Risk management

THE BASIC PRINCIPLES OF RISK MANAGEMENT

The policies relating to risk taking and the processes for the management of the risks to which the Group is or could be exposed are approved by the Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Risks Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework.
The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies.
The Corporate Bodies also benefit from the action of some managerial Committees on risk management. These Committees, which include the Steering Committee, operate in compliance with the primary responsibilities of the Corporate Bodies regarding the internal control system and the prerogatives of corporate control functions, and in particular the risk control function.
The Chief Risk Officer Governance Area, located directly reporting to the Managing Director and CEO, in which the risk management functions are concentrated, including the controls on the risk management and internal validation process, represents a relevant component of the "second line of defence" of the internal control system that is separate and independent from the business supporting functions. This Area is responsible for: (i) governing the macro process of definition, approval, control and implementation of the Group's Risk Appetite Framework with the support of the other corporate functions involved; (ii) assisting the Corporate Bodies in setting and implementing the Group's risk management guidelines and policies, in accordance with the company's strategies and objectives; (iii) coordinating and verifying their implementation by the responsible units of the Group, also within the various corporate areas; (iv) guaranteeing the measurement and control of the Group's exposure to various types of risk and (v) implementing the II level controls on credit and other risks, in addition to ensuring the validation of internal risk measurement and management systems.
The Parent Company performs a guidance and coordination role with respect to the Group companies[19], aimed at ensuring effective and efficient risk management at Group level, exercising responsibility in setting the guidelines and methodological rules for the risk management process, and pursuing, in particular, integrated information at Group level to the Bodies of the Parent Company, with regard to the completeness, adequacy, functioning and reliability of internal control system. For the corporate control functions in particular, there are two different types of models within the Group: (i) the centralised management model based on the centralisation of the activities at the Parent Company and (ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the guidance 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 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.

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

THE BASEL 3 REGULATIONS

In view of compliance with the reforms of the previous accord by the Basel Committee ("Basel 3"), the Intesa Sanpaolo Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.
With regard to credit risk, there were no changes with respect to the situation of December 2021.
The periodic updating and alignment to changes in regulations governing IRB systems and their extension to the Italian subsidiaries originating from the UBI Group and the international subsidiaries (according to the Group's roll-out plan) continue in accordance with the Regulatory Roadmap agreed with the Supervisory Authorities.
With regard to counterparty risk, there were no changes in the scope of application compared to 31 December 2021.
With regard to operational risk, the Group obtained authorisation to use the Advanced Measurement Approach (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009. There were no changes in the scope of application compared to 31 December 2021.
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 IMPACTS FOR THE ISP GROUP OF THE MILITARY CONFLICT BETWEEN RUSSIA AND UKRAINE AND THE IMPACTS OF THE SCENARIO RESULTING FROM THE COVID-19 PANDEMIC

Valuation of exposures to Russian and Ukrainian counterparties

As stated, as at 31 March 2022 the Group presented the following on-balance sheet exposures to counterparties resident in Russia and Ukraine, net of ECA guarantees and gross of value adjustments carried out[20]:

(billions of euro)

	31.03.2022	
	Russia	**Ukraine**
Loans to customers	**4.44**	**0.22**
Banca Intesa Russia	*0.59*	*0.00*
Pravex Bank	*0.00*	*0.15*
Cross-border exposures	*3.85*	*0.07*
Due from banks	**0.39**	**0.05**
Banca Intesa Russia	*0.34*	*0.00*
Pravex Bank	*0.00*	*0.05*
Cross-border exposures	*0.05*	*0.00*
Securities	**0.12**	**0.05**
Banca Intesa Russia	*0.03*	*0.00*
Pravex Bank	*0.00*	*0.04*
IMI CIB Division	*0.03*	*0.00*
Insurance Division	*0.06*	*0.01*

On the whole, the Group allocated provisions for the impacts deriving from the conflict for a total of 822 million euro gross of the tax effect, deriving mainly from existing credit risk to customers, valued based on IFRS 9.
The analyses of the accounting standard and the related Annex 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[21], as well as, in line with the treatment set out for capturing the critical issues of another recent emergency situation (Covid-19[22]), using the management overlay in calculating the ECL, to define the most suitable methods to incorporate the aspects linked to the ongoing conflict into provisions.
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

[20] In addition to the on-balance sheet exposures shown in the table, there are unsecured risks to customers for 0.2 billion euro at Banca Intesa Russia, 0.6 billion euro in cross border exposures to customers (net of ECA) and a total of 0.3 billion euro to banks. Moreover, exposures in OTC derivatives amount to 22 million euro in terms of fair value.

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

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

residence, not due to aspects directly pertaining to their business. That approach was followed both in order to determine the "Significant Increase in Credit Risk" (SICR), with classification in Stage 2 also due to the revision of the counterparties' ratings and the consequent downgrading to classes with higher risk, and for the purposes of the ECL, by introducing the management overlay consisting of the application of loss rate estimated based on the risk of the country of residence and the introduction of a prudent margin for potential additional worsening of the counterparties' creditworthiness.
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 prudent rationales. That approach was adopted on the entire portfolio of performing loans of Pravex (the bank substantially had no NPLs as at 31 December 2021) to which a specific management overlay was applied at ECL level, which resulted in lump-sum impairment that brought the coverage ratio to 60%.

