Risk management

THE CORE PRINCIPLES OF RISK MANAGEMENT

The policies relating to risk taking and the processes for the management of the risks to which the Group is or could be exposed are approved by the Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Risks and Sustainability Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework (RAF).
The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies.
The Corporate Bodies also benefit from the action of some managerial committees on risk management. These committees, which include the Steering Committee, operate in compliance with the primary responsibilities of the Corporate Bodies regarding the internal control system and the prerogatives of corporate control functions, and in particular the risk control function.
The Chief Risk Officer Governance Area, directly reporting to the Managing Director and CEO, in which the risk management functions are concentrated, including the controls on the risk management and internal validation process, represents a relevant component of the "second line of defence" of the internal control system that is separate and independent from the business supporting functions. This Area is responsible for: i) governing the macro process of definition, approval, control and implementation of the Group's Risk Appetite Framework with the support of the other corporate functions involved; ii) assisting the Corporate Bodies in setting and implementing the Group's risk management guidelines and policies, in accordance with the company's strategies and objectives; iii) coordinating and verifying their implementation by the responsible units of the Group, also within the various corporate areas; iv) guaranteeing the measurement and control of the Group's exposure to various types of risk and v) implementing the II level controls on credit and other risks, in addition to ensuring the validation of internal risk measurement and management systems.
The Parent Company performs a guidance and coordination role with respect to the Group companies[28], aimed at ensuring effective and efficient risk management at consolidated 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, is a key measure for determining the Group's financial structure, risk appetite and for guiding operations, ensuring a balance between risks assumed and shareholder returns. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario. The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the 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.

It is worth noting that the Group is carefully monitoring the evolution of the repercussions of the Russia-Ukraine 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 earnings and capital adequacy. These analyses focus both on the direct effects, such as the deterioration of the situation of the counterparties in the countries involved, and the indirect effects, including the effects on the Group's other customers deriving from the possible changes in the economic and financial environment, also considering the rising energy costs and the possible reduction in the availability of certain energy sources. Although the situation is constantly evolving, leaving aside extreme scenarios of conflict escalation that could lead to outcomes that are currently difficult to assess, these analyses have found that the Group would be able to ensure compliance – also through the implementation of specific actions – with the regulatory requirements and the stricter limits set internally.

[28] 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 Retail models for regulatory purposes was implemented starting from September 2022.
The periodic updating and alignment to changes in regulations governing IRB systems and their extension continue in accordance with the Regulatory Roadmap agreed with the Supervisory Authorities.
With regard to counterparty risk, there were no changes in the scope of application compared to 30 June 2022.
With regard to operational risk, the Group obtained authorisation to use the Advanced Measurement Approach (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009. There were no changes in the scope of application compared to 30 June 2022.
The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal risk measurement methodologies, internal capital and total capital available, was approved and sent to the ECB in April 2022.

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

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

Valuation of exposures to counterparties resident in Russia and Ukraine
As stated, as at 30 September 2022 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)

	30.09.2022 (*)				31.12.2021 (**)			
	Gross exposure		Net exposure		Gross exposure		Net exposure	
	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine
Loans to customers	**2,234**	**220**	**1,597**	**97**	**4,518**	**226**	**4,486**	**224**
Banca Intesa Russia	*519*	*-*	*267*	*-*	*644*	*-*	*614*	*-*
Pravex	*-*	*123*	*-*	*-*	*-*	*156*	*-*	*154*
Cross-border exposures	*1,715*	*97*	*1,330*	*97*	*3,874*	*70*	*3,872*	*70*
Due from banks	**738**	**69**	**711**	**68**	**305**	**57**	**305**	**56**
Banca Intesa Russia	*679*	*-*	*657*	*-*	*269*	*-*	*269*	*-*
Pravex	*-*	*69*	*-*	*68*	*-*	*57*	*-*	*56*
Cross-border exposures	*59*	*-*	*54*	*-*	*36*	*-*	*36*	*-*
Securities	**156**	**14**	**95**	**5**	**118**	**58**	**118**	**56**
Banca Intesa Russia	*57*	*-*	*53*	*-*	*24*	*-*	*24*	*-*
Pravex	*-*	*3*	*-*	*3*	*-*	*48*	*-*	*46*
IMI C&IB Division	*33*	*-*	*15*	*-*	*29*	*-*	*29*	*-*
Insurance Division	*66*	*11*	*27*	*2*	*65*	*10*	*65*	*10*

(*) In addition to the on-balance sheet exposures shown in the table, there are off-balance sheet exposures to customers for 264 million euro (239 million euro net) at Banca Intesa Russia, and 73 million euro (gross and net value) at Pravex, in addition to 288 million euro (246 million euro net) in cross-border off-balance sheet exposures to resident customers, net of ECA.
There are also 189 million euro (186 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, as well as exposures in OTC derivatives for 6 million euro in fair value (referring to the Parent Company).
Lastly, cross-border exposures to customers resident in Ukraine are covered by guarantees granted by parties in the European Union and the United States.

(**) In addition to the on-balance sheet exposures shown in the table, there are off-balance sheet exposures to customers for 254 million euro (253 million euro net) at Banca Intesa Russia, and 88 million euro (gross and net value) at Pravex, in addition to 995 million euro (gross and net value) in cross-border off-balance sheet exposures to resident customers, net of ECA. There are also 1,109 million euro (gross and net value) in cross-border off-balance sheet exposures to banks resident in Russia.
Lastly, cross-border exposures to customers resident in Ukraine are covered by guarantees granted by parties in the European Union and the United States.

As shown in the table, during the year, the Group has taken active steps to significantly reduce the credit risks associated with the Russian-Ukrainian conflict.
Specifically, in the second and third quarters of the year, the gross credit exposure to the total counterparties resident in Russia and Ukraine decreased by 2,290 million euro (-48% compared to the end of the previous year), mainly due to the sale of a significant position (for 2,187 million euro) and the decrease in outstanding loans to customers at the subsidiary Banca Intesa Russia of around 125 million euro (of which 413 million euro in terms of reduction in volumes offset by the increase of 288 million euro attributable to the effect of the appreciation of the rouble).
In addition, on 5 October, the sale was completed of another position for 369 million euro, bringing the reduction of the total gross exposure to over 2.6 billion euro (-56%).
Without the above-mentioned appreciation of the rouble, the decline in exposures would have been more than 60%.

As a result of the above, the remaining exposures amounted, in terms of gross values, to 519 million euro (267 million euro net) for Banca Intesa Russia (figures as at 30 September 2022, as described below) and 1,715 million euro (1,330 million euro net) for cross-border exposures to customers resident in Russia (net of ECA guarantees). These were accompanied by exposures to banks totalling 738 million euro (711 million euro net) and in securities totalling 156 million euro (95 million euro net)[29]. Exposures to customers resident in Ukraine amounted to 220 million euro (97 million euro net), of which 123 million euro (book value nil in net terms) related to the subsidiary Pravex Bank (figures as at 30 September 2022, as described below). These were accompanied by exposures to banks and in securities totalling 83 million euro (73 million euro net).

On the whole, the Group suffered effects on the income statement related to the impacts deriving from the conflict for a total of 1,341 million euro gross of the tax effect, deriving mainly from existing credit risk to customers (1,289 million euro), valued based on IFRS 9.

These significant adjustments and the above-mentioned sales therefore resulted in a net exposure to counterparties resident in Russia and Ukraine of 1,694 million euro as at 30 September 2022, down 3,016 million euro from 31 December 2021 (-64%). The additional sale completed on 5 October brought the reduction to 3.3 billion euro (-70%).

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 September, a total of 347 million euro of on-balance sheet non-performing loans to counterparties resident in Russia were recorded, relating to positions already classified as at 30 June, in addition to 77 million euro relating to the Russian subsidiary and 123 million euro relating to the classification of the entire portfolio of the Ukrainian subsidiary to bad loan status (as described below).
In line with the disclosure already provided in the Half-yearly Report as at 30 June, with regard to the portfolio that did not show signs of deterioration, the analyses of the accounting standard and the related Annexes show no indications or examples aimed at setting out specific guidelines for the measurement of Expected Credit Losses 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[30], as well as, in line with the treatment set out for capturing the critical issues of another recent emergency situation (COVID-19[31]), using the management overlay in calculating the ECL, to define the most suitable methods to incorporate the aspects linked to the ongoing conflict into provisions.
With specific reference to cross-border positions, the Group thus decided to adopt a valuation approach strongly guided by the emerging geopolitical risk "via transfer", i.e. the risk that counterparties do not honour their commitments to pay debt following restrictions or decisions by their countries of residence, not due to aspects directly pertaining to their business, thus applied based on the country of residence of the counterparties. That approach was implemented both to determine the SICR and the related classification in Stage 2, and to calculate the ECL by applying a management overlay. This approach, which has also been adopted for the Interim Statement as at 30 September, 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 rating review of the most significant counterparties exposed to the country risk related to the conflict, for which more restrictive validity periods were exceptionally established for the ratings assigned, led to some further downgrades in addition to the already very significant ones recorded in the first quarter of 2022.

[29] There were also off-balance sheet exposures to customers of 264 million euro (239 million euro net) at Banca Intesa Russia, 288 million euro (246 million euro net) in cross-border exposures to resident customers (net of ECA) and a total of 189 million euro (186 million euro net) relating to positions with Russian resident banks. The exposures in OTC derivative contracts are small and amount to 6 million euro in terms of fair value.

