximum value of 178 million euro, reached in January, and a minimum value of 111 million euro, recorded in June 2023. The latter figure decreased on the value of 126 million euro at the end of December 2022. That change was mainly linked to the exit of the Croatian Kuna (HRK) from the scope of structural foreign exchange risk.

Price risk generated by the equity portfolio, measured in terms of VaR, recorded an average level during the first half of 2023 of 346 million euro, with minimum and maximum values of 232 million euro and 431 million euro, respectively, the latter being the figure of the end of June 2023, up on the value at the end of December 2022 of 334 million euro. That growth was mainly due to the increase in the volatility of prices of the equity portfolio.

Total VaR, consisting of the three components described above (Interest Rate VaR, Exchange Rate VaR and Equity VaR) averaged 619 million euro in the first half of 2023, with a maximum value of 664 million euro and a minimum value of 578 million euro, recorded at the end of June 2023. This figure decreased on the value of 639 million euro at the end of December 2022, due to the increase in the benefit of overall diversification, linked to the recomposition of the portfolio illustrated with regard to the single risks (Interest Rate, Foreign Exchange and Equity Investments).

The table and chart below provide a representation of the performance of total VaR and its three components (Interest Rate VaR, Exchange VaR and Equity Investments VaR).

	1st half 2023			30.06.2023	31.12.2022
	average	minimum	maximum		
Value at Risk - Interest Rate	517	427	584	475	442
Value at Risk - Exchange	130	111	178	111	126
Value at Risk - Equity investments	346	232	431	431	334
<b>Total Value at Risk</b>	<b>619</b>	<b>578</b>	<b>664</b>	<b>578</b>	<b>639</b>



Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock of  $\pm 10\%$  for the portfolio of quoted minority stakes, largely classified to the HTCS category.

**Price risk: impact on Shareholders' Equity**

		Impact on shareholders' equity at 30.06.2023	Impact on shareholders' equity at 31.03.2023	(millions of euro) Impact on shareholders' equity at 31.12.2022
Price shock	10%	58	65	73
Price shock	-10%	-58	-65	-73

## LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).

Intesa Sanpaolo's internal control and management system for liquidity risk is implemented within the Group Risk Appetite Framework and in compliance with the tolerance thresholds for liquidity risk approved in the system, which establish that the Group must maintain an adequate liquidity position in order to cope with periods of strain, including prolonged periods, on the various funding supply markets, also by establishing adequate liquidity reserves consisting of marketable securities and refinancing at Central Banks. To this end, a balance needs to be maintained between incoming and outgoing funds, both in the short and medium-long term. This goal is implemented by the Group Liquidity Risk Management Guidelines approved by the Corporate Bodies of Intesa Sanpaolo, in implementation of the applicable regulatory provisions.

These Guidelines illustrate the tasks of the various company functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. To this end, they include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, as well as the rules for conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies.

In particular, a detailed definition is prepared of the tasks assigned to the corporate bodies and reports are presented to the senior management concerning certain important formalities such as the approval of measurement indicators, the definition of the main assumptions underlying stress scenarios and the composition of early warning thresholds used to activate emergency plans.

In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company's Corporate Bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group's overall transactions and the liquidity risk to which it is exposed.

The corporate functions of the Parent Company responsible for ensuring the correct application of these Guidelines and the adequacy of the Group's liquidity position are the Group Treasury and Finance Head Office Department and the Planning and Control Head Office Department, responsible, within the Chief Financial Officer (CFO) Area, for liquidity management, and the Market and Financial Risk Management Head Office Department, which is directly responsible, within the Chief Risk Officer (CRO) Area, for measuring liquidity risk on a consolidated basis.

The Chief Audit Officer assesses the functioning of the overall structure of the control system monitoring the process for measuring, managing and controlling the Group's exposure to liquidity risk and verifies the adequacy and compliance of the process with the requirements established by the regulations. The results of the controls carried out are submitted to the Corporate Bodies, at least once a year.

The liquidity risk measurement metrics and mitigation tools are formalised by the Group Liquidity Risk Management Guidelines which establish the methodology used for both the short-term and structural liquidity indicators.

The short-term liquidity is aimed at providing an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, while ensuring a sufficient liquidity buffer, available for use as the main mitigation tool for liquidity risk. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of specific short-term indicators, both of a regulatory nature with a holding a period of one month (Liquidity Coverage Ratio - LCR) and internally defined (Survival Period indicators).

The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high-quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in an acute liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by Delegated Regulation (EU) 2015/61 and its supplements/amendments.

The Survival Period is an internal indicator designed to measure the first day on which the net liquidity position (calculated as the difference between available liquidity reserves and net outflows) becomes negative, i.e. when additional liquidity is no longer available to cover simulated net outflows. To this end, two different scenario hypotheses are considered, baseline and stressed, designed to measure, respectively: (i) the Group's independence from interbank funding on the financial markets and (ii) the survival period in the event of further tensions of a market and idiosyncratic nature, of medium-high severity, managed without envisaging restrictions on credit activity involving customers. For the Survival Period indicator, in stress conditions it is established that a minimum survival period must be maintained with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions.

The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions - the Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. In addition, the internal policy on structural liquidity also includes "early warning" indicators for maturities of more than 1 year, with particular attention to long-term gaps (> 5 years).

The Group Liquidity Risk Management Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of

operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, also indicating the immediate lines of action, and the intervention measures for the resolution of emergencies. Within this framework, the Group Treasury and Finance Head Office Department was officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term.

The Group's liquidity position, which continues to be supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding, remained within the risk limits set out in the current Group Liquidity Policy for the entire first half of 2023. The levels of both regulatory indicators, LCR and NSFR, were above the regulatory requirements. The Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average<sup>47</sup> of 171.1% (181.9% in December 2022). As at 30 June 2023, the exact value of unencumbered HQLA reserves at the various Treasury Departments of the Group amounted to 140.5 billion euro (172.5 billion euro at the end of 2022), approximately 55% of which consisted of cash as a result of temporary excess liquidity payments in the form of unrestricted deposits held at central banks. Including the other marketable reserves and/or eligible Central Bank reserves, also comprising retained self-securitisations, the Group's total unencumbered liquidity reserves amounted to 183.2 billion euro (177.7 billion euro in December 2022).

The Group's total reserves increased in relation to the ECB's return of the collateral underlying the TLTROs repaid during the half year, a change only partially offset by the decrease in available cash among HQLA.

	(millions of euro)	
	Unencumbered (net of haircut)	
	30.06.2023	31.12.2022
<b>HQLA Liquidity Reserves</b>	<b>140,485</b>	<b>172,528</b>
Cash and Deposits held with Central Banks (HQLA)	72,332	109,792
Highly liquid securities (HQLA)	59,782	55,931
Other HQLA securities non included in LCR	8,371	6,805
<b>Other eligible and/or marketable reserves</b>	<b>42,705</b>	<b>5,222</b>
<b>Total Group's Liquidity Buffer</b>	<b>183,190</b>	<b>177,750</b>

The NSFR was also significantly higher than 100%, supported by a solid base of stable deposits from customers, adequate wholesale medium/long-term securities funding and, now to a residual extent, the remaining portion of TLTRO funding from the ECB. At 30 June 2023, the Group's NSFR, measured in accordance with regulatory instructions, was 125.5% (126.0% in December 2022). That ratio remains well above 100%, also completely excluding the contribution of the TLTRO funding still outstanding. Considering the high amounts of unencumbered liquidity reserves (liquid or eligible), also the stress tests, in a combined scenario of market and specific crises (with significant loss in customer deposits), 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 of more 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 various 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.

<sup>47</sup> The figure shown refers to the simple average of the last 12 months of monthly observations, as per Regulation (EU) 2021/637.

## ESG (ENVIRONMENTAL, SOCIAL AND GOVERNANCE) RISKS AND CLIMATE CHANGE RISK

This section illustrates Intesa Sanpaolo's exposure to ESG risks and the main actions taken by the Bank to monitor and manage those risks. For a more detailed illustration of that topic, refer to the 2022 Consolidated Financial Statements. The main elements useful in understanding the context in which the Bank operates, and which impact the activities under way during the first half of 2023, are summarised below.

Sustainability, a term referring to the ability to avoid harming the environment and communities, in order to support a medium/long-term economic, social and environmental balance, is a factor of significant, increasing importance for society as a whole. The management of ESG issues therefore requires considering not only the impacts of the related risks on the Bank's organisation, but also the potential impact on stakeholders and the risks that the Bank exposes its stakeholders and the environment to through its operations. The Intesa Sanpaolo Group is aware of the importance of fair, responsible allocation of the resources and the influence that a banking group can have in terms of sustainability in both the short and long term and pays particular attention to managing ESG risks, both regarding its operations and relating to the activities of its corporate customers and the sectors considered sensitive, i.e. with a significant ESG risk profile.

ESG risks are therefore included in the overall risk management framework as they represent potential negative impacts that an organisation or activity may have on the environment, people and communities, including risks related to the corporate conduct (corporate governance), earnings, reputational profile and credit quality with possible legal consequences. Within the ESG risks, particular importance is given to climate risk, namely the financial risk arising from exposure to the physical and transition risk related to climate change. The risks and opportunities related to climate change are identified and analysed in a coordinated manner by the various corporate functions, in order to include them in the ordinary processes of risk identification, assessment and monitoring, in the Group's credit strategies and commercial offering.

The Group is therefore committed to incorporating the impact of climate-related aspects into its strategic decision-making processes, in order to fully integrate them into the risk management framework with the aim of maintaining a low risk profile. This includes the monitoring and management of ESG risks, including risks arising from climate change (credit, operational, reputational, market and liquidity risks) and the implementation of ethical and environmental standards in the internal processes, products and services offered to customers, and selection of counterparties and suppliers.

Accordingly, since 2021 a specific section dedicated to ESG, climate change and reputational risks has been included in the Risk Appetite Framework (RAF), which represents the general framework used for the management of enterprise risk. This section includes qualitative and quantitative information. Specifically, with regard to ESG & Climate risks, the Group recognises the strategic importance of ESG factors and the urgent need to curb climate change.

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

**Physical risks** represent the negative financial impact from climate change, including more frequent extreme weather events and gradual climate change, as well as environmental degradation, i.e. air, water and soil pollution, water stress, biodiversity loss, and deforestation. These risks – which can usually arise in both the short/medium and long term – can be broken down into acute and chronic risks:

- **acute physical risks**, which refer to specific events that have the potential to create significant physical damage (e.g. flooding of rivers and oceans, tropical storms). These events are occurring more frequently, on both a regional and global basis;
- **chronic physical risks**, which involve a series of physical impacts of considerably longer duration than those posed by acute risks. They are identifiable as processes of change rather than single events. In most cases, the impacts are localised (e.g., drought) but chronic risks are likely to become more significant in the long term.