Impacts from the COVID-19 pandemic
With regard to support to customers impacted by the pandemic, actions continued in line with the last few months of 2021. For more details in this regard, refer to that set out in the Financial Statements as at 31 December 2021 (Part E – Section 2. Risks of prudential consolidation – 1.1 Credit risk – Qualitative Information – Impacts from the COVID-19 pandemic).
In particular, 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) were revalued, still maintaining suitable prudence, but considering both the substantial normalisation of forbearance measures, now almost all expired, and the positive evidence from the set of exposures with resumption of payments that has already begun. The overlays incorporated into the satellite models, the parameters used to determine the effect of the reduction in default flows during the period of validity of the moratoria were re-estimated – also through internal observation of the spread between default rates of portfolios with and without moratoria - and transferred to subsequent periods. For extraordinary triggers for sliding into Stage 2, the same logic applied for the purposes of the Financial Statements as at 31 December 2021 was used, updating the scope of application, which shrank due to the reaching of the terms for resumption of payments (note that as at 31 March 2022, moratoria still outstanding came to 0.6 billion euro and moratoria terminated but whose terms of resumption of payment accrued in the subsequent months to 2.6 billion euro). At the same time, the worsening of the macroeconomic context triggered by the crisis was incorporated into the domestic portfolio, both by adopting an updated macroeconomic scenario (with a reduction to 3.0% of the expectations of growth in 2022 and to 1.6% in 2023) for the forward-looking conditioning of risk parameters which, in order to adequately take account of the indirect impacts of the conflict on macro sectors that are particularly exposed to the effect of lasting inflationary pressures on energy products and commodities, through additional management overlays with an increase in estimated default rates on the transport, manufacturing and households sectors compared to the results of the satellite models.
On the whole, those measures generated lower provisions for adjustments to loans of around 300 million euro.
With reference to the actions linked to pro-active credit management, in the first quarter of 2022, no specific evidence is to be noted regarding the moratoria portfolio, as the specific diagnostics launched on this portfolio which continued throughout 2021 in the area of the Credit Action Plan was closed at the end of the year. Throughout 2021, counterparties subject to moratoria were the subject of specific initiatives under the Action Plan to contain impairment, through the activation of actions on critical positions. Currently, no specific new initiatives are planned, also considering the impact of the significant past due amounts and new defaults that continue to remain low in the specific portfolio.

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)

Captions	31.03.2022			31.12.2021			Change
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Bad loans	7,264	-5,125	2,139	7,194	-5,064	2,130	9
Unlikely to pay	6,537	-2,335	4,202	7,281	-2,956	4,325	-123
Past due loans	568	-121	447	774	-152	622	-175
Non-Performing Loans	**14,369**	**-7,581**	**6,788**	**15,249**	**-8,172**	**7,077**	**-289**
Non-performing loans in Stage 3 (subject to impairment)	*14,318*	*-7,571*	*6,747*	*15,202*	*-8,164*	*7,038*	*-291*
Non-performing loans designated at fair value through profit or loss	*51*	*-10*	*41*	*47*	*-8*	*39*	*2*
Performing loans	**457,131**	**-2,734**	**454,397**	**453,596**	**-2,453**	**451,143**	**3,254**
Stage 2	*52,072*	*-2,000*	*50,072*	*56,129*	*-1,740*	*54,389*	*-4,317*
Stage 1	*404,027*	*-734*	*403,293*	*396,468*	*-713*	*395,755*	*7,538*
Performing loans designated at fair value through profit or loss	1,032	-	*1,032*	*999*	-	*999*	*33*
Performing loans represented by securities	**7,171**	**-28**	**7,143**	**7,039**	**-24**	**7,015**	**128**
Stage 2	*952*	*-21*	*931*	*882*	*-17*	*865*	*66*
Stage 1	*6,219*	*-7*	*6,212*	*6,157*	*-7*	*6,150*	*62*
Loans held for trading	**38**	**-**	**38**	**19**	**-**	**19**	**19**
Total loans to customers	**478,709**	**-10,343**	**468,366**	**475,903**	**-10,649**	**465,254**	**3,112**
of which forborne performing	***8,336***	***-450***	***7,886***	***8,616***	***-513***	***8,103***	***-217***
of which forborne non-performing	***4,645***	***-2,039***	***2,606***	***4,568***	***-1,924***	***2,644***	***-38***
Loans to customers classified as non-current assets held for sale (*)	**5,323**	**-3,998**	**1,325**	**4,504**	**-3,298**	**1,206**	**119**

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

(*) As at 31 March 2022 and 31 December 2021, this item related to the portfolios, or single name exposures, of loans classified as bad loans and unlikely to pay to be sold.

At 31 March 2022, the Group's gross non-performing loans had fallen to 14.4 billion euro, a decrease of 880 million euro (-5.8%) compared to December. Their weight thus decreased to 3% from 3.20% at the end of 2021 (2.3% and 2.4% in March 2022 and December 2021, respectively, according to the EBA definition).
That development was possible also as a result of the favourable trend of new inflows of performing loans: during the first three months, gross inflows came to 0.7 billion euro, down on the 1.1 billion euro in the fourth quarter of 2021, but up on the 0.6 billion euro in the first quarter of 2021. In net terms, that is, net of the outflows to performing loans, inflows came to 0.4 billion euro, almost halved on the 0.8 billion euro in the last part of 2021 but in line with the initial months of 2021.
As can be seen in the table, the downturn in the aggregate comprised 744 million euro (-10.2%) in unlikely-to-pay exposures in relation to the de-risking initiatives implemented during the period, which are described in the opening chapter "The first quarter of 2022". As a result, and also in relation to the period-end valuation effects, in March 2022, non-performing loans classified under assets held for sale rose to 5.3 billion euro gross and 1.3 billion euro net.

At the end of the first quarter of 2022, the Group's net non-performing loans totalled 6.8 billion euro, an all-time low. The reduction from the beginning of the year (-4.1%) confirms the virtuous trend already recorded in previous years. The non-performing assets percentage of total net loans to customers amounted to 1.4% (1.1% according to the EBA definition), a low proportion and further improving (1.5% recorded in December 2021, 1.2% according to the EBA definition), with a coverage ratio for non-performing loans of 52.8%.

In further detail, at the end of March 2022, bad loans came to 2.1 billion euro (+0.4%), net of adjustments, and represented 0.4% of total net loans and a coverage ratio of 70.6%. Loans included in the unlikely-to-pay category amounted to 4.2 billion euro, down by 2.8%, accounting for 0.9% of total net loans to customers, with a coverage ratio of 35.7%. Past due loans amounted to 447 million euro (-28.1%), with a coverage ratio of 21.3%.
Performing loans of 50.1 billion euro are classified in Stage 2, with a decrease of 4.3 billion euro on 31 December 2021, due to the return to Stage 1 following the recalibration of the overlays on moratoria and on extraordinary triggers, on one hand, and the reclassification of exposures to Russian counterparties in Stage 2, on the other.
Within the non-performing loan category, forborne exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 2.6 billion euro, with a coverage ratio of 43.9%, while forborne exposures in the performing loans category amounted to 7.9 billion euro.
The coverage ratio of performing loans rose to 0.6%, also in relation to the provision allocated during the quarter for the Russia-Ukraine conflict: the coverage of loans in Stage 1 was stable at 0.2%, with loans in Stage 2 growing to 3.8%.