[30] 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.

[31] 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.

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, 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. Specifically, for the portfolio of performing loans of Pravex (the bank substantially had no NPLs as at 31 December 2021) a specific management overlay had already been applied at ECL level, which resulted in impairment that brought the coverage ratio to 73% (up compared to the approximately 60% applied as at 31 March, in light of the worsening of the conflict, with resulting impacts on the Ukrainian economy). As at 30 September, loans to customers were classified for the purposes of the Consolidated Financial Statements as non-performing loans (bad loans), with full impairment of the on-balance sheet component.
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. Thus, an approach to classifying and assessing performing loans was adopted that strongly considers the geopolitical risk deriving from the ongoing crisis, which also contributes, according to the most recent indications from the Parent Company's Research Department, to a decrease of 6% in Russia's GDP in 2022 and 3.7% in 2023. Therefore, the assessments carried out in September 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, as it is no longer considered possible that it will cease in a short time, and the increased isolation of the Russian economy. As a result of the provisions made and the above-mentioned reduction in exposures, the total coverage of performing loans of the Russian subsidiary amounted to around 45% of the gross value of performing loans (it was over 30% as at 30 June 2022[32]).

On the whole, over the first nine months of the year, value adjustments were made to loans of Banca Intesa Russia, Pravex and to the cross-border exposures for 1,289 million euro (of which 311 million euro on positions classified as non-performing loans).
The above-mentioned significant adjustments made to the credit exposures of Banca Intesa Russia and Pravex, on a prudential basis, reflect the war situation that generates the need for careful consideration of the above-mentioned country risk, with appropriate measurement of the risk that the capital invested abroad is exposed to, connected to the possibility that political or economic circumstances may result in non-repayment of the loan (irrespective of the specific credit risk of the individual counterparty) or in a write-down of the investment made in the foreign country.
In addition to those impacts deriving from the measurement of the Group's loan portfolio, value adjustments were also posted relating to the limited positions in securities, for a total of 30 million euro (in addition to 1 million euro in negative impact on the valuation reserves). Lastly, Pravex's real estate assets were written down by 1 million euro (in addition to a further negative impact of 1 million euro on valuation reserves). To complete the effects on the income statement arising from the Russian-Ukrainian conflict, it is necessary to add the write-down of 21 million euro made upon consolidation of the subsidiary Banca Intesa Russia to zero out its equity contribution to the Group's consolidated financial statements.

[32] The coverage as at 30 June 2022 stood at 25% of the gross value of the loans from the reporting package as at 31 March 2022, used for the consolidation as at 30 June 2022, and at over 30% taking into account the reduction in loans made by the subsidiary in the second quarter of 2022.

CREDIT RISK

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

Credit quality

(millions of euro)

	30.09.2022			31.12.2021			Change
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Bad loans	3,793	-2,495	1,298	7,194	-5,064	2,130	-832
Unlikely to pay	6,950	-2,702	4,248	7,281	-2,956	4,325	-77
Past due loans	622	-138	484	774	-152	622	-138
Non-Performing Loans	**11,365**	**-5,335**	**6,030**	**15,249**	**-8,172**	**7,077**	**-1,047**
Non-performing loans in Stage 3 (subject to impairment)	*11,323*	*-5,324*	*5,999*	*15,202*	*-8,164*	*7,038*	*-1,039*
Non-performing loans designated at fair value through profit or loss	*42*	*-11*	*31*	*47*	*-8*	*39*	*-8*
Performing loans	**463,433**	**-2,566**	**460,867**	**454,213**	**-2,453**	**451,760**	**9,107**
Stage 2	*47,454*	*-1,827*	*45,627*	*56,129*	*-1,740*	*54,389*	*-8,762*
Stage 1	*414,953*	*-739*	*414,214*	*397,085*	*-713*	*396,372*	*17,842*
Performing loans designated at fair value through profit or loss	*1,026*	*-*	*1,026*	*999*	*-*	*999*	*27*
Performing loans represented by securities	**6,806**	**-41**	**6,765**	**7,039**	**-24**	**7,015**	**-250**
Stage 2	*1,211*	*-35*	*1,176*	*882*	*-17*	*865*	*311*
Stage 1	*5,595*	*-6*	*5,589*	*6,157*	*-7*	*6,150*	*-561*
Loans held for trading	**84**	**-**	**84**	**19**	**-**	**19**	**65**
Total loans to customers	**481,688**	**-7,942**	**473,746**	**476,520**	**-10,649**	**465,871**	**7,875**
of which forborne performing	***8,322***	***-471***	***7,851***	***8,616***	***-513***	***8,103***	***-252***
of which forborne non-performing	***3,753***	***-1,479***	***2,274***	***4,568***	***-1,924***	***2,644***	***-370***
Loans to customers classified as non-current assets held for sale (*)	**3,840**	**-2,955**	**885**	**4,504**	**-3,298**	**1,206**	**-321**

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

(*) This item refers to the portfolios of loans classified as bad loans and unlikely to pay to be sold. As at 31 December 2021 the amount also included single name exposures.

As at 30 September 2022, the Group's gross non-performing loans amounted to 11.4 billion euro, down by 3.9 billion euro (-25.5%) since December, but up slightly compared to June (+0.2 billion euro; +1.9%) following some reclassifications of Banca Pravex and Banca Intesa Russia. Note that 0.3 billion euro of exposures to Russia and Ukraine were already classified as unlikely to pay in the second quarter. The proportion of gross non-performing loans consequently decreased to 2.4% from 3.2% at the end of 2021 (2.3% at the end of the half year). Expressed in accordance with the EBA definitions, these proportions were 1.9% in September and 2.4% at the end of 2021 (1.8% in June).
The change reflects the major de-risking initiatives completed in the first half of the year, a description of which is provided in the Half-yearly Report as at 30 June 2022.
The process of reducing non-performing loans also continues to benefit from inflows of performing loans, which remained at low levels. Gross inflows in the first nine months of the year totalled 2.7 billion euro, of which 0.8 billion euro in the third quarter (0.2 billion euro related to Pravex and Banca Intesa Russia), 1.2 billion euro in the second quarter (0.3 billion euro related to exposures to Russia and Ukraine) and 0.7 billion euro in the first quarter. In the same period of 2021, the total gross inflow was 2.4 billion euro.
In net terms, that is, net of outflows to performing loans, the inflow in the first nine months of the year totalled 2 billion euro, of which 0.5 billion euro related to exposures to Russia and Ukraine[33] (0.6 billion euro in the third quarter, 1 billion euro in the second quarter and 0.4 billion euro in the first quarter) compared to 1.7 billion euro in the first nine months of 2021.
The table shows that the decrease compared to December in gross non-performing loans was comprised of 3.4 billion euro in bad loans (-47.3%), 331 million euro in unlikely-to-pay exposures (-4.5%), despite the mentioned classification of exposures to Russia-Ukraine in that category for 0.3 billion euro in the second quarter, and 0.15 billion euro in past due positions (-19.6%).

[33] 0.2 billion euro net of value adjustments.

At the end of September 2022, non-performing loans classified under assets held for sale amounted to 3.8 billion euro gross and 0.9 billion euro net.

By the end of the third quarter, the Group's net non-performing loans, also as a result of the de-risking initiatives completed in the first half of 2022, had fallen to an all-time low of 6 billion euro. The reduction from the beginning of the year of 14.8% confirms the virtuous trend from previous years. The non-performing assets percentage of total net loans to customers amounted to 1.3% (1% according to the EBA definition), in line with June 2022 and further improving compared to December 2021 (1.5%, 1.2% according to the EBA definition), with a coverage ratio for non-performing loans of 46.9% (44.8% in June and 53.6% at the end of 2021).
More specifically, at the end of September 2022, bad loans came to 1.3 billion euro (-39.1% year to date), net of adjustments, and represented 0.3% of total net loans, with a coverage ratio of 65.8%. Loans included in the unlikely-to-pay category amounted to 4.2 billion euro, down by 1.8%, accounting for 0.9% of the total, with a coverage ratio of 38.9%. Past due loans amounted to 484 million euro (-22.2% over the first nine months of the year), with a coverage ratio of 22.2%. Within the non-performing loan category, forborne exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, fell to 2.3 billion euro, with a coverage ratio of 39.4%, while forborne exposures in the performing loans category amounted to 7.9 billion euro.
The coverage ratio of performing loans stood at 0.6% (0.6% in June and 0.5% in December), also as a result of the significant provisions made during the first nine months of the year to cover the Russia-Ukraine risk. These provisions, together with the initiatives carried out during the second and third quarters, enabled a significant reduction in the Group's overall exposure to Russian and Ukrainian counterparties, as detailed in the specific paragraph above.