**Transition risks** are the negative financial impacts that an institution may incur, directly or indirectly, as a result of the process of adjustment to a low-carbon and more environmentally sustainable economy, arising from:

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

The integration of ESG risks, and in particular climate change risk, into the risk management framework comprises:

- a materiality analysis;
- establishment of specific controls within the Risk Appetite Framework (RAF);
- execution of a Climate Scenario Analysis;
- monitoring of ESG risks divided according to the different risk categories (e.g. credit, market, liquidity), with a particular focus, within the environmental risks (e.g. earthquakes, biodiversity loss), on climate change risk.

An in-depth description of the processes of identification, management and monitoring set out in the Group ESG risk governance framework and summarised below is provided in the 2022 Consolidated financial statements.

### *Climate/ESG Materiality Assessment*

The Climate/ESG Materiality Assessment is a process of assessing the potential impacts of ESG and climate risks for the Group. The main tool is the annually updated ESG sectoral assessment, which identifies the sectors (and subsectors) most exposed to climate change and ESG risks. The methodology used involves assigning scores to each risk driver (transition risk, physical risk, environmental risk, social risk and governance risk).

The results of the Materiality Assessment form the basis for setting the ESG Sectoral Strategy and guide the identification, within the Risk Appetite Framework, of limits, Key Risk Indicators and specific actions aimed at containing ESG risks, particularly with regard to the sectors most exposed to those risks.

#### *Risk Appetite Framework (RAF)*

The RAF integrates and translates what has been defined in terms of strategic guidelines into specific controls, and the ESG/Climate Materiality Assessment and the ESG Sectoral Strategy are used to identify, on an annual basis, limits, key risk indicators and specific actions aimed at containing the ESG risks, specifically with regard to the sectors with the highest exposure to those risks. This also includes specific actions related for example to the Group's commitment to the "Net-Zero" objectives.

Specific limits have therefore been set in relation to the exposure to the coal mining and oil & gas sectors, which are more exposed to transition risk. For coal mining in particular, the limit is reviewed annually in line with the target of phasing out lending by 2025. In order to fulfil the commitments made within the Net-Zero Banking Alliance, specific early warning and monitoring thresholds have been introduced relating to the CO<sub>2</sub> emissions of financed counterparties from the Oil & Gas, Power Generation and Automotive sectors. An attention threshold in relation to the Group's exposure has also been introduced for sectors characterised by significant issues, especially with regard to the social dimension, in line with the ESG sectoral strategy of associated credit disincentives.

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

#### *Climate Scenario Analysis*

Scenario analysis is a key element in integrating the risks and opportunities associated with climate change into the business strategies, also considering the medium- to long-term implications. In general, Climate Scenario Analysis is used to explore potential portfolio vulnerabilities, particularly credit related, within regulatory stress testing exercises or the ICAAP.

In 2022, for the purpose of assessing banks' vulnerability to climate and environmental risks, Intesa Sanpaolo participated in the 2022 SSM Climate Risk Stress Test conducted by the ECB. The results of this exercise were integrated into the supervisory review and assessment process (SREP). Starting from the 2023 ICAAP/ILAAP, capabilities and methodologies to integrate climate-related scenarios have also been developed, in order to provide an overall picture of the main vulnerabilities to Climate-Related Risk, for the Group's main exposures and main assets.

#### *Monitoring of ESG/climate risks in the different risk categories*

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

With reference to **credit risk**, the qualitative component of the Corporate models currently validated and used by the Group considers various aspects and elements related to ESG and Climate, by means of specific questions answered by the analysts when assigning the rating. These include aspects such as the presence and quality of environmental certificates held by the company, the presence of legal disputes related to environmental issues (pollution resulting from production activities), and, more generally, human rights and the stability of corporate governance.

To take account of the counterparty's exposure to physical risks arising from catastrophic events (e.g. damage to production facilities and/or warehouses), a specific new module has been developed in the new Corporate models (companies or groups with a size of less than 500 million euro), validated in the first half of 2023, which uses a top-down approach (the data at individual level is currently very limited, especially for smaller companies) based on historical and public information on catastrophic events observed at geographical area level. More specifically, for domestic counterparties, this module provides an assessment of the risk of damage related to natural disasters (floods, fires, earthquakes) to which a company is potentially exposed depending on the region (and/or municipality) where it operates and/or mainly conducts its business.

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

- analyses and monitors market prices and liquidity of financial instruments to identify possible evidence of climate and environmental risk factors;
- analyses the impact of climate and environmental risks on the fair value measurement of financial instruments, focusing in particular on the main asset classes, payoffs and positions explicitly linked to climate and environmental (C&E) risk factors, as well as the future investments proposed by the business structures;
- classifies current positions subject to market risk using the ESG indicators available internally (e.g. ESG Sectoral Assessment, ESG Sectoral Strategy) and externally (e.g. economic-industrial business sectors, ESG score/rating), also through recognised providers.

With regard to **liquidity risk**, significant climate and environmental risks may lead to an increase in net cash outflows or erode available liquidity reserves. After the prior identification of climate and environmental risk factors that could adversely affect the Group's liquidity positions, specific analyses and monitoring of exposures are carried out to assess the materiality of the risk factors identified, maintaining a close connection with the qualitative assessments adopted by the Bank at sector and sub-sector level (e.g. ESG Sectoral Assessment) for credit risk purposes.

In the assessment of the various scenarios, including stress scenarios, on the timing of inflows and outflows and the quantitative and qualitative adequacy of liquidity buffers, particular attention is also devoted to analysing the impact of climate

and environmental risk factors that could compromise the liquidity positions on a forward-looking basis over medium-term horizons (1-3 years). These analyses are incorporated into the annual report on the Internal Liquidity Adequacy Assessment Process (ILAAP) without highlighting material absorptions of the Group's liquidity reserves.

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

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

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

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

With regard to the corporate credit granting process in particular, it is aimed at making a prior assessment of the potential ESG and reputational risks associated with credit transactions involving counterparties operating in sectors sensitive to ESG and/or reputational risks. The ESG & Reputational risk clearing process is applied on a proportional basis and in a differentiated manner according to the complexity of the counterparties/transactions and has escalation mechanisms differentiated according to the ESG/reputational risk class assigned to the transaction/counterparty.

With regard to **direct environmental risks**, in view of the increasing strategic significance of the issue of CO<sub>2</sub> emissions, in 2022 Intesa Sanpaolo drew up a plan, called the Own Emissions Plan, which sets a Net Zero target for own emissions to 2030 through energy efficiency measures and greater use of energy from renewable sources. With regard to hydrogeological risk (floods and landslides), which also relates to climate change and the possible occurrence of crisis scenarios in Italy which could have repercussions on Intesa Sanpaolo's properties, a series of company structures is to be activated.

In 2022, a project was launched to map the exposure of all the physical risks, both acute and chronic, from climate change for all the banking assets in line with the Bank's Business Plan. The project involves assessing environmental vulnerabilities through a platform used to identify hazard risk for each real estate asset of the Intesa Sanpaolo Group related to Climate Change Risks and other Geographical Risks. The aim is to establish an application to produce an index of exposure to physical risks from climate change (floods, hydrogeological risks, droughts, fires, etc.) and internal risks (e.g. radon and asbestos) for all the company real estate assets, as support for the monitoring and preparation of the risk mitigation plan. The scope of areas subject to constraints related to the protection of biodiversity will also be taken into account. The platform will be operational at the end of 2023 on the Italian scope of capital assets, and will be gradually extended also to the international branches and offices.

The results of the analyses conducted so far (materiality assessment and the stress test) have shown that the Group is not exposed in the short term to a material extent to the above-mentioned risks.

In particular, with regard to the Transition Risk on the most emission-intensive sectors of the Banking Book (Oil & Gas, Power Generation and Automotive), intermediate sector targets to 2030 have been set in the Business Plan – aligned to the Net Zero target by 2050 – subject to a transition plan in accordance with the Net-Zero Banking Alliance (NZBA) guidance, to mitigate the potential future risk. Further sectors will gradually be added to the three mentioned above, as a result of the analyses that will be carried out in relation to the commitments made when joining the NZBA and to the SBTi (Science Based Target Initiative) validation.

Further information on the monitoring of environmental and climate risks is contained in the TCFD Report (Task Force on Climate-related Financial Disclosures) the Group has published on a voluntary basis since 2021.



## INFORMATION ON FINANCIAL PRODUCTS

In line with the requests for utmost transparency made by supranational and national Supervisory Authorities, the following information is provided on the fair value measurement methods adopted, structured credit products, activities performed through Special Purpose Entities (SPE), leveraged transactions, hedge fund investments and transactions in trading derivatives with customers. This section also includes the disclosure concerning the Interest Rate Benchmark Reform.

## FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES, INDEPENDENT PRICE VERIFICATION AND PRUDENT VALUATION

The framework of financial measurement at fair value is based on three pillars: fair value measurement according to the IFRS, independent price verification (IPV) and prudent value measurement. The latter are established by the CRR - Capital Requirement Regulation. The paragraphs below describe the methods applied by the Intesa Sanpaolo Group to implement and use those elements.

### Fair value of financial instruments

The Intesa Sanpaolo Group governs and defines the fair value measurement of financial instruments through the “Group Guidelines / Rules for Valuation of Financial Instruments at Fair Value”, prepared by the Market and Financial Risk Management Head Office Department and applied by the Parent Company and all consolidated subsidiaries, including the insurance companies.

The “Guidelines for Valuation of Financial Instruments at Fair Value”, once a favourable opinion has been given by the Group Financial Risk Committee, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks and Sustainability Committee. The “Rules for Valuation of Financial Instruments at Fair Value” are reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Market and Financial Risk Management Head Office Department.

The “Rules for the Measurement of Unlisted Equity Investments”, drawn up by the Group M&A and Equity Investments Head Office Department and approved by the Group Financial Risk Committee, govern the fair value measurement of unlisted equities and financial instruments with unlisted equities as their underlying.

The methodologies for the fair value measurement of financial instruments, as well as any adjustments attributable to uncertainties in valuation, are governed by the Intesa Sanpaolo Group through the “Rules for Valuation of Financial Instruments at Fair Value” and are described in detail in the 2022 Annual Report, to which reference is made for more information.