Impacts from the COVID-19 pandemic

The impacts of the pandemic on credit risk were covered in the previous section, to which reference is made.
With regard to counterparty risk, during the first quarter of 2022, there were no changes in the risk metrics attributable to the context resulting from the COVID-19 pandemic. Reference is made to the description provided in the specific section of the Financial Statements as at 31 December 2021.

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 1st quarter	**minimum 1st quarter**	**maximum 1st quarter**	**average 4th quarter**	**average 3rd quarter**	**average 2nd quarter**	**average 1st quarter**
Total GroupTrading Book (a)	**21.4**	**15.4**	**28.0**	**19.9**	**20.4**	**25.8**	**41.3**
of which: Group Treasury and Finance Department	*3.8*	*2.4*	*5.2*	*2.7*	*2.6*	*2.8*	*3.2*
of which: IMI C&IB Division	*17.5*	*13.9*	*23.2*	*19.1*	*20.5*	*25.9*	*38.1*

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

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

During the first quarter of 2022, as shown in table above, there was a substantial stability in the overall trading risks compared to the averages for the fourth quarter of 2021 (21.4 million euro in the first quarter of 2022 and 19.9 million euro in the fourth quarter of 2021) and, more generally, a reduction compared to the averages of the first and second quarters of 2021. These reductions are mainly attributable to the scenario "rolling effect" due to the lower market volatility following the exceptional market shocks related to the spread of the COVID-19 pandemic.
The effect described above, i.e. the reduction due to the scenario rolling effect, was sharper if the first quarter of 2022 is compared with the first quarter of 2021 (21.4 million euro in the first quarter of 2022 compared with 41.3 million euro in the first quarter of 2021).

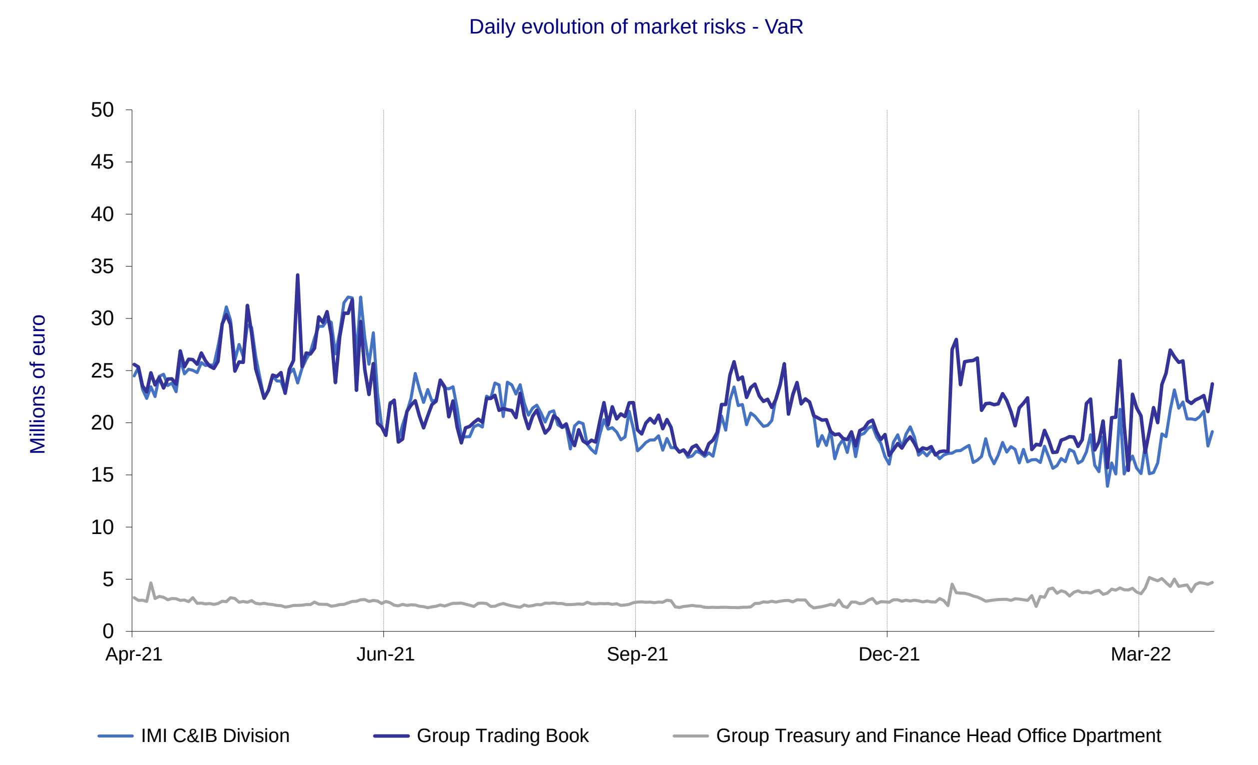
(millions of euro)

	2022			2021		
	average 1st quarter	**minimum 1st quarter**	**maximum 1st quarter**	**average 1st quarter**	**minimum 1st quarter**	**maximum 1st quarter**
Total GroupTrading Book (a)	**21.4**	**15.4**	**28.0**	**41.3**	**27.9**	**57.8**
of which: Group Treasury and Finance Department	*3.8*	*2.4*	*5.2*	*3.2*	*2.4*	*5.6*
of which: IMI C&IB Division	*17.5*	*13.9*	*23.2*	*38.1*	*26.3*	*51.9*

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

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

With regard to the trend in the trading VaR during the first quarter of 2022, the change was mainly due to the IMI C&IB Division. The movements are shown in the chart below:



The breakdown of the Group's risk profile in the trading book in the first quarter of 2022 shows a prevalence of credit spread risk and interest rate risk, accounting for 37% and 20%, respectively, of the total managerial VaR. Instead, the single risk-taking centres show a prevalence of exchange rate risk and interest rate risk for the Group Treasury and Finance Department (50% and 38%, respectively) and of credit spread and interest rate risk for the IMI C&IB Division (40% and 20%, respectively).

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

1st quarter 2022	Shares	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Group Treasury and Finance Department	5%	38%	7%	50%	0%	0%
IMI C&IB Division	14%	20%	40%	3%	19%	4%
Total	**12%**	**20%**	**37%**	**11%**	**16%**	**4%**

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

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

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bps	lower rate	-25bps	+25bps	-5%	+5%	Crash	Bullish
Total Trading Book	103	15	-13	10	4	1	18	-4	-10	4

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;
- for positions in interest rates, there would be potential losses of 13 million euro in the event of a rise in interest rates;
- for positions in credit spreads, there would not be potential losses either in the case of widening or tightening of credit spreads by 25 bps;
- for positions in exchange rates, there would be potential losses of 4 million euro in the event of appreciation in the Euro of 5% against the other currencies;
- finally, for positions in commodities, there would be a loss of 10 million euro in the event of a fall in prices of commodities other than precious metals.