Impacts from the COVID-19 pandemic
As indicated in previous reports, the process of gradual restoration of fully ordinary credit processes, with one-to-one assessments was carried out in 2021 with the gradual phase out of the EBA Guidelines on general payment moratoria, and completed in full on 1 April 2022, following the termination of the state of emergency, with full return also of the solutions offered by the Bank's ordinary product catalogue.
In the third quarter, the option – set up in April 2022 in response to the provisions of the "Mille Proroghe Decree" for loans of "30 thousand euro" pursuant to letters m) and m-bis) of Article 13, paragraph 1 of Law Decree no. 23 of 8 April 2020, converted, with amendments, by Law no. 40 of 5 June 2020 – was continued, to be requested by the borrower, through agreement between the parties, to defer for a maximum of 6 months the grace period of the loan, whose initial deadline for payment of principal is scheduled in 2022.
With regard to actions related to proactive credit management, no further diagnostics were carried out on the moratoria portfolio with respect to that described in the Half-yearly Report as at 30 June 2022, to which readers are referred.
At domestic level, as at 30 September 2022, there were 0.1 billion euro of outstanding moratoria (4.8 billion euro at the end of 2021), in addition to 0.1 billion euro of terminated moratoria that will reach the term for the resumption of payments in subsequent months (6.7 billion euro at December 2021). The impact of the significant past due amounts and new defaults continued to remain low. The expired moratoria that had already met the conditions for the resumption of payments the default rate came to around 4%.
With regard to the valuation aspects, the related information is provided in the paragraph "Moratoria and sector-specific vulnerability management overlays" below.

Macroeconomic scenario for forward-looking conditioning
Over the past three months, the real growth forecasts for the Eurozone have been revised downwards. In contrast, inflation forecasts have been revised upwards again. The main forecasting uncertainties stem from the difficulty in capturing the developments and implications of the energy crisis, particularly in Europe. However, a second factor has now come into play: the tightening of monetary policies, which is taking place at a fast pace in almost all the advanced countries, with repercussions also on the volatility of currency markets.
The Research Department has prepared a macroeconomic scenario updated to September 2022 used for the valuations, which was taken into account in the estimates of the IFRS 9 forward-looking conditioning models as at 30 September.
The forecasts contained in the above-mentioned scenario update those prepared for the Half-yearly Report and are based on the assumption of a further generalised slowdown in real growth and an increasing risk of global recession, due to tighter financial conditions, shrinking household purchasing power, erosion of business margins and increased uncertainty. In the Eurozone and Italy, this slowdown is expected between the last quarter of 2022 and the first quarter of next year, with a recovery already starting in the second quarter of 2023, which would allow for a slightly positive average growth rate in 2023. The scenario incorporates a higher forecast average gas price in Europe for 2023, compared to the assumption underlying the June scenario, with conservative assumptions on the end of 2022 and beginning of 2023. An improvement is expected from the second quarter of 2023 onwards due to progress in the diversification of energy sources.
Despite the forecast of falling inflation in the advanced countries in 2023, due to stabilising energy prices, core inflation could, in an environment of extreme uncertainty, continue to rise until the first quarter of 2023 and average annual inflation could remain very high with respect to the European Central Bank's targets.
For the Eurozone, the continuation of the Russian-Ukrainian war is affecting the European economy more than others, increasing inflation and structurally reducing real growth through higher energy costs. Compared to June, despite the healthy stocks, the risk that the slowdown in economic growth will result in a recession between the fourth quarter of 2022 and the first quarter of 2023 has become more acute due to the heavy impact on European economic activity of geopolitical tensions, overheating of prices and insufficient energy supplies. In the forecast scenario produced in June, these assumptions were incorporated in the adverse scenario. GDP is expected to decline between the end of 2022 and the beginning of 2023, and is expected to grow by 0.5% in 2023, compared to 2.1% in the previous forecast. The other revision factor is the change of pace of the central banks in the normalisation of monetary policy, with the abandonment of gradualism and the adoption of measures to bring forward the transition of key interest rates to levels that will enable a swift return of inflation to target. It is

assumed that rates will be raised above 2% by the end of the first quarter of 2023. Then, the combination of tighter financial conditions, erosion of household purchasing power, weaker foreign demand and slowing investment should help cool inflation and interrupt the rate hikes. The risk of recession has already made rate curves flatter, a phenomenon that could continue. Despite the fact that the economy is expected to return to growth as early as the second quarter of 2023, due to the partial reduction in energy prices, the risks to the scenario are still tilted towards the downside, particularly if a scenario of natural gas rationing were to arise.
For Italy, despite the good GDP performance in the first three quarters of the year and a higher growth projection than expected in June for 2022, in the coming months growth will be held back by the weakening of foreign demand, the impact of high energy prices, the tightening of financial conditions and the gradual reduction of incentives for building renovations. GDP is expected to fall between the end of 2022 and the beginning of 2023. A possible recovery from spring 2023, on the back of a partial reduction in energy prices, may allow average growth to remain on positive ground next year. However, the risks on this estimate are clearly tilted towards the downside. A re-acceleration driven by final domestic demand is expected in 2024.
The forecast is based on the assumption that the new government will adopt budgetary policies in line with the previous multi-year planning and that the implementation of the National Recovery and Resilience Plan will be sufficiently timely to ensure the release of the new payment tranches.
In 2023, the energy crisis and inflationary pressures are expected to have a substantial impact on household purchasing power, especially for households with lower incomes. The excess savings accumulated during the pandemic will be rapidly used up, running out by 2023. As this cushion erodes, the fall in real disposable income will translate into weak consumption, particularly for goods.
The production sectors most affected are expected to be the energy-intensive sectors, e.g. chemicals and metallurgy, as is starting to emerge from the latest actual production data. Even the construction sector, which was one of the strongest performers in 2021, will not be immune to the cyclical slowdown. Finally, services, which supported the recovery in the first half of the year, driven primarily by the strong performance of tourism, are starting to lose momentum and are beginning to show signs of slowing down.
Investments are also expected to slow down. The reaction of the construction sector to the gradual phasing out of incentives will be crucial: construction activity, which has been the main driver of growth in the Italian economy over the last two years, is beginning to show signs of slowing down (in addition to rising mortgage rates, the increase in costs could also dampen activity), although levels of activity are still very high. Inflation is expected to fall from 7.3% in 2022 to 5.3% in 2023, but still considerably high and above previous forecasts – normalisation towards the European target is expected from 2024. The assumptions on Italian real estate prices are conservative, entailing a sharp fall in real terms in 2022 and 2023. The unemployment rate is expected to rise slightly in 2023, to 8.5%.
The spread has already reacted to the end of the ECB purchase programmes and the increased uncertainty over economic policies related to the elections at the end of September. Low net issues and the ECB's anti "fragmentation" mechanism have contained the widening of the BTP-Bund spread. However, the pressure may persist and intensify during the definition and execution phase of the 2023 Budget.
For the US, the forecast is for a gradual economic slowdown. The resilience of final demand, the tight labour market and permanently high and widespread inflation will lead to faster monetary restriction, resulting in lower growth as early as 2022 (1.8%). This trend will continue in 2023, when a moderate recession caused by less favourable financial conditions may be possible.
For the purposes of forward-looking conditioning of ECL parameters, the methodology adopted by the Group entails, in addition to the baseline scenario, alternative (best-case/worst-case) scenarios that reflect the dispersion on the extreme forecasts of Consensus Economics or specific standardised shocks, statistically selected from the time series, for the variables usually not surveyed by Consensus.
Specifically, the "adverse" scenario was formulated using the methodology established, with modifications applied in relation to the monetary policy reaction. Initially, the lowest GDP growth forecasts in the Consensus Economics survey published in September 2022 for the major advanced countries were identified by the Research Department; the private consumption and fixed investment trends of the baseline scenario were adjusted to provide an aligned GDP growth profile. The other variables were recalculated accordingly. Unlike the June scenario, the methodology yields a global recession scenario without the need for further heightening of the shock. The drastic decrease in growth in the GDP in 2023 and in 2024 is associated with higher unemployment rates and inflation aligned in the initial years, but much lower in the terminal year. The trend in stock indices and real estate prices is weaker than the baseline scenario. The shock on real estate prices was limited because the baseline scenario had already adopted conservative assumptions regarding real price trends. The BTP-Bund spread, with respect to the baseline scenario, will increase by 32 basis points in 2023 and 35 basis points in 2024. The spread will narrow in 2025.
The "favourable" scenario was produced on the basis of the highest GDP growth forecasts in the Consensus Economics survey published in September 2022: 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. These assumptions yield a scenario of higher real growth rates, higher inflation, a lower unemployment rate, higher interest rates on all maturities, and performance of stock indices and real estate prices significantly more robust than the baseline scenario. The BTP-Bund spread, with respect to the baseline scenario, will decrease by 23 basis points in 2023, 25 basis points in 2024 and 30 basis points in 2025.
It should be noted that the domestic baseline scenario is consistent with the forecast produced by the European Central Bank (September 2022). Moreover, there are no major differences in the comparability over the forecast period between the domestic worst-case scenario and the ECB's forecast under the downside scenario, which was produced considering a significant risk for the prospects of the Eurozone related to the possibility of more severe disruptions in European energy supplies accompanied by a severe winter resulting in higher heating demand, leading to further energy price spikes and more drastic cuts in production than assumed in the baseline scenario.
The representation of the main variables and related forecasts used by the IFRS 9 models to determine forward-looking credit losses is shown below, in the baseline scenario and the alternative scenarios. The application of the updated scenario resulted in higher adjustments to loans, for an estimated amount of around 90 million euro, in addition to around 80 million euro recognised in the first half.