IFRS 13 establishes a fair value hierarchy in which inputs to fair value measurement techniques are divided into three levels. That hierarchy assigns top priority to (unadjusted) quoted prices on active markets for identical assets or liabilities (level 1 data) and the lowest priority to unobservable inputs (level 3 data). Specifically:

- fair value level 1 applies when an instrument is measured directly on the basis of (unadjusted) quoted prices on active markets for identical assets or liabilities to which the entity has access on the measurement date;
- fair value level 2 applies when a price has not been found on an active market and the instrument is measured according to valuation techniques, on the basis of observable market parameters, or of the use of parameters that are not observable but are supported and confirmed by market evidence, such as prices, spreads or other inputs (the comparable approach);
- fair value level 3 applies when fair value is measured using various inputs, not all of which are directly drawn from observable market parameters, and which thus entail estimates and assumptions by the valuator.

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the valuation techniques rather than the valuation techniques themselves.

The attachment “Fair Value Hierarchy Rules” to the “Rules for Valuation of Financial Instruments at Fair Value” defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.

For level 1 financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the end of the reference period.

For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.

The following are considered level 1 financial instruments: contributed bonds (i.e. bonds for which the Composite Bloomberg Bond Trader is available from the Information Provider Bloomberg, or, alternatively, a price on the EuroMTS circuit, or at least three prices available from the Information Provider Bloomberg), contributed equities (i.e., quoted on the official market of reference), UCITS funds (covered by EU directives), spot exchange rates, and derivatives for which prices are available on an active market (for example, exchange traded futures and options) and UCITS hedge funds.

Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the “Rules for Valuation of Financial Instruments at Fair Value” are not considered level 1 instruments.

When no listing on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.

Such techniques include:

- the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2 inputs);
- valuations performed using – even partially – inputs not identified from parameters observed on the market, for which estimates and assumptions made by the valuator are used (level 3 inputs).

In case of level 2 inputs, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretionary parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final measurement.

The following are measured using level 2 input models:

- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- loans whose fair value is determined through the use of an appropriate credit spread which is estimated starting from market data of financial instruments with similar characteristics;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- structured credit products (including, among others, ABSs, HY CLOs, CDOs) for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters that can be gathered from the market;
- non-contributed equity instruments measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, or using the "relative" valuation models based on multipliers;
- non-UCITS hedge funds, provided the Level 3 instruments do not exceed a set threshold.

In case of instruments classified as level 3, the calculation of the fair value is based on valuation models which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator. In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:

- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured using this method:

- some transactions in derivatives, bonds, or complex structured credit instruments measured using level 3 inputs;
- hedge funds in which the level 3 assets are above a set limit;
- private equity funds, private debt funds, real estate funds and closed-end funds resulting from sales of non-performing loans valued at NAV, with possible discounts;
- shareholdings and other equities measured using models based on discounted cash flows or using equity methods;
- loans whose fair value is determined through the use of a credit spread that does not meet the criteria to be considered level 2;
- loans with underlying equity risk, whose fair value is calculated based on the discounting of expected contractual flows.

### Independent price verification (IPV)

Independent Price Verification (IPV) is "a process by which market prices or marking to model inputs are regularly verified for accuracy and independence" (Article 4(1.70) Regulation (EU) 575/2013), carried out "in addition to daily marking to market or marking to model [...] by a person or unit independent from persons or units that benefit from the trading book" (Article 105(8) Regulation (EU) 575/2013).

The Intesa Sanpaolo Group has structured an IPV process with 3 levels of control in line with the provisions of Bank of Italy Circular 285/2013, incorporated into the Integrated Internal Control System, which requires the risk management processes to be incorporated in the processes and methods for valuing the company activities, also for accounting purposes.

The Intesa Sanpaolo Group governs and formalises its independent price verification process through the Group's "Guidelines/Rules for Independent Price Verification", which are described in detail in the 2022 Annual Report and to which reference is made for further information.

### Prudent value of financial instruments

The framework of financial measurements is completed with the prudent valuation of financial instruments measured at fair value. In accordance with the provisions of Regulation (EU) 575/2013 (Capital Requirements Regulation – CRR), prudent valuation entails the calculation of specific additional valuation adjustments (AVAs) for the financial instruments measured at fair value, aimed at capturing different sources of valuation uncertainty and ensuring the achievement of a suitable level of certainty in the measurement of the positions. The total value of the AVAs is deducted from the Common Equity Tier 1 capital, without impacts on accounting fair values.

The Intesa Sanpaolo Group, in line with the criteria indicated in Delegated Regulation (EU) 2016/101, is subject to the application of the core approach for the determination of AVAs both at individual and at consolidated level for all the positions measured at fair value. The prudent value corresponds to the exit price from the position with a level of certainty equal to 90%. The Group governs and formalises the measurement of the prudent value of financial instruments through the Group's "Guidelines/Rules for Prudent Valuation of Financial Instruments at Fair Value", which are described in detail in the 2022 Annual Report and to which reference is made for further information.

### Fair value hierarchy

#### Assets and liabilities measured at fair value on a recurring basis: fair value by level (Banking and Insurance Segments)

Assets / liabilities at fair value	30.06.2023			31.12.2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
(millions of euro)						
1. Financial assets measured at fair value through profit or loss	111,734	31,684	8,335	108,649	33,035	8,932
a) Financial assets held for trading	13,782	30,091	180	10,381	32,043	183
of which: Equities	1,099	-	23	860	-	22
of which: quotas of UCI	353	8	7	264	5	21
b) Financial assets designated at fair value	-	1	-	-	1	-
c) Other financial assets mandatorily measured at fair value	97,952	1,592	8,155	98,268	991	8,749
of which: Equities	5,211	186	279	5,059	107	309
of which: quotas of UCI	86,413	196	6,799	87,284	191	6,655
2. Financial assets measured at fair value through other comprehensive income	123,342	8,357	467	108,301	10,567	640
of which: Equities	412	511	232	513	517	325
3. Hedging derivatives	-	8,986	-	-	10,075	-
4. Property and equipment	-	-	7,075	-	-	7,151
5. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>235,076</b>	<b>49,027</b>	<b>15,877</b>	<b>216,950</b>	<b>53,677</b>	<b>16,723</b>
1. Financial liabilities held for trading	9,011	38,535	102	7,285	39,085	142
2. Financial liabilities designated at fair value	694	66,042	32	-	62,977	30
3. Hedging derivatives	-	5,177	-	-	5,517	-
<b>Total</b>	<b>9,705</b>	<b>109,754</b>	<b>134</b>	<b>7,285</b>	<b>107,579</b>	<b>172</b>

The table above shows the figures for the entire Group, including the insurance companies, which are applying IFRS 9 Financial Instruments from 2023, 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 5.3% on total assets (5.82% as at 31 December 2022). The level 3 financial assets mainly relate to quotas of UCIs, of which, under Financial assets mandatorily measured at fair value, 279 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 44.6% of the balance sheet assets at level 3 fair value.

A total of 78.4% of assets measured at fair value are determined based on market prices, and therefore without any discretion by the valuator.

A total of 91.8% of the liabilities at fair value are attributable to Level 2 and in particular to Financial liabilities designated at fair value.

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

Assets / liabilities at fair value	30.06.2023			31.12.2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
(millions of euro)						
1. Financial assets measured at fair value through profit or loss	15,006	30,863	3,439	11,311	32,672	3,594
a) Financial assets held for trading	13,750	30,087	180	10,331	32,008	183
of which: Equities	1,099	-	23	860	-	22
of which: quotas of UCI	353	8	7	264	5	21
b) Financial assets designated at fair value	-	1	-	-	1	-
c) Other financial assets mandatorily measured at fair value	1,256	775	3,259	980	663	3,411
of which: Equities	11	186	200	122	107	242
of which: quotas of UCI	1,145	196	2,496	858	191	2,401
2. Financial assets measured at fair value through other comprehensive income	53,568	6,558	316	41,937	7,422	357
of which: Equities	412	505	231	513	510	325
3. Hedging derivatives	-	8,951	-	-	10,062	-
4. Property and equipment	-	-	7,068	-	-	7,144
5. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>68,574</b>	<b>46,372</b>	<b>10,823</b>	<b>53,248</b>	<b>50,156</b>	<b>11,095</b>
1. Financial liabilities held for trading	9,005	38,532	102	7,285	39,085	142
2. Financial liabilities designated at fair value	694	12,882	32	-	8,765	30
3. Hedging derivatives	-	5,090	-	-	5,346	-
<b>Total</b>	<b>9,699</b>	<b>56,504</b>	<b>134</b>	<b>7,285</b>	<b>53,196</b>	<b>172</b>

With regard to the assets of the Banking Segment, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the portfolio, with an impact of 8.6% on total assets (9.7% as at 31 December 2022).

A total of 54.5% of assets measured at fair value are determined based on market prices, and therefore without any discretion by the valuator.

Property and equipment measured at level 3 fair value includes real estate assets and valuable art assets, which represent 65.3% of the balance sheet assets at level 3 fair value.

As far as the liabilities of the Banking Segment are concerned, level 3 instruments account for less than 1% of total liabilities.

In addition to the transfers relating to financial assets and liabilities measured at level 3 as detailed below, please note that the following transfers were made during 2023:

- from level 1 to level 2:
  - o financial assets held for trading for 7 million euro (book value as at 30 June 2023);
  - o financial assets measured at fair value through other comprehensive income for 228 million euro (book value as at 30 June 2023);
  - o financial liabilities held for trading for 1 million euro (book value as at 30 June 2023);
- from level 2 to level 1:
  - o financial assets held for trading for 95 million euro (book value as at 30 June 2023);
  - o financial assets measured at fair value through other comprehensive income for 80 million euro (book value as at 30 June 2023);
  - o financial liabilities held for trading for 25 million euro (book value as at 30 June 2023);
  - o financial liabilities designated at fair value for 703 million euro (book value as at 30 June 2023).

The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the instruments and by the materiality of the unobservable inputs.