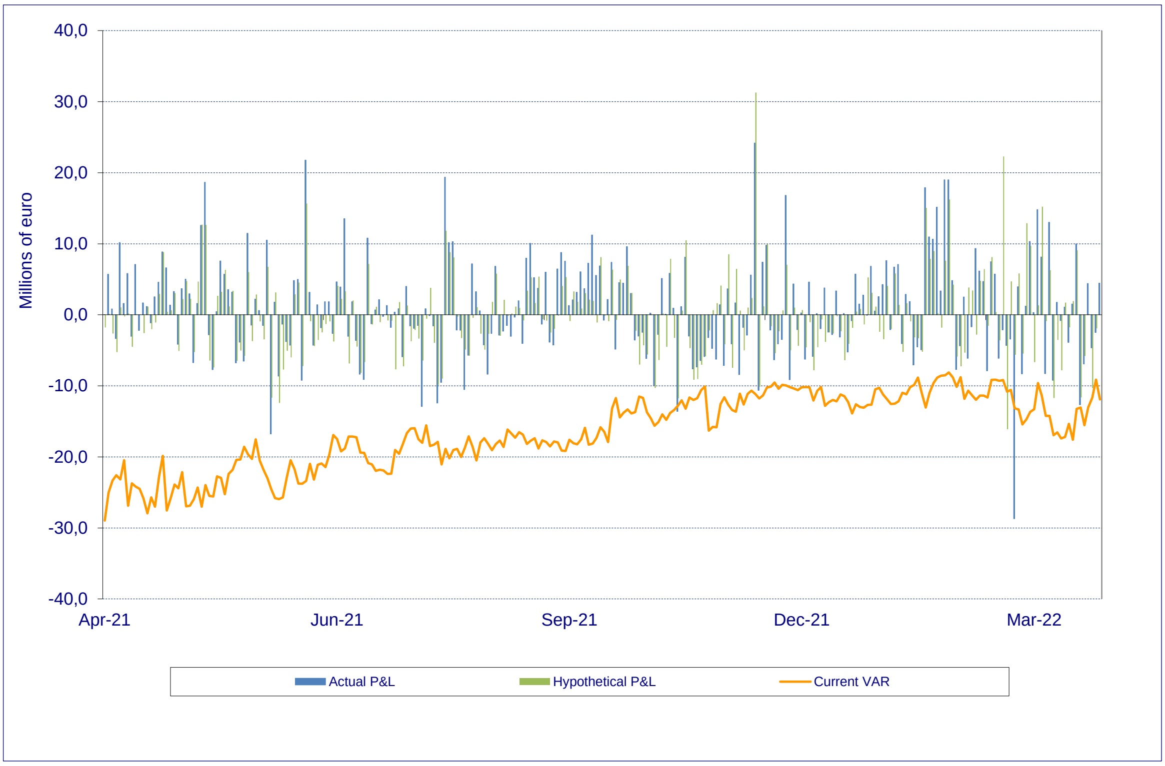
With regard to the use of the overall limit relating to trading and the hold to collect and sell (HTCS) business model, there was an increase in market managerial VaR in the first quarter from 139 million euro (average managerial VaR fourth quarter of 2021) to 196 million euro (average managerial VaR first quarter of 2022). The increase in average managerial VaR is mainly attributable to the entry of new volatility scenarios at the tail of the distribution as a result of the evolution of the financial variables during the first quarter of 2022, primarily influenced by the changes in expectations on the potential actions to reduce monetary stimulus by central banks.

Backtesting

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

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

During the last year the regulatory VaR measure for the Intesa Sanpaolo Group was sufficiently conservative, recording only two backtesting exceptions[23].
In the first quarter of 2022, on 25 February there was one Hypothetical P&L exception and on 1 March one Actual P&L exception. Neither of these is due to portfolio changes, but to the peak of volatility on the markets due to the Ukraine crisis.



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

Impacts from the COVID-19 pandemic

With regard to managerial and regulatory market risks, during the first quarter of 2022, there were no changes in the risk metrics attributable to the context resulting from the COVID-19 pandemic. Reference is made to the description provided in the specific section of the Financial Statements as at 31 December 2021.

BANKING BOOK

At the end of March 2022, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, amounted to -1,810 million euro.
The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 920 million euro, -782 million euro and 1,622 million euro, respectively, at the end of March 2022.
Interest rate risk, measured in terms of VaR, recorded a value of 546 million euro at the end of March 2022.
Price risk generated by minority stakes in listed companies, mostly held in the HTCS (Held to Collect and Sell) category, amounted to 166 million euro at the end of March 2022.

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

(millions of euro)

	1st quarter 2022			31.03.2022	31.12.2021
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	-1,969	-1,810	-2,134	-1,810	-1,756
Shift Sensitivity of Net Interest Income -50bp	-808	-768	-875	-782	-880
Shift Sensitivity of Net Interest Income +50bp	985	920	1,105	920	962
Shift Sensitivity of Net Interest Income +100bp	1,810	1,622	2,094	1,622	1,847
Value at Risk - Interest Rate	551	546	559	546	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 abovementioned quoted assets recorded in the HTCS category.

Price risk: impact on Shareholders' Equity

(millions of euro)

		Impact on shareholders' equity at 31.03.2022	Impact on shareholders' equity at 31.12.2021
Price shock	-10%	-166	-177
Price shock	10%	166	177

Impacts from the COVID-19 pandemic

With regard to interest rate risk generated by the banking book of the Intesa Sanpaolo Group, during the first quarter of 2022, there were no changes in the risk measures attributable to the context resulting from the COVID-19 pandemic. Reference is made to the description provided in the specific section of the Financial Statements as at 31 December 2021.
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LIQUIDITY RISK

The Group's liquidity position, which continues to be supported by suitable high-quality liquid assets (HQLA) and the significant contribution from stable customer deposits, remained largely within the risk limits set out in the current Group Liquidity Policy in the first quarter of 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 191.1%.
At the end of March 2022, the value of unencumbered HQLA reserves, at the various Treasury Departments of the Group, reached a total of 184 billion euro (187 billion euro in 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 189 billion euro (192 billion euro in December 2021).
At 31 March 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 128.3%. This indicator remains significantly higher than 100%, even excluding the positive contribution from TLTRO funding.
The stress tests, in view of the high availability of liquidity reserves, yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period longer than 3 months.
Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was regularly provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the main risk factors. 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.