Intesa Sanpaolo macroeconomic scenarios for calculating the ECL as at 30 September 2022

		Baseline				Mild				Severe			
		2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Euro Area	Equity ESTOXX 50 (annual change)	-6.0	0.7	2.3	0.2	-4.3	9.8	1.4	1.3	-8.9	-5.6	7.7	0.9
	EUR/USD	1.0	1.0	1.1	1.1	1.0	1.0	1.1	1.1	1.0	1.1	1.1	1.1
	EurIRS 10Y	1.80	2.50	2.70	2.90	1.80	2.70	3.20	3.50	1.70	2.20	2.30	2.20
Italy	Real GDP Italy (annual change)	3.5	0.6	1.8	1.2	3.6	1.6	2.5	1.4	2.8	-0.8	0.5	1.1
	CPI Italy (annual change)	7.3	5.3	2.0	2.0	7.3	5.5	2.9	3.3	7.3	4.6	1.1	1.5
	Residential Property Italy (annual change)	2.9	0.8	1.5	1.8	3.0	2.7	3.3	3.5	2.9	0.5	1.1	1.1
	10Y BTP yield	3.0	4.1	4.3	4.6	3.0	4.1	4.6	4.9	3.0	4.2	4.3	4.1
	BTP-Bund Spread 10Y (basis point)	197	244	210	189	194	221	185	159	203	277	245	213
	Italian Unemployment (%)	8.2	8.5	8.0	8.0	8.2	8.2	7.5	7.4	8.2	8.7	8.4	8.4
USA Area	Real GDP US (annual change)	1.8	0.9	1.3	2.4	1.9	1.5	2.5	2.5	1.4	-0.5	1.3	1.9
	US Unemployment (%)	3.6	3.9	4.2	3.9	3.6	3.8	3.8	3.6	3.7	4.4	4.6	4.3

Moratoria and sector-specific vulnerability management overlays

In the first nine months of 2022, as the country emerged from the health emergency and health restrictions were relaxed, the uncertainties specifically related to the pandemic eased and there was no noticeable increase in credit risk on exposures that had been subject to moratoria. The latter have now all returned to resumption of payments, for a considerable portion already some time ago, and continue to record reductions in the exposures and full repayments.

The elements of vulnerability of the exposures subject to moratorium measures considered for the purposes of the Financial Statements as at 31 December 2021 (represented by both overlays incorporated into the satellite models and extraordinary triggers for sliding into Stage 2) had already been re-estimated starting from March, still maintaining suitable prudence, but considering both the substantial normalisation of forbearance measures and the positive evidence from the set of exposures with resumption of payments that has already begun. Over the past two quarters, there were no significant negative changes in credit risk parameters. As at 30 September, while keeping the overlay incorporated into the satellite model as at 30 June unchanged, returns to Stage 1 were recorded for the residual portfolios that resumed payments (subject to the extraordinary trigger for sliding into Stage 2) with limited impact in terms of writebacks.

The strong economic performance recorded in the first months of the year was supported, in Italy, by positive factors, including the continued growth of the construction sector – from which several related sectors also benefited – the recovery of tourism, the resilience of some manufacturing sectors and the strong performance of their exports, and the healthy trend in household consumption. At the same time, since the Russia/Ukraine geopolitical crisis, uncertainties about the economic outlook have gradually increased, as also outlined in the previous paragraph. In particular, over the past two quarters, a specific risk factor has emerged (the energy crisis brought about in the context of the ongoing geopolitical crisis) accompanied by the prospects of the effects of rising inflation, rising costs for businesses and rising interest rates. In the third quarter of the year, the initial signs emerged of slowdown in the growth of production.

From the first quarter of 2022, management overlays were added in order to introduce increased adjustments of performing loans related to the effects of increased sector uncertainty (sector-specific vulnerability). In the third quarter, with the greater availability of more specific forecast scenarios, also at the micro-sector level, the Bank considered that the increases already recognised as at 30 June were still appropriate. At the same time, also considering the above, the allocation was redefined for the previously applied management overlays by sector-specific vulnerability. Specifically, the analyses by the CRO Area led to the adoption of a post-model adjustment, i.e. an increase in the ECL, which was applied in a more targeted manner to all counterparties belonging to micro-sectors with a negative outlook or particularly exposed to energy cost risk, as defined by the sector risk management framework developed by the CRO and CLO Areas and by the Research Department with the support of the business divisions and recently adopted by the Bank for the granting, management and monitoring of credit. This framework duly takes into account the micro-sector forecasts and their outlooks, which are also systematically monitored and calibrated based on the experience of the Bank's business and credit risk governance structures.

The post-model adjustment adopted has replaced the previous method applied. This was based, on the one hand, on an increase in the estimate of future default rates derived from the IFRS 9 models for the macro-aggregates that were assumed to be potentially more exposed to the effects of persistent inflationary pressures on energy products and commodities (in particular, the Manufacturing and Transport macro-aggregates and, to a less significant extent, Consumer Households were considered). On the other hand, and to a more residual extent in terms of impact on the ECL, this was based on extraordinary triggers for sliding into Stage 2 for counterparties not already classified as such by the staging allocation methods, when they belong to certain micro-sectors identified with a negative outlook and with medium/high risk profiles.

This reallocation did not result in any significant income statement effects in the quarter. There were net returns to Stage 2 due to the exceeding of the extraordinary trigger, but at the same time there was an increase in the coverage of the portfolio of counterparties subject to the post-model adjustment, particularly for those classified as Stage 2.

Overall, the management overlays in the value adjustments of performing loans as at 30 September amounted to around 400 million euro.

MARKET RISKS

TRADING BOOK

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

Daily managerial VaR of the trading book

(millions of euro)

	2022					2021			
	average 3rd quarter	minimum 3rd quarter	maximum 3rd quarter	average 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Total GroupTrading Book (a)	**26.0**	**19.6**	**32.5**	**22.8**	**21.4**	**19.9**	**20.4**	**25.8**	**41.3**
of which: Group Treasury and Finance Department	*7.2*	*6.2*	*9.2*	*6.1*	*3.8*	*2.7*	*2.6*	*2.8*	*3.2*
of which: IMI C&IB Division	*26.0*	*16.6*	*34.1*	*21.2*	*17.5*	*19.1*	*20.5*	*25.9*	*38.1*

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

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

In the third quarter of 2022, as shown in the table above, there was a slight increase in the trading managerial risks compared to the averages for the second quarter of 2022 (26 million euro in the third quarter of 2022 and 22.8 million euro in the second quarter of 2022), mostly attributable to new volatility scenarios at the tail of the distribution.
More generally, on the other hand, compared to the first nine months of 2021, there was a reduction in the trading managerial VaR as a result of the scenario “rolling effect” due to the lower market volatility following the exceptional market shocks related to the spread of the COVID-19 pandemic. In particular, there was a reduction from 29 million euro in the first nine months of 2021 to 23.4 million euro in 2022.

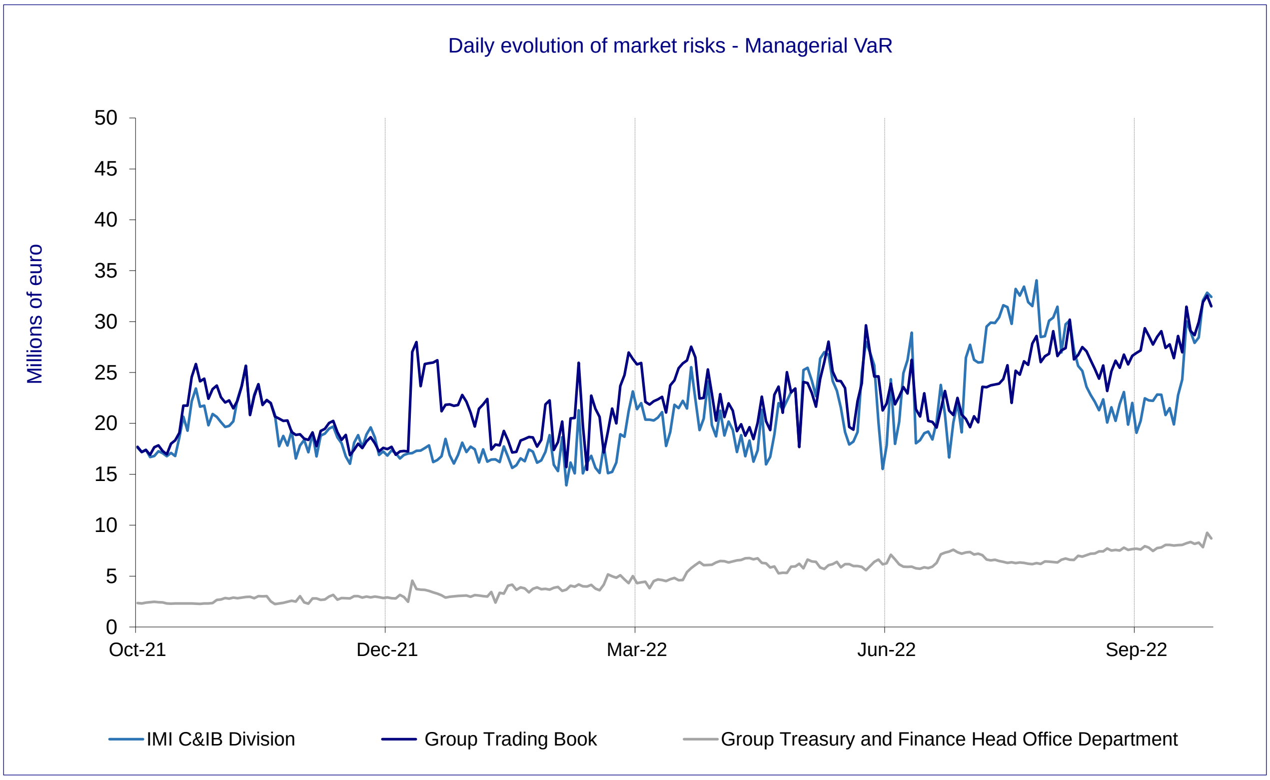
(millions of euro)

	2022			2021		
	average 30.09	minimum 30.09	maximum 30.09	average 30.09	minimum 30.09	maximum 30.09
Total GroupTrading Book (a)	**23.4**	**15.4**	**32.5**	**29.0**	**17.8**	**57.8**
of which: Group Treasury and Finance Department	*5.7*	*2.4*	*9.2*	*2.9*	*2.3*	*5.6*
of which: IMI C&IB Division	*21.6*	*13.9*	*34.1*	*28.0*	*17.1*	*51.9*

Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the first nine 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 during the third quarter of 2022 was characterised by an initial rise in the measure, followed by a fall in August, to then end with another rise starting in the second half of September.
In general, the increases seen in the first and last part of the quarter can be attributed to market volatility, which led to new scenarios at the tail of the loss distribution.