The transition from level 1 to level 2 is a consequence of the disappearance of an active market for that instrument assessed by analysing the reliability and the reciprocal consistency of the available prices according to the provisions of the Group's Fair Value Policy. Conversely, securities for which a mark-to-model measurement is performed using inputs that can be observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

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

Assets / liabilities at fair value	30.06.2023			31.12.2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	96,728	821	4,896	97,338	363	5,338
a) Financial assets held for trading	32	4	-	50	35	-
of which: Equities	-	-	-	-	-	-
of which: quotas of UCI	-	-	-	-	-	-
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily measured at fair value	96,696	817	4,896	97,288	328	5,338
of which: Equities	5,100	-	79	4,937	-	67
of which: quotas of UCI	85,268	-	4,303	86,426	-	4,254
2. Financial assets measured at fair value through other comprehensive income	69,774	1,799	151	66,364	3,145	283
of which: Equities	-	7	-	-	7	-
3. Hedging derivatives	-	35	-	-	13	-
4. Property and equipment	-	-	7	-	-	7
5. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>166,502</b>	<b>2,655</b>	<b>5,054</b>	<b>163,702</b>	<b>3,521</b>	<b>5,628</b>
1. Financial liabilities held for trading	7	2	-	-	-	-
2. Financial liabilities designated at fair value	-	53,160	-	-	54,212	-
3. Hedging derivatives	-	87	-	-	171	-
<b>Total</b>	<b>7</b>	<b>53,249</b>	<b>-</b>	<b>-</b>	<b>54,383</b>	<b>-</b>

With regard to insurance companies, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the portfolio. They amount to 2.9% of Assets (3.2% as at 31 December 2022).

95.6% of financial assets measured at fair value in the insurance segment are determined based on market prices, and therefore without any discretion by the valuator.

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

In addition to the transfers relating to financial assets and liabilities in the insurance segment designated at level 3 as detailed below, please note that the following transfers were made during 2023:

- from level 1 to level 2:
  - o other financial assets mandatorily measured at fair value for 84 million euro (book value as at 30 June 2023);
  - o financial assets measured at fair value through other comprehensive income for 30 million euro (book value as at 30 June 2023);
- from level 2 to level 1:
  - o other financial assets mandatorily measured at fair value for 30 million euro (book value as at 30 June 2023);
  - o financial assets measured at fair value through other comprehensive income for 1,656 million euro (book value as at 30 June 2023);

The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the instruments and by the materiality of the unobservable inputs.

The transition from level 1 to level 2 is a consequence of the disappearance of an active market for that instrument assessed by analysing the reliability and the reciprocal consistency of the available prices according to the Group's Guidelines and Rules for Valuation of Financial Instruments at Fair Value. Conversely, securities for which a mark-to-model measurement is performed using inputs that can be observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

**Half-yearly changes in assets measured at fair value on a recurring basis (level 3) (Banking and Insurance Segments)**

	Assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	TOTAL	of which: a) Financial assets held for trading	of which: b) Financial assets designated at fair value	of which: c) Other financial assets mandatorily measured at fair value				
	(millions of euro)							
<b>1. Initial amount</b>	<b>8,932</b>	<b>183</b>	-	<b>8,749</b>	<b>640</b>	-	<b>7,151</b>	-
<b>2. Increases</b>	<b>831</b>	<b>32</b>	-	<b>799</b>	<b>60</b>	-	<b>98</b>	-
2.1 Purchases	517	19	-	498	-	-	64	-
2.2 Gains recognised in:	190	5	-	185	6	-	10	-
2.2.1 Income statement	190	5	-	185	-	-	4	-
- of which capital gains	165	4	-	161	-	-	4	-
2.2.2 Shareholders' equity	-	X	X	X	6	-	6	-
2.3 Transfers from other levels	7	5	-	2	53	-	-	-
2.4 Other increases	117	3	-	114	1	-	24	-
<b>3. Decreases</b>	<b>-1,428</b>	<b>-35</b>	-	<b>-1,393</b>	<b>-233</b>	-	<b>-174</b>	-
3.1 Sales	-371	-21	-	-350	-115	-	-16	-
3.2 Reimbursements	-	-	-	-	-	-	-	-
3.3 Losses recognised in:	-84	-10	-	-74	-102	-	-88	-
3.3.1 Income statement	-84	-10	-	-74	-	-	-87	-
- of which capital losses	-76	-10	-	-66	-	-	-25	-
3.3.2 Shareholders' equity	-	X	X	X	-102	-	-1	-
3.4 Transfers to other levels	-43	-4	-	-39	-	-	-	-
3.5 Other decreases	-930	-	-	-930	-16	-	-70	-
<b>4. Final amount</b>	<b>8,335</b>	<b>180</b>	-	<b>8,155</b>	<b>467</b>	-	<b>7,075</b>	-

The captions Other increases and Other decreases for the Financial assets mandatorily measured at fair value refer in part to quotas of UCI due to the reclassification to the caption Equity Investments as a result of controlling interests having been acquired (Efesto and UTP Italia Comparto Crediti) and in part to loans. With regard to Property and equipment, the captions mainly include transfers of these assets from investment to operations and vice versa.

**Half-yearly changes in assets measured at fair value on a recurring basis (level 3) (of which Banking Segment)**

	Assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	TOTAL	of which: a) Financial assets held for trading	of which: b) Financial assets designated at fair value	of which: c) Other financial assets mandatorily measured at fair value				
							(millions of euro)	
<b>1. Initial amount</b>	<b>3,594</b>	<b>183</b>	-	<b>3,411</b>	<b>357</b>	-	<b>7,144</b>	-
<b>2. Increases</b>	<b>731</b>	<b>32</b>	-	<b>699</b>	<b>60</b>	-	<b>98</b>	-
2.1 Purchases	493	19	-	474	-	-	64	-
2.2 Gains recognised in:	114	5	-	109	6	-	10	-
2.2.1 Income statement	114	5	-	109	-	-	4	-
- of which capital gains	89	4	-	85	-	-	4	-
2.2.2 Shareholders' equity	-	X	X	X	6	-	6	-
2.3 Transfers from other levels	7	5	-	2	53	-	-	-
2.4 Other increases	117	3	-	114	1	-	24	-
<b>3. Decreases</b>	<b>-886</b>	<b>-35</b>	-	<b>-851</b>	<b>-101</b>	-	<b>-174</b>	-
3.1 Sales	-61	-21	-	-40	-1	-	-16	-
3.2 Reimbursements	-	-	-	-	-	-	-	-
3.3 Losses recognised in:	-81	-10	-	-71	-98	-	-88	-
3.3.1 Income statement	-81	-10	-	-71	-	-	-87	-
- of which capital losses	-73	-10	-	-63	-	-	-25	-
3.3.2 Shareholders' equity	-	X	X	X	-98	-	-1	-
3.4 Transfers to other levels	-43	-4	-	-39	-	-	-	-
3.5 Other decreases	-701	-	-	-701	-2	-	-70	-
<b>4. Final amount</b>	<b>3,439</b>	<b>180</b>	-	<b>3,259</b>	<b>316</b>	-	<b>7,068</b>	-

**Half-yearly changes in assets measured at fair value on a recurring basis (level 3) (of which Insurance Segment)**

	Assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets	(millions of euro)
	TOTAL	of which: a) Financial assets held for trading	of which: b) Financial assets designated at fair value	of which: c) Other financial assets mandatorily measured at fair value					
<b>1. Initial amount</b>	<b>5,338</b>	-	-	<b>5,338</b>	<b>283</b>	-	<b>7</b>	-	
<b>2. Increases</b>	<b>100</b>	-	-	<b>100</b>	-	-	-	-	
2.1 Purchases	24	-	-	24	-	-	-	-	
2.2 Gains recognised in:	76	-	-	76	-	-	-	-	
2.2.1 Income statement	76	-	-	76	-	-	-	-	
- of which capital gains	76	-	-	76	-	-	-	-	
2.2.2 Shareholders' equity	-	X	X	X	-	-	-	-	
2.3 Transfers from other levels	-	-	-	-	-	-	-	-	
2.4 Other increases	-	-	-	-	-	-	-	-	
<b>3. Decreases</b>	<b>-542</b>	-	-	<b>-542</b>	<b>-132</b>	-	-	-	
3.1 Sales	-310	-	-	-310	-114	-	-	-	
3.2 Reimbursements	-	-	-	-	-	-	-	-	
3.3 Losses recognised in:	-3	-	-	-3	-4	-	-	-	
3.3.1 Income statement	-3	-	-	-3	-	-	-	-	
- of which capital losses	-3	-	-	-3	-	-	-	-	
3.3.2 Shareholders' equity	-	X	X	X	-4	-	-	-	
3.4 Transfers to other levels	-	-	-	-	-	-	-	-	
3.5 Other decreases	-229	-	-	-229	-14	-	-	-	
<b>4. Final amount</b>	<b>4,896</b>	-	-	<b>4,896</b>	<b>151</b>	-	<b>7</b>	-	



**Half-yearly changes in liabilities measured at fair value on a recurring basis (level 3) (Banking and Insurance Segments)**

	(millions of euro)		
	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
<b>1. Initial amount</b>	<b>142</b>	<b>30</b>	-
<b>2. Increases</b>	<b>40</b>	<b>2</b>	-
2.1 Issues	2	-	-
2.2 Losses recognised in:	10	2	-
2.2.1 Income statement	10	2	-
- of which capital losses	10	2	-
2.2.2 Shareholders' equity	X	-	-
2.3 Transfers from other levels	28	-	-
2.4 Other increases	-	-	-
<b>3. Decreases</b>	<b>-80</b>	-	-
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-20	-	-
3.3.1 Income statement	-20	-	-
- of which capital gains	-20	-	-
3.3.2 Shareholders' equity	X	-	-
3.4 Transfers to other levels	-58	-	-
3.5 Other decreases	-2	-	-
<b>4. Final amount</b>	<b>102</b>	<b>32</b>	-

Only one table is presented, because the insurance segment does not have this case.

**Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis (Banking and Insurance Segments)**

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	(millions of euro)			
	30.06.2023		31.12.2022	
	Book value	Fair value	Book value	Fair value
1. Financial assets measured at amortised cost	525,732	509,709	528,081	510,560
2. Investment property	-	-	-	-
3. Non-current assets held for sale and discontinued operations	614	614	638	638
<b>Total</b>	<b>526,346</b>	<b>510,323</b>	<b>528,719</b>	<b>511,198</b>
1. Financial liabilities measured at amortised cost	630,131	629,160	670,127	669,228
2. Liabilities associated with non-current assets	-	-	15	15
<b>Total</b>	<b>630,131</b>	<b>629,160</b>	<b>670,142</b>	<b>669,243</b>

**Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis (of which Banking Segment)**

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	(millions of euro)			
	30.06.2023		31.12.2022	
	Book value	Fair value	Book value	Fair value
1. Financial assets measured at amortised cost	525,729	509,706	528,078	510,557
2. Investment property	-	-	-	-
3. Non-current assets held for sale and discontinued operations	614	614	638	638
<b>Total</b>	<b>526,343</b>	<b>510,320</b>	<b>528,716</b>	<b>511,195</b>
1. Financial liabilities measured at amortised cost	627,800	627,051	667,585	666,906
2. Liabilities associated with non-current assets	-	-	15	15
<b>Total</b>	<b>627,800</b>	<b>627,051</b>	<b>667,600</b>	<b>666,921</b>

**Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis (of which Insurance Segment)**

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	(millions of euro)			
	30.06.2023		31.12.2022	
	Book value	Fair value	Book value	Fair value
1. Financial assets measured at amortised cost	3	3	3	3
2. Investment property	-	-	-	-
3. Non-current assets held for sale and discontinued operations	-	-	-	-
<b>Total</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
1. Financial liabilities measured at amortised cost	2,331	2,109	2,542	2,322
2. Liabilities associated with non-current assets	-	-	-	-
<b>Total</b>	<b>2,331</b>	<b>2,109</b>	<b>2,542</b>	<b>2,322</b>

**Sensitivity analysis for financial assets and liabilities measured at level 3**

As required by IFRS 13, for the financial assets and liabilities measured at level 3 fair value, the following table lists the effects of a change in one or more significant non-observable parameters used in the valuation techniques adopted to determine the fair value. The table shows the main effects as at 30 June 2023.