Impacts from the COVID-19 pandemic
With regard to liquidity risk of the Intesa Sanpaolo Group, during the first quarter of 2022, there were no changes in the risk measures attributable to the context resulting from the COVID-19 pandemic. Reference is made to the description provided in the specific section of the Financial Statements as at 31 December 2021.

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Fair value hierarchy – Excluding insurance companies

(millions of euro)

Assets / liabilities at fair value	31.03.2022			31.12.2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets designated at fair value through profit or loss	24,142	26,439	3,429	24,263	25,082	3,386
a) Financial assets held for trading	22,412	25,690	140	22,615	24,379	187
of which: Equities	*793*	-	*20*	*674*	-	*17*
of which: quotas of UCI	*142*	-	*25*	*116*	-	*25*
b) Financial assets designated at fair value	-	1	3	1	3	-
c) Other financial assets mandatorily designated at fair value	1,730	748	3,286	1,647	700	3,199
of which: Equities	*147*	*109*	*225*	-	-	-
of which: quotas of UCI	*1,583*	*148*	*2,287*	*1,486*	*149*	*2,166*
2. Financial assets designated at fair value through other comprehensive income	58,005	7,811	445	59,084	8,004	492
of which: Equities	*1,438*	*575*	*393*	*1,537*	*1,314*	*421*
3. Hedging derivatives	-	4,665	-	-	1,732	-
4. Property and equipment	-	-	7,299	-	-	7,364
5. Intangible assets	-	-	-	-	-	-
Total	**82,147**	**38,915**	**11,173**	**83,347**	**34,818**	**11,242**
1. Financial liabilities held for trading	24,386	34,086	254	22,241	33,946	119
2. Financial liabilities designated at fair value	-	3,823	25	6	3,642	26
3. Hedging derivatives	-	5,205	-	-	4,868	-
Total	**24,386**	**43,114**	**279**	**22,247**	**42,456**	**145**

The Group's assets measured at fair value (excluding the insurance companies) primarily consisted of level 1 instruments (around 62% of the total assets measured at fair value as at 31 March 2022 compared to 64% in December 2021), measured using market prices and therefore without any discretion by the valuator.
Under Assets, level 3 instruments, which are subject to greater discretion in determining fair value, represent a small portion of the total portfolio of Assets, a percentage of 8.4% (8.7% as at 31 December 2021). These include property and equipment measured at level 3 fair value referring to real estate assets and valuable art assets, which represent 65% of total financial statements assets with level 3 fair value.
The majority of level 3 financial assets is represented by quotas of UCIs, of which 309 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.
For the level 2 assets, there was an increase in the percentage of total assets measured at fair value compared to December 2021 (which rose from 26.9% to 29.4%). That increase is mainly attributable to hedging derivatives, as a result of the increase in interest rates on outstanding positions and the increase in volumes.
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	31.03.2022			31.12.2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	350	228	443	344	293	390
of which: Equities	-	-	-	-	-	-
of which: quotas of UCI	*113*	-	*48*	*122*	-	*49*
2. Financial assets designated at fair value through profit or loss	95,607	20	531	100,515	143	401
of which: Equities	*3,330*	-	-	*3,510*	-	-
of which: quotas of UCI	*87,362*	-	-	*91,908*	*109*	-
3. Financial assets available for sale	88,594	6,596	4,378	93,910	6,305	4,208
of which: Equities	*2,086*	*7*	*56*	*2,201*	*7*	*54*
of which: quotas of UCI	*10,010*	-	*3,974*	*9,879*	-	*3,742*
4. Hedging derivatives	-	202	-	-	291	-
5. Property and equipment	-	-	7	-	-	8
6. Intangible assets	-	-	-	-	-	-
Total	**184,551**	**7,046**	**5,359**	**194,769**	**7,032**	**5,007**
1. Financial liabilities held for trading	12	53	36	-	42	61
2. Financial liabilities designated at fair value through profit or loss	-	79,985	-	-	84,667	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**12**	**80,038**	**36**	**-**	**84,709**	**61**

For the insurance companies, 93.7% of the financial assets measured at fair value were measured using market prices and therefore without any discretion by the valuator.
Level 3 assets, which are subject to greater discretion in determining fair value, made up 2.7% of the total assets measured at fair value as at 31 March 2022, compared to 2.4% in December 2021.
Liabilities at fair value were almost entirely measured using level 2 inputs.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products came to 3,772 million euro as at 31 March 2022, showing a net increase of 151 million euro compared to 3,621 million euro as at 31 December 2021. The exposure includes investments in ABSs (Asset-Backed Securities) of 1,934 million euro, in CLOs (Collateralised Loan Obligations) of 1,761 million euro and in CDOs (Collateralised Debt Obligations) of 77 million euro, which was confirmed as a marginal activity also in the first quarter 2022.

(millions of euro)

Accounting categories	31.03.2022				31.12.2021	changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	**Total**		**absolute**	**%**
Financial assets held for sale	541	637	-	**1,178**	**1,049**	129	12.3
Financial assets mandatorily measured at fair value	-	3	-	**3**	**3**	-	-
Financial assets measured at fair value through other comprehensive income	796	917	-	**1,713**	**1,701**	12	0.7
Financial assets measured at amortised cost	424	377	77	**878**	**868**	10	1.2
Total	**1,761**	**1,934**	**77**	**3,772**	**3,621**	**151**	**4.2**