The breakdown of the Group's risk profile in the trading book in the third quarter of 2022 shows a prevalence of credit spread risk and interest rate risk, accounting for 46% and 20% 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 (54% and 37%, respectively) and of credit spread and interest rate risk for the IMI C&IB Division (52% and 21%, respectively).

Contribution of risk factors to total managerial VaR(a)

3rd quarter 2022	Shares	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Group Treasury and Finance Department	3%	37%	6%	54%	0%	0%
IMI C&IB Division	9%	21%	52%	3%	10%	5%
Total	**8%**	**20%**	**46%**	**14%**	**7%**	**5%**

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the third quarter of 2022, broken down between the Group Treasury and Finance Department and IMI C&IB Division and indicating the distribution of the Group's overall capital at risk.

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

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bps	lower rate	-25bps	+25bps	-5%	+5%	Crash	Bullish
Total Trading Book	33	23	-24	26	8	-9	17	-13	-3	2

Specifically:
- 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 24 million euro in the event of a rise in interest rates;
- for positions in credit spreads, there would be potential losses of 9 million euro in the case of widening of credit spreads by 25 bps;
- for positions in exchange rates, there would be potential losses of 13 million euro in the event of appreciation in the Euro against the other currencies;
- finally, for positions in commodities, there would be a loss of 3 million euro in the event of a fall in prices of commodities other than precious metals.

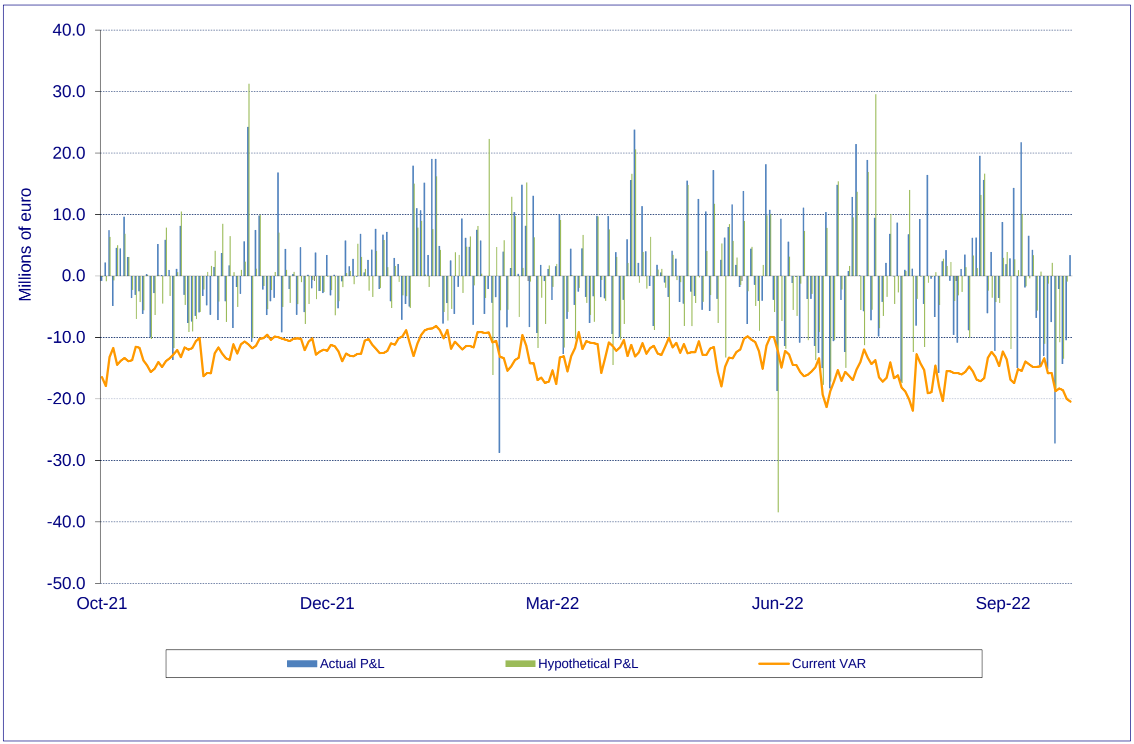
With regard to the use of the overall limit relating to trading and the hold to collect and sell (HTCS) business model, there was a slight reduction in the market managerial VaR in the third quarter compared to the average values in the second quarter of 2022 (from 212 million euro in the second quarter to around 207 million euro for the third quarter of 2022).

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 twelve months there were four backtesting exceptions[34] for the regulatory VaR measure of Intesa Sanpaolo. The increase in the volatility of interest rates and credit spreads were the main driver of the exceptions.



[34] In the last 250 observations, the Bank recorded four Actual P&L exceptions and three Hypothetical P&L exceptions. For the total calculation, as per the reference regulations, the maximum between Actual P&L and Hypothetical P&L exceptions is counted. Accordingly, there were four backtesting exceptions in the last twelve months.

BANKING BOOK

At the end of September 2022, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, amounted to -1,613 million euro.
The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 820 million euro, -848 million euro and 838 million euro, respectively, at the end of September 2022.
Interest rate risk, measured in terms of VaR, recorded a value of 744 million euro at the end of September 2022.
Price risk generated by minority stakes in listed companies, mostly held in the HTCS category, amounted to 147 million euro at the end of September 2022.

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

(millions of euro)

	3rd quarter 2022			30.09.2022	31.12.2021
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	-1,841	-2,134	-1,613	-1,613	-1,756
Shift Sensitivity of Net Interest Income -50bp	-829	-903	-768	-848	-880
Shift Sensitivity of Net Interest Income +50bp	911	820	1,105	820	962
Shift Sensitivity of Net Interest Income +100bp	1,446	838	2,094	838	1,847
Value at Risk - Interest Rate	682	547	885	744	509

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on shareholders' equity of a price shock of ±10% for the above-mentioned quoted assets recorded in the HTCS category.

Price risk: impact on Shareholders' Equity

(millions of euro)

		Impact on shareholders' equity at 30.09.2022	Impact on shareholders' equity at 30.06.2022	Impact on shareholders' equity at 31.03.2022	Impact on shareholders' equity at 31.12.2021
Price shock	10%	147	146	166	177
Price shock	-10%	-147	-146	-166	-177

Impacts from the COVID-19 pandemic

In the third quarter of 2022, the strategies and safeguards implemented in the framework of interest rate risk management were put into place to protect net interest income against potential additional negative impacts of COVID-19. Net interest income was stabilised through measures to cover the viscousness of customer demand deposits by entering into hedging derivatives and natural hedges with mortgage loans to customers.

LIQUIDITY RISK

The Group's liquidity position, supported by suitable high-quality liquid assets (HQLA) and the significant contribution from stable customer deposits, remained largely within the risk limits set out in the current Group Liquidity Policy in the third quarter of 2022. The levels of both regulatory indicators, LCR and NSFR, were above the minimum regulatory requirements.
Over the last 12 months, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, has amounted to an average of 184.7% (184.5% in December 2021).
At the end of September 2022, the value of unencumbered HQLA reserves, at the various Treasury Departments of the Group, reached a total of 159.1 billion euro (187.1 billion euro at the end of December 2021). Including the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, the Group's unencumbered liquidity reserves amounted to 162.8 billion euro (192.4 billion euro at the end of December 2021).
As at 30 September 2022, the Intesa Sanpaolo Group's NSFR, supported by a solid base of stable deposits from customers, adequate wholesale medium/long-term securities funding and the TLTRO funding from the ECB, was 127.2% (127.3% at the end of 2021). This indicator remains significantly higher than 100%, even excluding the positive contribution from TLTRO funding.
The stress tests, in view of the high liquidity reserves, yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period longer than 3 months.
Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was regularly provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the main risk factors.

Impacts from the COVID-19 pandemic
With regard to the liquidity risk of the Intesa Sanpaolo Group, all the necessary preventive management and control measures implemented from the outset of the COVID-19 emergency remain in place to detect any signs of potential exacerbation of liquidity conditions.
In the third quarter of 2022, there were no changes in the risk measures attributable to the context resulting from the COVID-19 pandemic. See the description provided in the specific section of the Half-yearly report as at 30 June 2022 for more details.

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.