Financial assets/liabilities	Non-observable parameters	Sensitivity (thousands of euro)	Change in non-observable parameter
FVTPL and FVTOCI securities and loans	Credit spread	-315	1 bp
FVTPL and FVTOCI securities and loans	JD parameters	-4	1%
FVTPL and FVTOCI securities and loans	Correlation	99	1%
OTC Derivatives - Equity	Historical volatility	1,226	10%
OTC Derivatives - Equity	Correlation between underlying equity baskets	293	10%
OTC Derivatives - Equity CPPI	Historical correlation	-22	10%

**Information on “Day one profit/loss”**

Under IFRS 9, financial instruments shall be initially recognised at fair value. The fair value of a financial instrument at initial recognition is normally the "transaction price", i.e. the fair value of the consideration given or received in relation to, respectively, financial assets and liabilities. The fact that, upon initial recognition, the fair value of a financial instrument normally coincides with the transaction price is usually intuitively verifiable in the case of transactions falling under level 1 of the fair value hierarchy. Any differences between the price and the fair value are usually attributable to the so-called commercial margins, which are considered as not falling within the scope of Day One Profit. Therefore, commercial margins are taken to the income statement on the first subsequent measurement of the financial instrument. Also in the case of level 2, which is based on quotes that can be derived indirectly from the market (Comparable Approach), the fair value and the price often coincide upon initial recognition. Any residual differences, as in the previous case, are usually attributable to the commercial margins. With respect to level 3 instruments, no definite reference benchmark is available to compare the transaction price with, since there is more discretion in fair value measurement. For the same reason, the calculation of any commercial margin to be taken to the income statement is also difficult. In this event, the instrument is always initially recognised at the transaction cost, irrespective of whether it is possible to identify commercial margins. Subsequent measurement shall not include the difference between cost and fair value identified upon initial recognition (also defined as Day One Profit - DOP). This difference shall be recognised in the income statement only when it arises from changes to the factors over which market participants base their valuations when fixing prices (including the time effect). Where unobservable inputs used to estimate the fair value become observable, the residual deferred DOPs are recognised in the income statement. Similarly, in the event of "on the book" transactions falling under the investment division's activities, the DOPs earned on transactions – included in the above on the book management – are taken to the income statement when transactions are carried out which substantially eliminate the risks linked to unobservable parameters of the instrument which generated the DOP.

At the end of the first half of 2023, as at the end of 2022, the amount of the DOP deferred in the balance sheet was immaterial (around 0.1 million euro).

## INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products came to 3,861 million euro as at 30 June 2023, a net increase of 558 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 2,230 million euro, in ABSs (Asset-Backed Securities) of 1,560 million euro and in CDOs (Collateralised Debt Obligations) of 71 million euro, which continued to be a marginal activity also in 2023.

Accounting categories	30.06.2023			31.12.2022		(millions of euro) changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	431	428	-	859	817	42	5.1
Financial assets mandatorily measured at fair value	-	3	-	3	3	-	-
Financial assets measured at fair value through other comprehensive income	1,151	752	-	1,903	1,545	358	23.2
Financial assets measured at amortised cost	648	377	71	1,096	938	158	16.8
<b>Total</b>	<b>2,230</b>	<b>1,560</b>	<b>71</b>	<b>3,861</b>	<b>3,303</b>	<b>558</b>	<b>16.9</b>

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 half of 2023, still focused on taking advantage of market opportunities, reflected overall higher investments than disposals and redemptions of 558 million euro and was mainly attributable to the operations of the IMI Corporate & Investment Banking Division. The increase mainly concerned instruments classified at level 2 of the fair value hierarchy.

Specifically, in the half year the exposures measured at fair value (ABS and CLO debt securities) increased by 400 million euro from 2,365 million euro in December 2022 to 2,765 million euro in June 2023, broken down into higher investments, financial assets measured at fair value through other comprehensive income of 479 million euro and financial assets held for trading of 392 million euro, offset by redemptions and disposals totalling 471 million euro, made up of 121 million euro for the first segment and 350 million euro for the second segment. Also contributing to the change in stock since the beginning of the year were increases totalling 158 million euro in assets measured at amortised cost, which rose from 938 million euro in December 2022 to 1,096 million euro in June 2023.

From the income statement perspective, the overall result of nil as at 30 June 2023, compared with -19 million euro for the first half of 2022, which was impacted by the adverse effects of the geopolitical tensions on the economic indicators.

The performance of assets held for trading, caption 80 of the income statement, amounted to +1 million euro and was attributable to impacts from realisation on CLO exposures (+1 million euro) as well as a zero overall impact on ABS exposures (+4 million euro realisation and -4 million euro valuation). In contrast, a result of -22 million euro was recorded as at 30 June 2022, relating to the valuation component for the CLO and ABS exposures.

The profits (losses) from financial assets mandatorily measured at fair value were nil as at 30 June 2023, as in the first six months 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 30 June 2023 of +7 million euro through a shareholders' equity reserve (from a reserve of -44 million euro in December 2022 to -37 million euro in June 2023). In the current year, there have been no impacts from sales on the portfolio, as was the case in the first six months of the previous year.

On the debt securities classified as assets measured at amortised cost, the result as at 30 June 2023 of -1 million euro was substantially attributable to losses on disposals, compared with the impact from realised gains of +3 million in the first half of 2022.

Income statement results broken down by accounting category	30.06.2023			31.12.2022		(millions of euro) changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	1	-	-	1	-22	23	
Financial assets mandatorily measured at fair value	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-
Financial assets measured at amortised cost	-	-1	-	-1	3	-4	
<b>Total</b>	<b>1</b>	<b>-1</b>	<b>-</b>	<b>-</b>	<b>-19</b>	<b>19</b>	

### 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 issuance 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.

For the SPE categories identified as non-consolidated structured entities, no changes have been made to the criteria applied by the Intesa Sanpaolo Group to decide whether to include said entities in the scope of consolidation, compared to the information provided in 2022 Annual Report.

With regard to the Covered Bond issue programme, during the first half of the year – 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.

With regard to the loan portfolio, a selective repurchase of bad, substandard and performing loans for 57 million euro was carried out in April.

As part of the programme guaranteed by ISP OBG, in February, the 19th retained series reached maturity, for 1.375 billion euro.

With regard to the loan portfolio, a selective repurchase of bad, substandard and performing loans for 118 million euro was carried out in April, while an extraordinary portfolio repurchase for 5 million euro took place in June.

Under the covered bond issue programme guaranteed by ISP CB Ipotecario, in March the 19th series matured for an amount of 1.250 billion euro and in June the 21st retained series was partially redeemed for an amount of 1 billion euro, bringing the remaining nominal amount to 1.2 billion euro.

Also in June, the 29th series was placed on the institutional market. The public issuance, amounting to 1.250 billion euro with a fixed-rate coupon of 3.625% per annum and a five-year maturity, is listed on the Luxembourg Stock Exchange with a Moody's rating of Aa3.

With regard to the loan portfolio, a selective repurchase of bad, substandard and performing loans for 30 million euro was carried out in April.

Lastly, with regard to securitisations, for Berica ABS 3, the last active transaction of the former Banca Popolare di Vicenza, the Class B Mezzanine listed on the market was fully redeemed at the end of June.

### 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 30 June 2023, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions as per the ECB Guidance amounted to around 24.5 billion euro, relating to 1,745 credit lines. The stock was down compared to the end of the previous year (26.2 billion euro as at 31 December 2022). The decrease was entirely attributable to the second quarter of 2023, mainly driven by a fall of around 1.5 billion euro for the Parent Company due to higher outflows than new inflows and a reduction in positions remaining in the scope. The remaining reduction was attributable to the subsidiary Intesa Sanpaolo Bank Ireland due to the closure of material positions.

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 30 June 2023 amounted to 193 million euro for the trading book and 189 million euro for the banking book for a total of 382 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 Undertakings for Collective Investment Schemes in Transferable Securities (UCITS) funds.

In the first half of 2023, there was an increase in stocks compared to the end of the previous year of 25 million euro, which included an increase in investments of 30 million euro carried out exclusively on trading and primarily on UCITS 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 30 June 2023, overall income was recorded of +11 million euro, relating entirely to valuation effects of funds held in the portfolio within the financial assets mandatorily measured at fair value (+8 million euro) and financial assets held for trading (+2 million euro), in addition to impacts from realisation on the trading segment (+1 million euro), whereas in the first half of the previous year, an overall economic performance of -6 million euro was recorded, attributable to the valuation of funds held in portfolio among financial assets mandatorily measured at fair value.

In the Intesa Sanpaolo Group, in addition to the Parent Company, as at 30 June 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 +2 million euro from valuation effects (-3 million euro as at 30 June 2022, also including the valuation component). 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 30 June 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 2,690 million euro (3,049 million euro as at 31 December 2022). The notional value of these derivatives totalled 31,841 million euro (29,872 million euro as at 31 December 2022).

In particular, the notional value of plain vanilla contracts was 29,202 million euro (26,826 million euro as at 31 December 2022), while that of structured contracts was 2,639 million euro (3,046 million euro as at 31 December 2022).

The positive fair value of contracts outstanding with the 10 customers with the highest exposures was 1,511 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 5,096 million euro as at 30 June 2023 (6,149 million euro as at 31 December 2022). The notional value of these derivatives totalled 70,804 million euro (74,174 million euro as at 31 December 2022).