In this disclosure, structured credit products include debt securities held by the Group divided into tranches upon issue consisting of various degrees of subordination and not issued within the framework of transactions originated by entities of the Intesa Sanpaolo Group or by public entities, in addition to transactions whereby the Group finances its corporate and financial institution customers (operations implemented by the Group through the subsidiary Duomo Funding Plc).
The strategy for transactions in structured credit products shows a prevalence of investments aimed at exploiting market opportunities over disposals of the portfolio during the period.
The exposure in ABSs and CLOs measured at fair value went from 2,753 million euro in December 2021 to 2,894 million euro in March 2022, a net increase of 141 million euro, mainly attributable to operations on positions of the IMI Corporate & Investment Banking Division, in the assets held for trading portfolio and, to a lesser extent, in the assets measured at fair value through other comprehensive income portfolio.
The exposure to debt securities classified as assets measured at amortised cost amounted to 878 million euro at the end of March 2022, compared with an exposure of 868 million euro in December 2021 (+10 million euro).
From the perspective of the income statement, as at 31 March 2022 a net loss of -4 million euro was recorded, which was impacted by the geopolitical tensions, for which, in the first two months of the year, liquidity decreased on the reference markets and the credit spread rose (in the first three months of 2021 the impact on the income statement was +3 million euro).
The loss on trading – caption 80 of the income statement – amounts to -4 million euro and relates to the exposures in ABSs and CLOs, mainly the result of valuation effects of -5 million euro and realised gains of +1 million euro (impact on the income statement as at 31 March 2021 of +5 million euro, of which +3 million euro relating to the valuation component and +2 million euro to gains on disposal).
The profits (losses) from financial assets mandatorily measured at fair value were confirmed as nil, as in the first three 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 -6 million euro in the first quarter of 2022 through a shareholders' equity reserve (from a reserve of -1 million euro in December 2021 to -7 million euro in March 2022); in addition, impacts from sales from the portfolio amounted to -1 million euro (nil as at 31 March 2021).
The result recognised on the debt securities classified as assets measured at amortised cost was +1 million euro as at 31 March 2022, essentially attributable to valuation components, compared to -2 million euro in the first three months of 2021.

(millions of euro)

Income statement results broken down by accounting category	31.03.2022				31.03.2021	changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	**Total**		**absolute**	**%**
Financial assets held for sale	-3	-1	-	**-4**	**5**	-9	
Financial assets mandatorily measured at fair value	-	-	-	**-**	**-**	-	-
Financial assets measured at fair value through other comprehensive income	-	-1	-	**-1**	**-**	1	-
Financial assets measured at amortised cost	-	1	-	**1**	**-2**	3	
Total	**-3**	**-1**	**-**	**-4**	**3**	**-7**	

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective (raising funds on the market, acquiring/selling/managing assets both for asset securitisations, acquisition of funding through self-securitisations and the issue of covered bonds, developing and/or financing specific business initiatives, undertaking leveraged buy-out transactions, or managing credit risk inherent in an entity's portfolio) are considered Special Purpose Entities (SPEs).
The sponsor of the transaction is normally an entity which requests the structuring of a transaction that involves the SPE for the purpose of achieving certain objectives. In some cases, the sponsor may be the Bank itself, which establishes a SPE to achieve one of the aims above mentioned.
SPE categories are non-consolidated structured entities, and no changes in criteria were made compared to the information provided in 2021 Annual Report.
In the first quarter of the year, under the UBI Finance CB1 issue programme, the 30th series was partially redeemed in January and February for a total amount of 300 million euro, reducing the nominal amount to zero.
As part of the covered bond issue programme guaranteed by ISP CB Pubblico, the 10th series was partially redeemed in January for an amount of 100 million euro, bringing the remaining nominal amount to 150 million euro.
Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the 17th series matured in January for an amount of 1 billion euro. Moreover, in February, the 28th series was issued for an amount of 1 billion euro. The security is a floating rate, 7-year security listed on the Luxembourg Stock Exchange with an Aa3 rating from Moody's, was fully subscribed by the Parent Company and is eligible for the Eurosystem.

INFORMATION ON LEVERAGED TRANSACTIONS

In 2017, the ECB published specific Guidance on Leveraged Transactions, which applies to all the significant entities subject to direct supervision by the ECB. The stated purpose of the guidance is to strengthen company controls over "leveraged" transactions, in view of the global increase in leveraged finance activities and the highly competitive market, characterised by a prolonged period of very low interest rates and the ensuing search for yields.
The scope of the ECB Guidance includes exposures in which the borrower's level of leverage, measured as the ratio of total financial debt to EBITDA, is greater than 4, as well as exposures where the borrower is owned by one or more financial sponsors. Moreover, counterparties with Investment Grade ratings, private individuals, credit institutions, financial institutions and companies in the financial sector in general, public entities, non-profit entities, as well as counterparties with credit facilities below a certain materiality threshold (5 million euro), Retail SME counterparties and Corporate SME counterparties (the latter if not owned by financial sponsors) are explicitly excluded from the scope of Leveraged Transactions. Specialised lending transactions (project finance, real estate and object financing) and certain other types of credit, such as trade finance transactions, are also excluded.
As at 31 March 2022, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions as per the ECB Guidance amounted to approximately 34.9 billion euro, relating to 2,373 credit lines (35.3 billion euro as at 31 December 2021).
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 31 March 2022 amounted to 46 million euro for the trading book and 199 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 quarter of 2022, stocks increased by 18 million euro on 31 December 2021, due to new investments made in the trading segment.
In terms of the income statement effects, as at 31 March 2022, overall income was recorded for +3 million euro, referring to the valuation of funds held in portfolio among financial assets held for trading, compared to an overall impact of +5 million euro in the first three months of 2021 (-4 million euro from financial assets held for trading and +9 million euro from financial assets mandatorily measured at fair value).
In the Intesa Sanpaolo Group, as at 31 March 2022 the portfolio of Eurizon Capital SGR also includes hedge funds for 52 million euro, with an impact on the income statement of -1 million euro in the first quarter 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 31 March 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 5,459 million euro (6,917 million euro as at 31 December 2021). The notional value of these derivatives totalled 44,665 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 3,502 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 3,564 million euro as at 31 March 2022 (2,192 million euro as at

31 December 2021). The notional value of these derivatives totalled 61,168 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 31 March 2022, this led to a positive effect of 33 million euro being recorded under "Profits (Losses) on trading" in the income statement.
As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs of the Part A – Accounting policies the Notes to the consolidated financial statements for 2021.

OPERATIONAL RISK

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events[24].
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 2,024 million euro as at 31 March 2022, unchanged compared to 31 December 2021.

Impacts from the COVID-19 pandemic
With regard to operational risks concerning the first 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.

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 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. By 14 September, the bank can file a brief to provide further evidence and arguments for the oral hearing before the Court.
With regard to the Excluded Disputes, the Court of Cassation has issued its first ruling (Order no. 9945 of 28 March 2022). The Court upheld the objection of lack of capacity to be sued raised by the Bank in a litigation concerning a loan already classified as "non-performing" at the date of the transfer and therefore not included in the Aggregate Set. The case had been brought, prior to the transfer, against Veneto Banca when it was a going concern and then resumed also against Intesa Sanpaolo after the initiation of the liquidation of the Venetian bank.