INFORMATION ON FINANCIAL PRODUCTS

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Fair value hierarchy – Excluding insurance companies

(millions of euro)

Assets / liabilities at fair value	30.09.2022			31.12.2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	12,180	36,974	3,686	24,262	25,080	3,389
a) Financial assets held for trading	11,144	36,350	195	22,615	24,379	187
of which: Equities	*878*	*-*	*29*	*674*	*-*	*17*
of which: quotas of UCI	*241*	*-*	*23*	*116*	*-*	*25*
b) Financial assets designated at fair value	*-*	*1*	*-*	*-*	*1*	*3*
c) Other financial assets mandatorily measured at fair value	*1,036*	*623*	*3,491*	*1,647*	*700*	*3,199*
of which: Equities	*115*	*49*	*298*	*161*	*116*	*225*
of which: quotas of UCI	*921*	*137*	*2,356*	*1,486*	*149*	*2,166*
2. Financial assets measured at fair value through other comprehensive income	45,605	7,977	366	59,084	8,004	492
of which: Equities	*1,281*	*518*	*333*	*1,537*	*1,314*	*421*
3. Hedging derivatives	-	10,366	-	-	1,732	-
4. Property and equipment	-	-	7,258	-	-	7,364
5. Intangible assets	-	-	-	-	-	-
Total	**57,785**	**55,317**	**11,310**	**83,346**	**34,816**	**11,245**
1. Financial liabilities held for trading	9,404	44,406	46	22,241	33,946	119
2. Financial liabilities designated at fair value	60	6,413	28	6	3,642	26
3. Hedging derivatives	-	5,037	-	-	4,868	-
Total	**9,464**	**55,856**	**74**	**22,247**	**42,456**	**145**

With regard to assets, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the portfolio, with an impact of 9.09% on total assets (8.7% as at 31 December 2021). The majority of level 3 financial assets is represented by quotas of UCIs, of which 304 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.
Over 46.5% 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 64% of the balance sheet assets at level 3 fair value.
As far as liabilities are concerned, level 3 instruments account for less than 1% of total liabilities.

Fair value hierarchy – Insurance companies

(millions of euro)

Assets / liabilities at fair value	30.09.2022			31.12.2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	309	231	417	344	293	390
of which: Equities	-	-	-	-	-	-
of which: quotas of UCI	*94*	-	*46*	*122*	-	*49*
2. Financial assets designated at fair value through profit or loss	85,853	25	587	100,515	143	401
of which: Equities	*2,844*	-	-	*3,510*	-	-
of which: quotas of UCI	*78,006*	-	-	*91,908*	*109*	-
3. Financial assets available for sale	76,242	4,883	4,685	93,910	6,305	4,208
of which: Equities	*1,774*	*7*	*64*	*2,201*	*7*	*54*
of which: quotas of UCI	*8,411*	-	*4,245*	*9,879*	-	*3,742*
4. Hedging derivatives	-	20	-	-	291	-
5. Property and equipment	-	-	7	-	-	8
6. Intangible assets	-	-	-	-	-	-
Total	**162,404**	**5,159**	**5,696**	**194,769**	**7,032**	**5,007**
1. Financial liabilities held for trading	25	78	-	-	42	61
2. Financial liabilities designated at fair value through profit or loss	-	72,578	-	-	84,667	-
3. Hedging derivatives	-	131	-	-	-	-
Total	**25**	**72,787**	**-**	**-**	**84,709**	**61**

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 3.3% of Assets (2.4% as at 31 December 2021).
93.7% 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.
The reduction compared to 31 December 2021 was attributable to the negative performance of the markets and the sale of several positions.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products came to 3,600 million euro as at 30 September 2022, a net decrease of 21 million euro compared to the stock of 3,621 million euro as at 31 December 2021. The exposure includes investments in ABSs (Asset-Backed Securities) of 1,750 million euro, in CLOs (Collateralised Loan Obligations) of 1,775 million euro and in CDOs (Collateralised Debt Obligations) of 75 million euro, which was confirmed as a marginal activity also in the first nine months of 2022.

(millions of euro)

Accounting categories	30.09.2022				31.12.2021	changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	513	571	-	**1,084**	**1,049**	35	3.3
Financial assets mandatorily measured at fair value	-	3	-	**3**	**3**	-	-
Financial assets measured at fair value through other comprehensive income	768	820	-	**1,588**	**1,701**	-113	-6.6
Financial assets measured at amortised cost	494	356	75	**925**	**868**	57	6.6
Total	**1,775**	**1,750**	**75**	**3,600**	**3,621**	**-21**	**-0.6**

In this disclosure, structured credit products include debt securities held by the Group divided into tranches upon issue consisting of various degrees of subordination and not issued within the framework of transactions originated by entities of the Intesa Sanpaolo Group or by public entities, in addition to transactions whereby the Group finances its corporate and financial institution customers (operations implemented by the Group through the subsidiary Duomo Funding Plc).
The evolution of the portfolio in the first nine months of the year, while still seeking to take advantage of market opportunities, shows greater divestments, together with the redemptions, than the assumption of new positions for assets measured at fair value through other comprehensive income, only partially offset by greater investments in the other accounting portfolios, resulting in an overall decrease of 21 million euro, including lower valuations for the period.
The exposure in ABSs and CLOs measured at fair value went from 2,753 million euro in December 2021 to 2,675 million euro in September 2022, a net decrease of 78 million euro, mainly attributable to operations on positions of the IMI Corporate & Investment Banking Division, mostly on the portfolio of financial assets measured at fair value through other comprehensive income.
The exposure to debt securities classified as assets measured at amortised cost amounted to 925 million euro in September 2022, compared with an exposure of 868 million euro in December 2021, an increase of 57 million euro.
From the perspective of the income statement, as at 30 September 2022 a net loss of -33 million euro was recorded, which continued to be impacted by the geopolitical tensions, in a context in the first nine months of the year marked by the widening of credit spreads and the rise in inflation (in the first nine months of 2021 the impact on the income statement was +10 million euro).
The loss on trading – caption 80 of the income statement – amounted to -32 million euro and essentially related to the valuation components on exposures in CLOs and ABSs (impact on the income statement as at 30 September 2021 of +10 million euro, of which +5 million euro relating to valuation effects and +5 million euro to gains on disposal).
The profits (losses) from financial assets mandatorily measured at fair value were nil as at 30 September 2022, compared to +1 million euro in the first nine months of 2021.
The exposures to debt securities classified as assets measured at fair value through other comprehensive income recorded a decrease in fair value of -41 million euro as at 30 September 2022 through a shareholders' equity reserve (from a reserve of -1 million euro in December 2021 to -42 million euro in September 2022). In the current year, there were also impacts from sales on the portfolio of -3 million euro, which were nil as at 30 September 2021.
The result recognised on the debt securities classified as assets measured at amortised cost was +2 million euro as at 30 September 2022, essentially attributable to realised gains, compared to adjustments of -1 million euro in the first nine months of 2021.

(millions of euro)

Income statement results broken down by accounting category	30.09.2022				30.09.2021	changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	-24	-8	-	**-32**	**10**	-42	
Financial assets mandatorily measured at fair value	-	-	-	**-**	**1**	-1	
Financial assets measured at fair value through other comprehensive income	-	-3	-	**-3**	**-**	3	-
Financial assets measured at amortised cost	-	-	2	**2**	**-1**	3	
Total	**-24**	**-11**	**2**	**-33**	**10**	**-43**	

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.
SPE categories are non-consolidated structured entities, and no changes in criteria were made compared to the information provided in 2021 Annual Report.
With reference to Covered Bond issue programmes, during the third quarter, as part of the programme guaranteed by ISP OBG, the 47th retained series was issued, for an amount of 10 million euro. The security is a floating rate, 30-year security listed on the Luxembourg Stock Exchange with an A (high) rating from DBRS, was fully subscribed by the Parent Company and is eligible for the Eurosystem.
For the programme guaranteed by UBI Finance, the 28th series was partially extinguished for an amount of 175 million euro.
With regard to securitisations, in April Intesa Sanpaolo granted approval to UBI Leasing (subsequently merged by incorporation into Intesa Sanpaolo with legal effect from 16 May) for the repurchase of the loan portfolio underlying the UBI SPV Lease 2016 securitisation, for a value of 2.2 billion euro, carried out at the end of April. The transaction was terminated with full early redemption of the securities in early August.
In the third quarter of 2022, in July, Intesa Sanpaolo repurchased the loan portfolio underlying the Adriano Lease Sec securitisation for 1.7 billion euro. The total early redemption of the securities took place in October.