In particular, the notional value of plain vanilla contracts was 65,967 million euro (69,140 million euro as at 31 December 2022), while that of structured contracts was 4,837 million euro (5,034 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 30 June 2023, this led to a negative impact of 6 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.

## INTEREST RATE BENCHMARK REFORM

### *Interest Rate Benchmark Reform – General aspects*

Initiated in 2016, following the publication of the EU Benchmark Regulation (EU Regulation 2016/1011), the reform of the Euribor rate was completed by EMMI (European Money Market Institute) in 2019. In the same year, the €STR rate – calculated and published daily by the ECB – replaced the previous fixing of the Eonia rate, also laying the foundations, with the recording of the compound rates and the €STR index, for a Euribor fallback rate, to be indicated in fallback contractual clauses and to be used in the event of any future permanent cessation of publication of the Euribor. Also outside the Eurozone, the supervisory authorities, central banks, specialised associations and market operators in the various jurisdictions have actively worked to identify new risk-free rates (RFR).

The summary of benchmarks for the main currencies is as follows:

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

Source: ICE Benchmark Administration, Intesa Sanpaolo

With regard to Libor, the most important steps in the transition to risk-free rates were the following:

- March 2021: the Financial Conduct Authority (FCA) confirmed that the Libor would no longer be published or would lose validity (i) immediately after 31 December 2021 for all maturities of Pound Sterling, Euro, Swiss Franc and Japanese Yen and 1-week and 2-month maturities for the US dollar and (ii) immediately after 30 June 2023 for the remaining maturities on the US dollar (i.e. overnight, 1-month, 3-month, 6-month and 12-month);
- September 2021: the FCA announced that it was exercising its powers, compelling the Administrator of the Libor, ICE Benchmark Administration (IBA), to publish a synthetic Libor at the end of 2022 for the Pound Sterling and Yen for the 1-, 3- and 6-month maturities, clarifying that the use of those synthetic Libor indices is permitted exclusively for existing contracts that have not yet been converted to the alternative risk-free rates SONIA and TONAR, respectively for the Pound Sterling and Yen, in order to guarantee the orderly wind down of the Libor;
- September 2022: the FCA confirmed the publication of the synthetic sterling Libor for the 1- and 6-month maturities only until March 2023, while for the 3-month maturity the termination was set at March 2024 in a November 2022 announcement;
- November 2022: the FCA launched a public consultation to assess the viable options for the definitive termination of the US dollar Libor;
- April 2023: the FCA announced its decision to request the administrator to continue with the publication for 1- 3- 6-month maturities of the synthetic USD Libor also after the termination date of 30 June 2023 and until September 2024 in order to facilitate the transition of legacy contracts (other than in cleared derivatives).

With regard to the US dollar, the Alternative Reference Rates Committee (ARRC) has been working in the United States to promote the transition from Libor to alternative rates based on the SOFR index, in particular through:

- the publication of recommendations on best practices for the various product categories (e.g. loans, floating-rate bonds, derivatives, etc.) and the related timing for winding down the use of the US dollar Libor in new contracts;
- the announcement of market conventions to be applied to the various categories of contracts (e.g. syndicated loans, floating-rate bonds, cross-currency swaps, etc.);
- the publication of the fallback clauses for the various categories of products.

### *Interest Rate Benchmark Reform – Intesa Sanpaolo's activities*

In recent years, Intesa Sanpaolo has closely monitored the developments relating to benchmarks, and in 2016 it launched a dedicated project involving the participation of all the corporate and business functions involved in various capacities.

Leveraging the activities of specialised working sub-groups and within the expenditure limits set out in the project capital budget, the project work continued in the first half of 2023, aimed at managing the final stage of the transition with a focus mainly on the following aspects:

- definitive cessation of the offer of products linked to the Libor in GBP, CHF and JPY;
- completion of the initiatives to facilitate and bring forward, as much as possible, the discontinuation of the USD Libor according to the recommendations of the ARRC, implementing the adoption of the SOFR rate to be able to be compliant with the June 2023 deadline;
- completion of preparation of the IT structure necessary for the use of RFRs in the Bank's accounting and management systems;
- constant alignment with the Group's International Subsidiaries and Branches;
- participation in surveys and public consultations at European level;
- delivery of specialist training to staff via remote learning, in addition to courses on the digital learning platform;
- updating of the disclosure to customers on the pages of the Group's websites dedicated to illustrating the issue of the transition of benchmarks.

Intesa Sanpaolo has also continued to take part in various initiatives, among which the most significant were the European working groups managed by EMMI and ESMA. In this latter in particular, Intesa Sanpaolo has also acted over the past year as a voting member and participant to a workstream of the Working Group on euro risk free rates dedicated to monitoring developments in relation to the use of €STR as a Euribor fallback rate but also as a reference rate for the derivatives market and, in the long run, also potentially for other products.

In its previous annual and interim financial reports, the Intesa Sanpaolo Group had identified the financial instruments impacted by the IBOR Reform and the methods adopted to manage the transition, noting that, in light of the regulatory changes and the activities carried out by the Group, no critical issues were envisaged in completing the transition by the set deadlines, nor were critical issues envisaged for the forthcoming termination of the USD Libor. Specifically, the Group had envisaged the mass adoption of the new Risk Free Rates (RFR) on the financial instruments newly subscribed, thus abandoning the use of the benchmarks impacted by the reform and stabilising the stock of transactions to be transitioned, on the one hand, while setting up the solutions for the transition to the new RFR, defined based on the main international recommendations, capable of minimising the financial impacts of the transition, on the other.

With reference to the benchmarks being wound down at the end of 2021, the transition activities have been successfully completed for all these benchmarks.

Finally, with regard to instruments indexed to the USD Libor, as anticipated, 30 June 2023 was the last date of publication of the rate<sup>48</sup>, although the authorities will continue to publish the rate in synthetic form for the 1- 3- and 6-month maturities until September 2024 to facilitate the transition of legacy contracts.

For the management of the stock of outstanding positions, phases were implemented similar to those adopted for the instruments linked to other benchmarks wound down at the end of 2021, both for cash and derivative instruments, are expected to follow.

In particular, with regard to the transition with the Clearing Houses for USD derivatives subject to clearing with underlying USD Libor and for derivatives traded on regulated markets (listed derivatives), the Group began the activities necessary to manage the transition during the second quarter of 2023, in a similar manner to that carried out in December 2021 for derivatives with underlying GBP, JPY, CHF and EUR Libor. That active transition mechanism is based on standard rules for all participants and considers the criteria for determining spreads based on the fallback provisions drawn up by the industry as part of the benchmark reform. With regard to OTC derivative instruments not cleared with CCPs, the reduction of the exposures open to risk, where the ISDA rule was not applied as in the case of contracts under US law, was carried out through renegotiations with the respective counterparties that resulted in a progressive reduction of the exposure to this benchmark, which was replaced by the new risk-free rates.

With regard to the securities under assets, although the outstanding positions remained substantially unchanged from December 2022, the respective reviews were completed, which in some cases required the analysis of specific releases issued by the issuers, and in others required direct interaction with the issuers on the fallback to be applied for each specific bond. Similarly, with regard to the securities under liabilities, the documentary analyses of the respective own issuances have been completed, for which the USD Libor rate will be continued for the additional period of publication using the synthetic method.

On the other hand, with regard to loans, mainly to corporate counterparties, most of the contracts have been renegotiated to the new RFR indices, and the remainder – under renegotiation – primarily consisted of loans in which Intesa Sanpaolo acted as a pool participant. The exposures for these loans are therefore decreasing and this will also happen progressively in the period after 30 June 2023, in conjunction with the contractually envisaged rollover date on each individual loan where the Libor rate will be replaced with the new RFR.

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<sup>48</sup> 31 December 2021 was the final date for the publication of one-week and two-month USD Libor rates only.



## OPERATIONAL RISKS

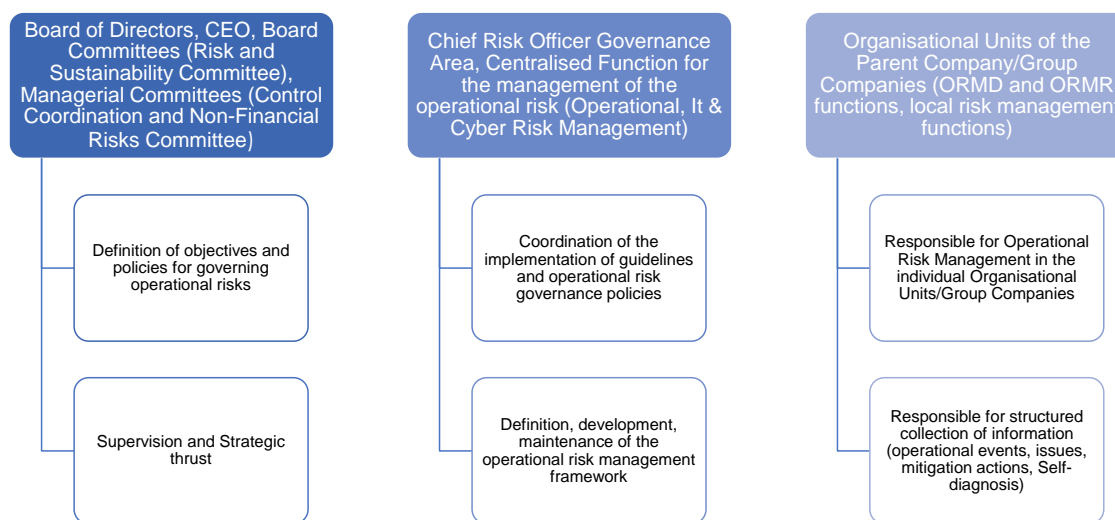
Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events<sup>49</sup>.

The Intesa Sanpaolo Group adopts an undertaking and management strategy of operational risk based on prudent management principles and aimed at guaranteeing long-term solidity and continuity for the company. In addition, the Group pays particular attention to achieving an optimal balance between growth and profitability and the resulting risks.

In line with these objectives, the Intesa Sanpaolo Group has long since established an overall operational risk governance framework, by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

### Governance Model

An effective and efficient framework for managing operational risks must be fully integrated into decision-making processes and management of business operations. Accordingly, the Intesa Sanpaolo Group has chosen to involve the organisational units (business units, central/support structures) of the Parent Company, the Banks and Group companies with direct responsibility in the operational risk management process.