Fondazione Cassa Risparmio della Provincia di Macerata
In February 2022, Fondazione Cassa di Risparmio della Provincia di Macerata sent a non-judicial letter of warning and notice to pay to Intesa Sanpaolo (as successor to UBI Banca, which in turn had absorbed the good bank Nuova Banca delle Marche), and a former representative of Banca delle Marche, for the financial and image-related damage allegedly suffered for a sum quantifiable at no less than 50 million euro.
The Foundation alleges that in 2012 it subscribed to the share capital increase resolved in October 2011 by the then Banca delle Marche, purchasing shares for a total amount of over 40 million euro, solely on the basis of its reliance on (i) the data contained in the bank's annual financial statements and (ii) the "*Prospectus*" produced for that capital increase, which later proved to be totally incorrect and misleading.
The Bank rejected the claim for damages in its entirety, arguing first of all that it lacked capacity to be sued and that the limitation period had expired[25], and also fully contesting the claims on the merits.

Judgement no. 8770/2020 of the Joint Sections of the Court of Cassation on derivatives entered into by local authorities
With regard to ruling no. 8770/2020 of the Joint Sections of the Court of Cassation on derivatives entered into by local authorities, a summary is provided below of the changes that took place in the first quarter of 2022.

[24] 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.

[25] Note that those disputes are backed by the warranties and obligations to indemnify by the Seller (National Resolution Fund) for the benefit of UBI Banca in relation to the acquisition of the New Banks deriving from the resolution of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio and Cassa di Risparmio della Provincia di Chieti and therefore also cover any liabilities arising from the activities carried out by the Banks (the "Old Banks") before they were subject to the resolution procedure, in relation to, *inter alia*, risks of a legal nature or generally related to ongoing or threatened disputes, or violations of the law and any potential liabilities.

Three new disputes were registered:
- the Province of Catanzaro ordered the cancellation through internal review of the executive decision approving the derivative transaction entered in a pool with other banks. The Bank, together with the other members of the pool, appealed to the Catanzaro Regional Administrative Court to have the measure cancelled. Intesa Sanpaolo's potential risk amounts to 4.3 million euro;
- the Province of Varese initiated mediation proceedings, contesting the validity of two transactions in respect of which it is claiming restitution of 5.6 million euro. At the first meeting, scheduled for 12 April 2022, the mediation resulted in a negative outcome;
- the Municipality of Marsciano brought an action before the Court of Perugia for the declaration of invalidity of the derivative entered into with the Bank, requesting the restitution of 81 thousand euro for differentials paid and implicit costs.

With regard to the dispute already pending with the Province of Imperia, a writ of summons was served with which the Authority alleged the invalidity of the derivative and requested the restitution of the differentials paid, as well as compensation for damages without quantifying its claim. This action followed the mediation proceedings that ended in November 2021 with a negative outcome.
Two rulings were also received in the following disputes:
- Municipality of Faenza: with a decision dated 1 February 2022, the Court of Appeal of Bologna, recalling the principles expressed by the Court of Cassation, confirmed the invalidity of the contract due to failure to indicate the MTM and ordered the Bank to repay the differentials charged to the Entity. In execution of the first instance ruling, the Bank had already paid 2.8 million euro. An appeal to the Court of Cassation is being considered.
- 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.

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

Tax litigation
No new disputes of a significant amount involving Intesa Sanpaolo arose during the quarter. No significant events were reported for the Italian and foreign subsidiaries, except for Intesa Sanpaolo Private Banking, details of which are below.
The outstanding tax litigation risks are covered by adequate allowances for risks and charges.
The most significant developments in the quarter are described below. For previous disputes and a detailed description of the significant individual disputes, see the Notes to the 2021 Annual Report of the Intesa Sanpaolo Group.
With respect to the end of 2021, the main events that gave rise to significant changes in the remedy sought (-10 million) consisted of:
- an increase (around 5 million), due to: i) new claims of 1.8 million, mainly for municipal property tax (IMU) on properties repossessed through lease agreements terminated and on income-generating lease agreements; ii) adjustment of the value of the former Sudameris dispute of 3 million, due to the appreciation of the Brazilian currency against the euro; and iii) interest accrued on the outstanding disputes of 0.2 million;
- a decrease (around 15 million), due to: i) the closure of disputes concerning registration tax for 8.5 million, essentially relating to the Manzoni/Melville case (reclassification of business line transfers as sales); ii) the closure of disputes concerning municipal property tax (IMU) on properties from leases, both following settlement and cancellation by the municipalities for 4 million; and iii) 2.5 million for the settlement of various disputes, including the VAT claim for nautical leases for 1.6 million.

An account of events relating to the main outstanding disputes is provided below.
With regard to the notice of assessment for VAT for the tax year 2014 served by the Large Taxpayers Office of the Lombardy Regional Office on 29 October 2019 on the former Mediocredito Italiano concerning nautical leases, for a total value of around 5.5 million (tax, interest and penalties) and for which the related appeal had been filed, in the ruling of the Provincial Tax Commission of Milan no. 572-05 filed on 28 February 2022, the judges confirmed the assessed tax (with the related interest) still in dispute, but held that the penalties were not due. Prior to the ruling, however, the Office had already reduced the claim by a total of 1.5 million. The deadline for the appeal is pending. The dispute is interlocutory for the penalty and interest components relating to the first of the two contested findings, which relate to a specific contractual position in which there was an intervention in the case by the customer, which acknowledged the tax due as a result of a final verdict in the litigation, but not also the charge for interest and penalties. In relation to the second finding, the current provision concerns tax and interest assessed because it is considered that the risk of imposition of the penalties is possible, but not likely due to the presence of further favourable rulings on the merits issued to other lease companies and because there are valid grounds of uncertainty on the scope of application of the rules in 2014 that justify the application of the exemption.
With regard to registration tax, last January, the Court of Cassation handed down a favourable ruling on the subject of reclassification pursuant to the new Article 20 of Presidential Decree no. 131/1986, which cancelled the payment notice (value of dispute totalling 8.3 million) issued by the Italian Revenue Agency to the Bank and IMI Investimenti, as jointly and severally liable, concerning two transactions involving the transfer of business lines relating to the private equity activity and the subsequent partial demerger between the Manzoni and Melville companies.
In the previous financial reports, with regard to the dispute concerning the application of the proportional registration tax following the reclassification of a reorganisation consisting of a transfer of a business and a sale of an equity interest into a sale of a business pursuant to Article 20 of Presidential Decree 131/1986, details were provided of the publication of the Constitutional Court's ruling no. 39/2021 of 16 March 2021 whose conclusions confirmed the previous ruling no. 158 of 21 July 2020 by that Court.