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 September 2022, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions as per the ECB Guidance amounted to approximately 36 billion euro, relating to 2,184 credit lines. The exposure was essentially in line with the December 2021 figure (35.3 billion euro) but up from June 2022 (31.1 billion euro) as a result of the entry of a large counterparty at the Parent Company level, only partially offset by a decrease on Intesa Sanpaolo Bank Luxembourg.
In accordance with the requirements of the ECB Guidance, as part of the Credit Risk Appetite a specific limit for the outstanding stock of leveraged transactions and limits on new transaction flows were submitted for approval to the Board of Directors, in line with the Bank's risk appetite on these types of operations.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Parent Company's hedge fund portfolio as at 30 September 2022 amounted to 146 million euro for the trading book and 189 million euro for the banking book, compared to 27 million euro and 200 million euro, respectively, as at 31 December 2021.
The investments in the banking book are recognised under financial assets mandatorily measured at fair value and pertain to funds that adopt medium/long-term investment strategies and redemption times that are longer than those of UCITS (Undertakings for Collective Investment in Transferable Securities) funds.
In the first nine months of 2022, stocks increased by 108 million euro on 31 December 2021, due to new investments made in the trading segment, mainly due to positions taken in the second quarter of 2022 (investments increased by 93 million euro).
In terms of the income statement effects, as at 30 September 2022, an overall loss was recorded for -8 million euro, referring to the valuation of funds held in portfolio among financial assets mandatorily measured at fair value, compared to an overall impact of +14 million euro in the first nine months of 2021 (-6 million euro from financial assets held for trading and +20 million euro from financial assets mandatorily measured at fair value), of which +10 million euro attributable to valuation effects and +4 million euro to realisation impacts.
In the Intesa Sanpaolo Group, as at 30 September 2022 the portfolio of Eurizon Capital SGR also includes hedge funds for 50 million euro, with an impact on the income statement of -3 million euro in the first nine months of the year. 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 September 2022, 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 4,793 million euro (6,917 million euro as at 31 December 2021). The notional value of these derivatives totalled 30,945 million euro (64,254 million euro as at 31 December 2021).
The positive fair value of contracts outstanding with the 10 customers with the highest exposures was 2,601 million euro (4,416 million euro as at 31 December 2021).
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 7,395 million euro as at 30 September 2022 (2,192 million euro as at 31 December 2021). The notional value of these derivatives totalled 76,511 million euro (34,378 million euro as at 31 December 2021).
The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 30 September 2022, this led to a positive effect of 102 million euro being recorded under “Profits (Losses) on trading” in the income statement.
For details of the methodologies used in determining the fair value of financial instruments, see the specific paragraphs of the section on accounting policies in the 2021 Annual Report.
Please note that the figures reported above do not include fair value of derivatives embedded in structured bond issues as well as the related hedges taken out by the Group.

OPERATIONAL RISK

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events[35].
The Intesa Sanpaolo Group has long defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.
To determine its capital requirements, the Group uses a combination of the methods allowed under applicable regulations (advanced measurement approach partially used along with the standardised approach and basic indicator approach). The capital absorption resulting from this process amounted to 2,107 million euro as at 30 September 2022, unchanged compared to 30 June 2022.

Impacts from the COVID-19 pandemic
With regard to operational risks concerning the third quarter of 2022, there are no specific updates to report, and readers are referred to the description provided in the relevant section of the Annual Report as at 31 December 2021.

Impacts of the Russia-Ukraine conflict
With regard to operational risks concerning the third quarter of 2022, there are no specific updates to report, and readers are referred to the description provided in the same section of the Half-yearly Report as at 30 June 2022.

Legal risks

Legal risks are thoroughly analysed by the Parent Company and Group companies. Provisions are made to the allowances for risks and charges in the event of disputes for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.
For the main pending disputes, the significant developments in the quarter are described below. For previous disputes and a detailed illustration of significant individual disputes, see the Notes to the 2021 Annual Report and the 2022 Half-yearly Report of the Intesa Sanpaolo Group.

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
Within the proceedings before the Constitutional Court, which originated from the referral order of 20 July 2021 in which the Court of Florence submitted the question of the constitutionality of Law Decree 99/2017, the Court initially set the hearing for 5 July 2022 and then postponed it to 4 October 2022. The Bank filed a brief to provide further evidence in support of the arguments for the oral hearing before the Court. At the hearing of 4 October, on the basis of the defence arguments filed, Intesa Sanpaolo's defence counsel requested the dismissal of the appeal on the grounds of both inadmissibility and merits. The State Legal Counsel and BPVI in liquidation similarly concluded by asking the Court to declare the inadmissibility and groundlessness of the question of constitutionality.

Selari Bruno Raulet (former Dargent Tirmant Raulet) Dispute
The claim was filed before a French Court in 2001 by the trustee in bankruptcy for the bankruptcy of the real estate entrepreneur Philippe Vincent, which made a request to the Bank for compensation of 56.6 million euro for the alleged "improper financial support" provided to the entrepreneur.
After numerous instances of proceedings, in a ruling delivered on 27 July 2021, the Metz Court of Appeal partially upheld the receivership's claim and ordered Intesa Sanpaolo to pay 20.6 million euro. The Bank and the receivership appealed the ruling before the Court of Cassation with two separate appeals and the two proceedings were subsequently joined.
A hearing was held on 4 October 2022 and the decision is expected to be filed in the coming months.
The amount referred to in the ruling of the Metz Court of Appeal was paid in 2021 by credit to a restricted current account in the name of CARPA (the French Bar Association's Cash Fund) and will be unavailable until the Court of Cassation issues its ruling. In the event of a positive outcome, the amount will be returned to Intesa Sanpaolo, otherwise it will be confiscated by the trusteee.

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. finalised an investment in RBM Assicurazione Salute S.p.A., held by RB Hold S.p.A. referring to the family of Roberto Favaretto. On the last May, Intesa Sanpaolo Vita S.p.A. sent the minority shareholders RB Hold S.p.A. 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 S.p.A. 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 Intesa Sanpaolo Vita, claiming the invalidity of several clauses in the investment contract and shareholders' agreement of 2020, breaches of contractual commitments and the breach of the rules of good faith and fairness, with a request for compensation for damages totalling 423.5 million euro.
Intesa Sanpaolo Vita S.p.A. filed its defence to 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 last May. The President of the Arbitration Board is due to be appointed shortly.
Where consultations between the parties lead to the identification of an interest in a settlement, the pending dispute would not prevent verification of the feasibility of this hypothesis

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

Reyl & Cie (Switzerland) – Proceedings pursuant to Legislative Decree 231/2001 of the Public Prosecutor's Office of the Court of Milan
The Public Prosecutor's Office of Milan initiated criminal proceedings pursuant to Legislative Decree 231/2001 against Reyl & Cie (a Swiss subsidiary of Fideuram – Intesa Sanpaolo Private Banking) for the predicate offence of money laundering, allegedly committed by one of its former employees (dismissed in 2020), and ordered the seizure of securities owned by Reyl for around 1.1 million euro. The proceedings also involve the Swiss bank Cramer & Cie. Neither Fideuram ISPB nor ISP are currently involved in the proceedings. The circumstances alleged relate to events that took place in 2018, before Reyl & Cie joined the Intesa Sanpaolo Group in May 2021. According to the prosecution, the former employee, together with his brother, an employee of the bank Cramer & Cie, and an external advisor, allegedly engaged in practices aimed at facilitating tax evasion by Italian customers through the transfer of accounts from Switzerland to branches located in the Bahamas, in order to allow those customers to withdraw money from those accounts without the possibility of being traced by the Italian authorities. The possibility is being evaluated of filing a petition with both the Swiss and Italian authorities to revoke and/or reduce the amount of the seizure. Indeed, an examination of the documents of the proceedings has revealed elements indicating that it may be considered reasonable that such a petition would be upheld. A request for disqualification from operating in Italy has not been made against Reyl & Cie, although investigations are still pending and it is not yet possible to access the related documents.

Fondazione Monte dei Paschi di Siena
In 2014 Fondazione Monte dei Paschi di Siena (the Foundation) proposed an action for compensation for damages referring to the loan granted in 2011 by a pool of banks (lending banks) to provide it with the resources to subscribe the share capital increase of Banca MPS. The damages claimed were allegedly due to the "capital loss" deriving from the reduction in the market value of the Banca MPS shares purchased using the sums disbursed by the banks. FMPS sued eight former directors of the Foundation that were in office in 2011 and the lending banks, which include Intesa Sanpaolo and Banca IMI. The claim for damages has been quantified at around 286 million euro, jointly and severally for all the defendants. The lending banks have been charged with tort liability due to their participation in the alleged violation by the former directors of the debt-equity ratio limit of the Foundation set in the charter.
Following the settlement agreement entered into in December 2021 between the lending banks and the Foundation, last July the Court of Florence declared the case partially extinguished. Consequently, as far as Intesa Sanpaolo is concerned the matter may be considered settled.