The Intesa Sanpaolo Group's operational risk governance process is divided into the following phases:

- identification: identification and description of potential areas of operational risk (e.g., operating events, presence of critical elements, applicability of Risk Factors, significant risk scenarios);
- assessment and measurement: determination of exposure to operational risks (e.g., self-diagnosis<sup>50</sup>, determination of economic and regulatory capital, preventive analyses of operational and ICT risks, assessment of the significance of the issues identified);
- monitoring and control: ongoing supervision of the development of the exposure to operational risks, including to prevent the occurrence of harmful events and promote active risk management;
- mitigation: containment of operational risks through appropriate mitigation actions and suitable risk-transfer strategies according to a risk-driven approach;
- reporting: preparation of information flows related to operational risk management, designed to ensure adequate knowledge of the exposure to this risk.

### ICT risk

The Intesa Sanpaolo Group considers its information system a tool of primary importance to the achievement of its strategic, business and social responsibility objectives, including in the light of the critical nature of the company processes that depend on it. Accordingly, it undertakes to create a resilient environment and to invest in assets and infrastructure designed to minimise the potential impact of ICT events and to protect its business, image, customers and employees.

The Group has therefore adopted a system of principles and rules intended to identify and measure the ICT risk to which company assets are exposed, assess the existing safeguards and identify adequate methods of managing such risks, in accordance with the operational risk management process.

In line with the methodological framework established for the governance of operational risks, the ICT Risk management framework has been developed with a view to integrating and coordinating the specific expertise of the structures involved.

ICT (Information and Communication Technology) risk means the risk of economic, reputational or market share losses related to the use of information and communication technology. In the integrated view of corporate risk for supervisory purposes, this risk is considered, according to specific aspects, as operational, reputational and strategic risk. ICT risk includes Cyber risk and IT risk.

<sup>49</sup> 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.

<sup>50</sup> Self-diagnosis is the annual process through which the Organisational Units identify their level of exposure to operational and ICT risk. It includes Operational Risk Assessment and ICT Risk Assessment, both of which are further broken down into Business Environment Assessment (BEA) and Scenario Analysis (SA).

#### **Internal model for the measurement of operational risk**

The Intesa Sanpaolo Group's internal model for calculating capital absorption (the "Advanced Measurement Approach" or "AMA") is designed to combine all the main sources of quantitative information (internal and external operational losses and estimates deriving from the Scenario Analysis) and qualitative information (Business Environment Evaluation - VCO).

Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case). It is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied to historical data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.9%. The methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the operational environment (VCO), to take into account the effectiveness of internal controls in the various Organisational Units.

The internal model's insurance mitigation component was approved by the Competent Authority in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

#### **Operational risk capital requirement**

For regulatory purposes, the Group adopts the advanced measurement approach (AMA), in partial use with the standardised (TSA) and basic approaches (BIA), to determine the capital requirement.

As at 30 June 2023, the scope of the Advanced Measurement Approach (AMA) is comprised of Intesa Sanpaolo (including the former Banks and Companies merged into it) and the main banks and companies in the Private Banking and Asset Management Divisions, as well as of VUB Banka and PBZ Banka.

The capital absorption thus determined came to 2,119 million euro as at 30 June 2023, up slightly from 2,039 million euro as at 31 December 2022. That increase (+1 billion euro in RWAs) is fully attributable to the component subject to the advanced approach, following the update of the historical component of that approach.

#### **Impacts of the Russia-Ukraine conflict**

As regards operational risks, the impacts of the Russia-Ukraine conflict regard several actions implemented to ensure the Group's business continuity operations, particularly the extra costs incurred for Business continuity and the losses resulting from physical damage directly caused to offices/branches located in the conflict zone. That information is used to monitor exposure to operational risk, including that regarding the Risk Appetite Framework.

## Legal risks

As at 30 June 2023, there were a total of about 34,900 disputes, other than tax disputes, pending at Group level (excluding those involving Risanamento S.p.A, which is not subject to management and coordination by Intesa Sanpaolo) with a total remedy<sup>51</sup> sought of around 3,470 million euro. This amount includes all disputes for which the risk of a disbursement of financial resources resulting from a potential negative outcome has been deemed possible or probable and therefore does not include disputes for which risk has been deemed remote. Those disputes include a large number of mass disputes at the international subsidiary banks (around 22,800 disputes) which, as a whole, account for a very low remedy sought.

The risks associated with the disputes are thoroughly and individually analysed by the Parent Company and Group companies. Specific and appropriate provisions have been made to the Allowances for Risks and Charges in the event of disputes for which there is an estimated probability of a disbursement of more than 50% and where the amount of the disbursement may be reliably estimated (disputes with likely risk). Without prejudice to the uncertainty inherent in all litigation, the estimate of the obligations that could arise from the disputes and hence the amount of any provisions recognised are based on the forward-looking assessments of the outcome of the trial. These forward-looking assessments are, in any event, prepared on the basis of all information available at the time of the estimate and updated over the course of the proceedings.

The only disputes with likely risk amount to around 27,000 with a remedy sought of 1,794 million euro and provisions of 713 million euro. The component referring to the Parent Company Intesa Sanpaolo, which also includes the dispute relating to the subsidiary Intesa Sanpaolo Provis S.p.A. merged in April, totals around 6,100<sup>52</sup> disputes with a remedy sought of 1,522 million euro and provisions of 527 million euro.

There were around 700 disputes relating to other Italian subsidiaries, with a remedy sought of 160 million euro and provisions of 80 million euro. In Italy, most of them relate to issues of anatocism and investment services (4,000 positions).

With regard to the international subsidiaries, there were around 20,200 disputes with a remedy sought of 112 million euro and provisions of 106 million euro, impacted by the previously mentioned mass disputes. Specifically, there were around 16,800 disputes relating to the subsidiary Banca Intesa Beograd in relation to two areas of litigation<sup>53</sup> that have involved the entire Serbian banking system. The first concerns processing fees charged by banks when granting loans and the second relates to real estate loans insured through the National Housing Loan Insurance Corporation (NKOSK).

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 half year 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 formalise the Milan Chamber of Arbitration the waiver of the claims respectively introduced. The waivers have been formalised and the arbitration proceedings have been closed.

### *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.

<sup>51</sup> The figures for the remedy sought do not include claims of indeterminate value, i.e. those that do not contain a specific financial claim when the dispute is initiated; the value of these disputes is determined during the course of the proceedings when sufficient information emerges for the valuation.

<sup>52</sup> These include disputes arising from the acquisition of certain assets, liabilities and legal relationships of Banca Popolare di Vicenza S.p.A. in compulsory administrative liquidation and Veneto Banca S.p.A. in compulsory administrative liquidation, so-called Excluded Disputes covered by public guarantee ("Indemnification Guarantee").

<sup>53</sup> For those cases, the provisions are relatively higher than the remedy sought (which is determined based on the customer's original claim) to take account of the interest and legal fees to be paid to the adverse party and the potential increase of the original claim submitted in the legal proceedings.

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.

#### *Dispute regarding financial derivative instruments*

With regard to derivative transactions, the legal risks linked to legal proceedings with local authorities, their subsidiaries and individuals continue to be subject to careful monitoring.

With regard to the disputes with companies controlled by Public Entities, in the proceedings brought by EUR S.p.A. concerning ISDA derivatives entered into in connection with a syndicated loan granted by ISP and other intermediaries, on 21 April 2023, the Court of Rome filed its ruling declaring the lack of jurisdiction of the Italian Court in favour of the English Court, with each party paying its own legal fees. The term for the appeal is pending. Intesa Sanpaolo's risk amounts to 22 million euro.

#### *Disputes regarding tax-collection companies*

In the context of the government's decision to re-assume responsibility for tax collection, Intesa Sanpaolo sold to Equitalia S.p.A., now the Italian Revenue Agency - Collections Division, full ownership of Gest Line, ETR/ESATRI and other minor companies, which managed tax-collection activities, undertaking to indemnify the buyer against any expenses associated with the collection activity carried out up to the time of purchase of the equity investments. In particular, such expenses refer to liabilities for disputes with tax authorities, taxpayers and employees and out-of-period expenses and capital losses with respect to the financial situation at the time of the sale. Overall, claims of around 74.9 million euro were made, later reduced to around 74.6 million euro, which were resolved by amicable settlement in the second quarter of 2023.

#### *Mariella Burani Fashion Group S.p.A. in liquidation and bankruptcy*

In January 2018, the receiver to Mariella Burani Fashion Group S.p.A. sued its former directors and statutory auditors, its independent auditors and the former UBI Banca (as the company that absorbed Centrobanca), seeking a judgment ordering compensation for alleged damages suffered due to the many acts of mismanagement of the company while in good standing. According to the claimant's arguments, Centrobanca, which was merged into the former UBI Banca, provided financial support to the parent company of the bankrupt company (Mariella Burani Holding S.p.A.) in 2008, in an operation on its subsidiary, despite the signs of insolvency that the latter began to show in September 2007, causing damages quantified at approximately 92 million euro. During the second quarter, the bank settled the dispute by means of disbursement covered by a previous provision and the subsequent waiver of the claims by the receiver.

#### *Fondazione Cassa di Risparmio di Pesaro*

In 2018, Fondazione Cassa di Risparmio di Pesaro brought a compensation claim against the former UBI Banca (as the alleged successor-in-interest to the issuer Banca Marche S.p.A.) and PwC (the auditing firm that certified all the financial statements and the figures presented in the Prospectus) alleging that the defendants published data and information regarding the financial performance and the income outlooks of Banca delle Marche S.p.A. that later proved to be totally incorrect and misleading. This information, contained in the financial statements as at 31 December 2010 and 30 June 2011 and included in the Prospectus, is claimed to have led the Foundation to subscribe for the bank's shares issued as part of the capital increase in March 2012. In later years, these shares went on to decline in value considerably, resulting in a loss quantified at approximately 52 million euro. During the trial the Bank of Italy joined the suit, upholding the lack of capacity to be sued invoked by UBI, by virtue of the provisions of Legislative Decree 180/2015 governing the resolution procedure for Banca delle Marche.

The Court of Milan, in a ruling published in May 2023, having ascertained and declared the lack of capacity to be sued of ISP, as the company that absorbed UBI, rejected the Foundation's claim and ordered that each party pay its own legal fees. The deadline for the appeal is pending.

#### *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 for 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. 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 awarded 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, aimed at obtaining the return of the sums unduly paid, 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 had unsuccessfully enforced its claim against the party benefiting from the corrupt ruling.

After the investigations carried out and the opinions obtained from external professionals, the following legal initiatives were started.