In light of this second ruling of the Constitutional Court, the long-standing dispute was considered to have been concluded with favourable outcomes for the Bank in the numerous claims pending before the Court of Cassation. However, on the grounds that, according to the principle of alternativity between VAT/registration tax, it is essential to arrive at a single definition of the concept of a business for the purposes of these taxes, the Court of Cassation, by Order no. 10283/2022 of 31 March 2022, referred the proceedings to the EU Court of Justice concerning the compatibility of Article 20 of the Consolidated Law on Registration Taxes (according to which the application of registration tax is to be made on the basis of the content of the document submitted for registration, without taking into account any non-directly discernible external elements), with respect to the VAT rules governing the treatment of transfers of businesses (transactions not subject to the tax) and of individual assets (taxable transactions).

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

With regard to the questionnaires sent at the end of 2021 to ISP and the merged companies Mediocredito Italiano and Accedo, there is no news from the Italian Revenue Agency.

On 14 January 2022, the Italian Revenue Agency - Milan II Provincial Office sent a questionnaire for registration tax relating to the transfer of a business line (17 former UBI branches) from ISP to Banca Popolare di Puglia e Basilicata (BPPB) completed on 21 May 2021 (effective date 24 May 2021), requesting the transmission of various documents and information relevant for the quantification of the value of the transferred business line for registration tax purposes.

YIt is recalled that registration tax totalling 467 thousand was paid in connection with this deed of transfer (with the cost shared equally between ISP and BPPB), prudentially determined on a taxable base of 75.5 million, as the difference reported in the balance sheet at the reference date (30 June 2020), even though the transfer price was 8.9 million. ISP responded to the questionnaire, providing the requested documentation and information by certified email of 18 February 2022, after agreeing the response with BPPB. A similar questionnaire does not yet appear to have been sent to BPPB.

On 23 February 2022, the Italian Revenue Agency – Lombardy Regional Directorate – Large Taxpayers Office sent a questionnaire concerning UBI Banca's income tax return for IRES and IRAP tax purposes for the year 2018, requesting: an audit report, a detailed statement of the tax adjustments reducing the taxable basis for IRES purposes, as well as a detailed statement and a note describing the accounting and tax treatment of the components relating to the downward variations attributable to the transition from IAS 39 to IFRS 9.

It is further noted that, on 22 December 2021, Intesa Sanpaolo was served a notice of (alleged) irregularity by the Italian Revenue Agency relating to the 2017 tax year, which claimed that the amount of residual tax losses as at 31 December 2017 usable for the purposes of the IRES tax surcharge (3.5% rate), reported in the tax return in the amount of 7.9 billion, should be changed to 1.96 billion euro, resulting in a lower carried forward tax loss of 5.94 billion. See the Notes to the 2021 Annual Report for a more detailed analysis. ISP responded to the notice with a communication dated 5 April 2022. No challenge has so far been notified by the Italian Revenue Agency.

For Intesa Sanpaolo's foreign branches, there were no new developments, and it is therefore referred to the 2021 Annual Report, except for the following. With regard to the audit initiated in April 2021 by the Madrid Revenue Agency for the year 2016 for income tax purposes for the Madrid branch of the merged UBI Banca, closed on 31 December 2018, on 5 April 2022 the last meeting was held between the inspectors and the representative of ISP (the lawyer Antonio Pérez), as a result of which a lower loss of 722 thousand euro was determined compared to the 724 thousand euro declared. No tax or penalty is due.

With regard to the other Italian Group companies, it is referred to the Notes to the 2021 Annual Report for details of the IRES and IRAP tax disputes of Intesa Sanpaolo Private Banking, relating to the deduction (in 2011 and the following years) of the amortisation charge for the goodwill arising from the transfers of the private banking business lines of Intesa Sanpaolo and Cassa dei Risparmi di Forlì e della Romagna in 2009, Banca di Trento e Bolzano and Cassa di Risparmio di Firenze in 2010 and Cassa di Risparmio Pistoia e Lucchesia and Cassa di Risparmio dell'Umbria in 2013, realigned by the transferee in accordance with Article 15, paragraph 10, of Law Decree no. 185 of 29 November 2008.

It should be noted that the favourable second instance ruling no. 1044 concerning the years 2014 and 2015 was delivered on 18 March 2022. The Lombardy Regional Tax Commission rejected the appeal by the Italian Revenue Agency against the first instance ruling that had upheld the (combined) IRES and IRAP tax appeals relating to those tax periods.

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 free capital 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 31 March 2022, the investment portfolios of Group companies, recorded at book value, amounted to 198,349 million euro. Of these, a part amounting to 102,185 million euro relates to traditional revaluable life policies (the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on assets subject to segregated management are determined), non-life policies and free capital. The other component, whose risk is borne solely by the policyholders, consists of investments related to Unit-linked policies and pension funds and amounted to 96,164 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, 83.8% of assets, i.e. approximately 85,441 million euro, were bonds, whereas assets subject to equity risk represented 2.1% of the total and amounted to 2,150 million euro. The remainder (14,377 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (14.1%).

The carrying value of derivatives came to approximately 216.8 million euro, of which 14.3 million euro relating to effective management derivatives[26], and the remaining portion (202.5 million euro) is attributable to hedging derivatives.

At the end of the first three months of 2022, investments made with the shareholder fund of Intesa Sanpaolo Vita and Fideuram Vita amounted to 2,316 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of 39 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 5,646 million euro.

The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 8.5% of total investments and A bonds approximately 6.9%. Low investment grade securities (BBB) were approximately 80.4% of the total and the portion of speculative grade or unrated securities was minimal (4.2%).

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

The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central Banks made up approximately 79.6% of the total investments, while financial companies (mostly banks) contributed approximately 11.7% of exposure and industrial securities made up approximately 8.7%.

At the end of the first 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 5,919 million euro, with 5,044 million euro due to government issuers and 875 million euro to corporate issuers (financial institutions and industrial companies).

[26] 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.