Dispute regarding financial derivative instruments
With regard to disputes with local authorities, a mediation request was received from the Municipality of Soriano sul Cimino, challenging the validity of a contract with a negative mark-to-market of 1.1 million euro, which resulted in debit flows for the Municipality of 848 thousand euro (figures as at 31 August 2022). The Bank participated in the first meeting scheduled for 4 October 2022.
With regard to the dispute with the Municipality of Santa Maria Capua Vetere, the Court of Rome, in its ruling of 2 March 2022, rejected the claim of invalidity of the two derivative contracts, made by the Municipality, and upheld the Bank's counterclaim for the unpaid amounts from the Municipality totalling 119 thousand euro. However, the court upheld the claim for implicit costs not disclosed at the time of signing and ordered the Bank to pay 1.1 million euro plus interest and revaluation.
Following the unsuccessful outcome of the discussions that took place, the Municipality enforced the ruling and, as a result, the sum of 1.9 million euro was paid to the bailiff, equal to the amount of 1.6 million euro claimed by the Municipality for principal, interest and revaluation, in addition to the two-tenths increase provided for by law for such circumstances. The Bank has reserved the right to file an objection to the enforcement, which is in the process of being initiated, to assert its claim for the amounts not paid.
With regard to the pending dispute with Companies controlled by Public Entities, in the proceedings promoted by Aler S.p.A., the Milan Court of Appeal, with a ruling dated 1 August 2022, confirmed that the contract entered into with the previous Entity, Banca OPI was null and void due to lack of indication of the mark-to-market and the criteria for its calculation, as well as the probabilistic scenarios. As a result of the first instance ruling, in November 2020 the Bank had paid 4.6 million euro equal to the amounts paid by the company, plus interest and legal expenses. It is ongoing the assessment of filing an appeal before the Court of Cassation.
With regard to the Municipality of Venice, the dispute, initiated in 2019, regards a contract governed by the ISDA, entered into in 2007 with a claim amount 71 million euro. After the publication of the ruling of the Court of Cassation, Joint Sections, no. 8770/2020 (the "Cattolica" case), in the proceedings before the High Court of Justice in London, the Municipality denied that it was aware of the nature of the transaction when it entered into it. Despite the fact that the preliminary investigation had not identified any particular issues, an unfavourable decision was issued on 14 October 2022. Specifically, the English Court held that the Municipality did not have the capacity to enter into speculative derivative contracts involving debt (contrary to Article 119, paragraph 6 of the Constitution), ruling that the Municipality was entitled to the restitution of the differentials paid to the Bank solely in the amount exceeding the outlays of the Bank incurred for the back-to-back hedging derivatives (at least until December 2020). In the present case, the application of the above principle could significantly reduce the restitutionary obligation towards the Municipality and a subsequent hearing is scheduled to quantify the sums to be restituted. This is the first unfavourable precedent for banks issued by the London Court in relation to derivatives governed by ISDA due to lack of capacity and an appeal of the decision is being considered.
In the related proceedings pending before the Court of Venice, after the Court of Cassation recognised the jurisdiction of the Italian court, the Judge reserved the right to rule on the preliminary applications filed by the parties.

Offering of diamonds

Following the plea bargain ruling of July 2021, which defined the Bank's position in the well-known criminal proceedings before the Court of Milan, the proceedings were partially transferred for reasons of territorial jurisdiction to the Court of Rome, and in August 2022 the order was issued for the revocation of the preventive seizure executed in February 2019 concerning the profit from the alleged crime of fraud, as well as the full restitution to the Bank of the sum of around 11 million euro.

AC Costruzioni S.r.l.

Proceedings brought by AC Costruzioni S.r.l. (subsequently declared bankrupt) and Aurelio Cava (deceased during the trial) seeking a declaratory judgment establishing contractual and/or extracontractual liability of the Bank for the revocation of the credit facilities in 1998 and a judgment ordering the bank to provide compensation for the damages resulting from revocation, quantified at a total of around 33 million euro.

The adverse party's claims were rejected in full by both the Court of Cosenza and the Catanzaro Court of Appeal, which upheld the arguments made by the Bank. The judgment of the second instance was appealed by Cava's heirs and by the receiver to AC Costruzioni by counter-appeal and cross-appeal.

By order filed at the end of July 2022, the Court of Cassation rejected the appeals filed by the adverse parties in their entirety and ordered them to pay the costs to the Bank.

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 of the plaintiff company's claims, finding that it lacked standing. The adverse party brought an appeal before the Budapest Court of Appeal.

Labour litigation

In line with the situation as at 31 December 2021, as at 30 September 2022 there were no significant cases of labour litigation from either a qualitative or quantitative standpoint. In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

Tax litigation

The Group's tax litigation risks are covered by adequate provisions for risks and charges.

No new disputes of a significant amount involving Intesa Sanpaolo arose during the quarter. The only event to report was a VAT claim for the year 2016 for the former Mediocredito Italiano in relation to nautical leases (1.5 million euro). There are also no significant events for the Italian and international subsidiaries.

As of 30 September 2022, Intesa Sanpaolo had 516 pending litigation proceedings (579 as of 30 June 2022) for a total amount claimed (taxes, penalties and interest) of 127.6 million euro (128.6 million euro as at 30 June 2022), considering both administrative and judicial proceedings at various instances.

In relation to these proceedings, the provision as at 30 September 2022 was quantified at 57.8 million euro (55.2 million euro as at 30 June 2022).

Compared to 30 June 2022, the main events that influenced the reduction in the amount claimed (-1 million euro) were:

– an increase (around 3.5 million euro), due to: i) new claims of 2 million euro, mainly for the above-mentioned VAT claim for the year 2016 for the former Mediocredito Italiano relating to nautical leases (1.5 million euro) and for registration tax on judicial acts (0.3 million euro); ii) adjustment of the value of the former Sudameris dispute of 1 million euro, due to the appreciation of the Brazilian currency against the euro; and iii) interest accrued on the outstanding disputes of 0.5 million euro;
– a decrease (around 4.5 million euro), due to: i) the closure of disputes concerning registration tax for 1.9 million euro, mainly relating to the sale of a business unit (1.7 million euro – sale of bank branches to the then Credito Piemontese) and to the registration tax on judicial actsof legal documents (0.1 million euro); ii) the closure of disputes concerning municipal property tax (IMU) on properties from leases, both following settlement and cancellation by the municipalities for 0.3 million; and iii) 2.3 million for the settlement of various disputes individually involving small amounts, except for a VAT claim for nautical leases for 1.4 million.

Again compared to 30 June 2022, the increase in provisions (+2.6 million euro) was due to the above-mentioned VAT claim for the year 2016 for the former Mediocredito Italiano relating to nautical leases (1.5 million euro), together with the penalty and related surcharges (2 million euro) included in a payment notice of 10 million euro for 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 ISP to State Street Bank (the proceedings on the payment notice for registration tax related to this transaction are still pending).

With regard to the main outstanding disputes, reference should be made to the Half-yearly Report for a detailed analysis, given that – as stated above – there were no significant changes in the quarter, except for the above-mentioned VAT claim for the year 2016 for the former Mediocredito Italiano relating to nautical leases (1.5 million euro) to which the tax exemption was applied due to the vessel's use for navigation on the high seas, which has been fully provisioned, but is nevertheless being appealed (appeal filed in August 2022).

It should be noted that Law No. 130/2022 reforming the tax justice system introduced a provision (Article 5) aimed at settling certain minor disputes pending before the Court of Cassation on the date of entry into force of the measure, i.e., disputes initiated by appeal filed with the Court of Cassation by 16 September 2022.

In short, only disputes (i) in which the Italian Revenue Agency is the adverse party and which concern any notice of assessment (i.e. not disputes arising from refund claims) can be settled, provided that (ii) their value does not exceed 100 thousand euro or 50 thousand euro, as applicable. If the Italian Revenue Agency has been entirely unsuccessful at all previous instances and the value of the dispute does not exceed 100 thousand euro, the amount for settlement is 5% of that value. If, on the other hand, the Agency has been unsuccessful in whole or in part at one of the instances of the proceedings

and the value of the dispute does not exceed 50 thousand euro, the amount for settlement is 20% of the value of the dispute. The value of the dispute means the tax claimed at first instance less interest and penalties related to the tax (if the dispute only concerns penalties, then the value is that of the penalties). The settlement is finalised by submitting the application (on the form approved by the Agency on 16 September 2022) and paying the amount due by 16 January 2023. Amounts already paid in advance on a provisional basis, even if they exceed the amount due for settlement, will not be returned.
In this regard, the impact of this provision on ongoing disputes is being assessed. This impact, already from an initial analysis, does not appear to be material, given that the disputes before the Court of Cassation with a value not exceeding 100 thousand euro are few in number and of low value individually and essentially concern indirect taxes, for which Intesa Sanpaolo has already provisionally paid in full the amounts assessed at the time the dispute was initiated.
For details of the questionnaires, please refer to the Half-yearly Report, as there were no new developments.
With regard to Intesa Sanpaolo's branches located abroad, please refer to the Half-Yearly Report as no significant changes have occurred.

INSURANCE RISKS

Investment portfolios
The investments of the insurance companies of the Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life, Fideuram Vita, Intesa Sanpaolo RBM Salute and Cargeas) are made with their shareholder fund and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.
As at 30 September 2022, the investment portfolios, recorded at book value, amounted to 172,936 million euro. Of these, a part amounting to 86,535 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 86,401 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. around 73,173 million euro, were bonds, whereas equity instruments represented 0.5% of the total and amounted to 398 million euro. The remainder (13,015 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (15%).
The carrying value of derivatives came to around -51.5 million euro, of which around 58.8 million euro relating to effective management derivatives[36], and the remaining portion (around -110.3 million euro) is attributable to hedging derivatives.
At the end of the first nine months of 2022, investments made with the shareholder fund of Intesa Sanpaolo Vita and Fideuram Vita amounted to around 2,358 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of around 10 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 4,290 million euro.
The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented around 7.4% of total investments and A bonds around 9.3%. Low investment grade securities (BBB) were around 79.3% of the total and the portion of speculative grade or unrated was minimal (4%).
A considerable portion of the BBB area is made up of securities issued by the Italian Republic.
The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central Banks made up around 76.8% of the total investments, while financial companies (mostly banks) contributed around 13.8% of exposure and industrial securities made up around 9.4%.
At the end of the third quarter of 2022, 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 4,596 million euro, with 3,806 million euro due to government issuers and 790 million euro to corporate issuers (financial institutions and industrial companies).

Impacts from the COVID-19 pandemic
With regard to insurance risks concerning the third quarter of 2022, there are no specific updates to report, and readers are referred to the description provided in the relevant section of the Annual Report as at 31 December 2021.

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 0.2% of total assets).

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