#### 1. Resumption of proceedings before the Rome Court of Appeal

On 19 May, the Bank notified the other parties involved (Metta, the Prime Minister's Office and Acampora) of the appeal, requesting:

- i. as the main claim, on the merits, the award, in addition to the other damages, of the damage arising, subject to correction of the miscalculation made at the time by the Rome Court of Appeal, in consideration of the fact that the "prejudicial conditions" set out by the Court of Cassation had been met because the Bank had pursued the recovery, both in and out of court, of the sums paid to the beneficiary as a result of the revoked ruling. In the event that the main claim is not upheld, the Bank requested at least the award of the lost earnings and non-pecuniary damage;
- ii. subordinately to the merits, a reference for a preliminary ruling to the Court of Justice of the European Union (CJEU) pursuant to Article 267 of the Treaty on the Functioning of the European Union (TFEU) for breach of the Treaty on European Union (TEU), highlighting the arbitrary limitation of the right to compensation provided for by the Special Law on damages caused by judges in the performance of their duties (Law 117/88) resulting from the application of the principles set out by the Court of Cassation in its recent ruling.

The first hearing is scheduled for 31 October next.

#### 2. Appeal to the European Court of Human Rights (ECtHR) for breach of the European Convention on Human Rights (ECHR)

The Bank filed an appeal with the European Court of Human Rights against the Italian government on the grounds that the conditions set by the Court of Cassation for the Bank to bring an action for damages against those obliged to pay compensation appear to be contrary to the protections envisaged by the ECHR.

#### 3. Appeal to the First Instance Tax Court

The Bank has brought proceedings before the Tax Court to obtain the credit claim of 33.2 million euro, at the time paid as withholding tax for overdue interest on the compensation for damages under the 1994 ruling paid to Mrs Battistella, as Nino Rovelli's heir.

#### *Labour litigation*

In line with the situation as at 31 December 2022, as at 30 June 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

At Group level, the total value of the claims for tax disputes (taxes, penalties and interest) was equal to 212 million euro as at 30 June 2023, down on 219 million euro as at 31 December 2022.

The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges (66 million euro as at 30 June 2023 compared to 70 million euro as at 31 December 2022).

The Parent Company had 483 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 actual risks were quantified at 57.4 million euro as at 30 June 2023 (56.8 million euro as at 31 December 2022).

During the half year, the litigation settled (known as findings closed) totalled 100 proceedings for a total amount claimed of 3.4 million euro, with an outlay of 2.7 million euro, mainly relating to (i) a payment notice for penalty and related collection costs following an unfavourable ruling by the Court of Cassation in connection with the dispute on the registration tax for the demerger of a business unit from Intesa Sanpaolo to State Street Bank (1.9 million euro), and (ii) municipal property tax (IMU) disputes on terminated lease contracts (0.5 million euro). On the other hand, no significant new disputes arose during the period.

For the Italian subsidiaries, there was a reduction in claims of 5 million euro compared to 31 December 2022 (80 million euro compared to 85 million euro as at 31 December 2022), with a reduction in the provision of 4 million euro (5 million euro compared to 9 million euro as at 31 December 2022).

Before looking in more detail at the situation of the Parent Company and the subsidiaries, a summary is provided below of the main regulatory changes concerning the settlement of pending litigation and other tax disputes, including non-litigious disputes, contained in the amendments made to the 2023 Budget Act (Law 197 of 29 December 2022) during the half year.

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, already discussed in the Report as at 31 December last (which should 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 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 main Group companies have subscribed to the amnesty for formal irregularities. For the other cases, analyses are underway to determine which cases it might be appropriate to settle in accordance with the Budget Act, and these will be completed in time for their settlement.

### Parent Company

The main ongoing disputes concern (i) disputes regarding registration tax on the reclassification of business contributions and subsequent sale of the investments as sales of businesses and the consequent assessment of a higher business value, (ii) the dispute regarding the municipal property tax (IMU) on real estate not repossessed following the termination of the related lease contracts, and (iii) the dispute regarding VAT on boat lease transactions and the dispute with the Brazilian tax authorities regarding direct taxes and social security contributions for the year 1995, details of which can be found in the Notes to the 2022 and previous financial statements.

### Group Companies

For details regarding Banca Fideuram and Intesa Sanpaolo Private Banking, given that there have been no significant changes, see the Notes to the 2022 Financial Statements.

Cargeas Assicurazioni – now merged into Intesa Sanpaolo Assicura – underwent a tax audit by the Italian Revenue Agency, Lombardy Regional Directorate, Large Taxpayers Office, aimed at verifying the correct application, for the years from 2010 to 2018, of the tax rules on private insurance and life annuity contracts pursuant to Law no. 1216 of 29 October 1961.

As a result of the audit, the authorities issued a claim against the company that redundancy insurance policies (which are mandatorily associated with salary-backed loans and optional with other mortgages, loans and consumer credit), should not be subject to tax on insurance premiums at a rate of 2.5%, but should, in the opinion of the Italian Revenue Agency, instead be classified as credit risk insurance policies, subject to a tax rate of 12.5%. In particular:

- on 25 May 2021, Cargeas received a notice of assessment for the year 2010 claiming a higher tax of 1.7 million euro, 0.6 million euro in interest and 3.4 million euro in penalties, for a total of 5.7 million euro. The notice was appealed in 2021 and by ruling no. 2396/2022 the Milan Provincial Tax Commission upheld Cargeas' appeal annulling the notice. In February 2023, the Italian Revenue Agency filed an appeal with the Lombardy Tax Court against the aforementioned ruling no. 2396/2022, in response to which counterclaims were filed by the absorbing company Intesa Sanpaolo Assicura S.p.A. in April 2023;
- on 6 June 2022, Cargeas received a notice of assessment for the year 2011 claiming a higher tax of 1.3 million euro, 0.5 million euro in interest and 2.8 million euro in penalties, for a total of 4.6 million euro. This notice was also appealed in 2022, and in its recent ruling no. 967 of 20 March 2023, the Milan First Instance Tax Court upheld the company's appeal annulling the notice. The term for the Office's appeal is pending;

- on 19 May 2023, the absorbing company Intesa Sanpaolo Assicura received a notice of assessment for the year 2012 claiming a higher tax of 0.2 million euro and penalties of 0.4 million euro, plus interest of 0.1 million euro. An appeal was filed in June 2023.

The company believes that the risk of a negative outcome is possible, but not probable. Accordingly, it has not made any provision for taxes, penalties and interest, except for the cost of legal fees, estimated at 0.16 million euro.

In addition, on 3 July 2023, the absorbing company Intesa Sanpaolo Assicura was notified by the Italian Revenue Agency of two measures of partial cancellation due to internal review, pursuant to Article 2 quater of Law Decree no. 564/94, converted by Law no. 656 of 30 November 1994, relating to the 2010 and 2011 notices of assessment. Following the cross-examination with the company and after having reviewed the documentation submitted, the Agency acknowledged that it was correct to classify this type of policy under the insurance contracts against redundancy risk subject to a reduced rate of 2.5% on the value of the premiums, as provided for in Article 14 of the General Tariff (Law no. 1916 of 29 October 1961), and recalculated the tax authorities' claim as follows: a) for 2010, tax due of 1.5 million euro, penalty of 1 million euro and interest as at 30 June 2023 of 0.6 million euro, for a total of 3.1 million euro (a reduction of 2.6 million euro compared to the original 5.7 million euro); and b) for 2011, tax due of 1.1 million euro, penalty of 0.8 million euro and interest as at 30 June 2023 of 0.4 million euro, for a total of 2.3 million euro (a reduction of 2.3 million euro compared to the original 4.6 million euro).

Lastly, regarding the same case, it should be noted that Intesa Sanpaolo Assicura received the following two questionnaires in April 2021: a) one relating to 2012 and 2013 for the former Bentos Assicurazioni, merged into Intesa Sanpaolo Assicura in December 2013; b) the second for 2012 for Intesa Sanpaolo Assicura. As a result of these questionnaires, in May 2023, the Italian Revenue Agency served three notices of assessment of which two related to the former Bentos Assicurazioni for 2012 (tax of 5 thousand euro, penalties of 12 thousand euro, plus interest) and 2013 (tax of 30 thousand euro, penalties of 75 thousand euro, plus interest) and one related to Intesa Sanpaolo Assicura for 2012 (tax of 0.3 million euro, penalties of 0.8 million euro, plus interest of 0.1 million euro).

For Eurizon Capital SGR, a full description was provided in the Notes to the 2022 Financial Statements of the dispute relating to its transactions with its Luxembourg subsidiary Eurizon Capital S.A. in 2016. The company settled the dispute in April by signing a tax settlement agreement that provides for higher Italian taxable income of 26.8 million euro, resulting in higher IRES and IRAP taxes due of 8.8 million euro, plus interest of 1.8 million euro, without the application of penalties, for a total of 10.6 million euro.

Following this settlement, the Italian Revenue Agency - Lombardy Regional Directorate sent Eurizon Capital SGR a new questionnaire concerning IRES and IRAP taxes for the year 2017. Eurizon Capital SGR sent the requested documentation on 22 and 27 June.

On 4 April 2023 the Italian Revenue Agency – Lombardy Regional Directorate – Large Taxpayers Office initiated a similar tax audit on Epsilon SGR regarding the year 2017 and concerning direct taxes, IRAP, VAT and obligations of tax collection agents. Discussions are underway with the Agency to ensure that the transactions between Eurizon Capital SGR, Epsilon SGR and Eurizon Capital S.A. are examined in a consistent and coordinated manner.

With regard to foreign subsidiaries, there were no significant developments in the disputes during the half year.

## 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 30 June 2023, the investment portfolios, recorded at book value, amounted to 175,753 million euro. Of these, a part amounting to 89,186 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 86,567 million euro.

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

In terms of breakdown by asset class, net of derivative financial instruments, 84.5% of assets, i.e. 75,352 million euro, was bonds, whereas equity instruments represented 2% of the total and amounted to 1,802 million euro. The remainder (12,057 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (13.5%).

The carrying value of derivatives came to around -24.9 million euro, of which around 26.5 million euro relating to effective management derivatives, and the remaining portion (around -51.4 million euro) is attributable to hedging derivatives.

At the end of the first six months of 2023, investments made with the shareholder fund of Intesa Sanpaolo Vita and Fideuram Vita amounted to around 513 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 4,456 million euro.

The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented around 5.2% of total investments and A bonds around 9.9%. Low investment grade securities (BBB) were around 81.3% of the total and the portion of speculative grade or unrated was minimal (3.6%).

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 75.4% of the total investments, while financial companies (mostly banks) contributed around 15.4% of exposure and industrial securities made up around 9.2%.

At the end of the first half 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 4,724 million euro, with 3,925 million euro due to government issuers and 799 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).