
Risk management

THE CORE PRINCIPLES OF RISK MANAGEMENT

The policies relating to risk taking and the processes for the management of the risks to which the Group is or could be exposed are approved by the Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Risks and Sustainability Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework (RAF).

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

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

The Chief Risk Officer Governance Area, directly reporting to the Managing Director and CEO, in which the risk management functions are concentrated, including the controls on the risk management and internal validation process, represents a relevant component of the “second line of defence” of the internal control system that is separate and independent from the business supporting functions. This Area is responsible for: i) governing the macro process of definition, approval, control and implementation of the Group’s Risk Appetite Framework with the support of the other corporate functions involved; ii) assisting the Corporate Bodies in setting and implementing the Group’s risk management guidelines and policies, in accordance with the company’s strategies and objectives; iii) coordinating and verifying their implementation by the responsible units of the Group, also within the various corporate areas; iv) guaranteeing the measurement and control of the Group’s exposure to various types of risk and v) implementing the second level controls on credit and other risks, in addition to ensuring the validation of internal risk measurement and management systems.

The Parent Company performs a guidance and coordination role with respect to the Group companies²⁵, aimed at ensuring effective and efficient risk management at Group level, exercising responsibility in setting the guidelines and methodological rules for the risk management process, and pursuing, in particular, integrated information at Group level to the Bodies of the Parent Company, with regard to the completeness, adequacy, functioning and reliability of internal control system. For the corporate control functions in particular, there are two different types of models within the Group: i) the centralised management model based on the centralisation of the activities at the Parent Company and ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the direction and coordination of the same corporate control functions of the Parent Company, to which they report in functional terms.

Irrespective of the control model adopted within their company, the Corporate Bodies of the Group companies are aware of the choices made by the Parent Company and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the Group controls.

The risk measurement and management tools contribute to defining a risk-monitoring framework at Group level, capable of assessing the risks assumed by the Group from a regulatory and economic point of view. The level of absorption of economic capital, defined as the maximum “unexpected” loss the Group might incur over a year, at a given confidence level, is a key measure for determining the Group’s financial structure, risk appetite and for guiding operations, ensuring a balance between risks assumed and shareholder returns. It is estimated on the basis of the current situation and also at a forecast level, in line with the Risk Appetite Framework approved by the Group, based on the budget assumptions and the forecast macroeconomic scenario, and in relation to stress scenarios. The economic capital together with the risk capital calculated on a regulatory basis is a fundamental element in the assessment of the Group’s capital adequacy within the ICAAP.

The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the Risks and Sustainability Committee and the Board of Directors, as part of the Tableau de Bord of the Group Risks. Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures.

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

²⁵ 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 30 June 2023.

The periodic updating and alignment to changes in regulations governing IRB systems and their extension continue in accordance with the Regulatory Roadmap agreed with the Supervisory Authorities.

With regard to counterparty risk, there were no changes in the scope of application compared to 30 June 2023.

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 2023.

The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal risk measurement methodologies, internal capital and total capital available, was approved and sent to the ECB in March 2023.

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

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

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

As at 30 September 2023, the Group had the following on-balance sheet exposures to counterparties resident in Russia and Ukraine, net of ECA guarantees and gross/net of adjustments made:

(millions of euro)

	30.09.2023 (*)				31.12.2022 (**)			
	Gross exposure		Net exposure		Gross exposure		Net exposure	
	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine
Loans to customers	978	201	731	119	1,629	216	1,168	103
<i>Banca Intesa Russia</i>	217	-	123	-	372	-	205	-
<i>Pravex</i>	-	81	-	-	-	112	-	-
<i>Cross-border exposures</i>	761	120	608	119	1,257	104	963	103
Due from banks	745	94	736	93	797	63	782	62
<i>Banca Intesa Russia</i>	729	-	722	-	751	-	740	-
<i>Pravex</i>	-	94	-	93	-	63	-	62
<i>Cross-border exposures</i>	16	-	14	-	46	-	42	-
Securities	10	43	9	40	73	11	41	2
<i>Banca Intesa Russia</i>	9	-	9	-	13	-	13	-
<i>Pravex</i>	-	37	-	37	-	-	-	-
<i>IMI C&IB Division</i>	-	-	-	-	31	-	14	-
<i>Insurance Division</i>	1	6	-	3	29	11	14	2

(*) In addition to the on-balance sheet exposures shown in the table, there are off-balance sheet exposures to customers for 52 million euro (45 million euro net) at Banca Intesa Russia, and 34 million euro (gross and net value) at Pravex, in addition to 42 million euro (book value nil in net terms) in cross-border off-balance sheet exposures to resident customers in Russia, net of ECA, and 26 million euro (25 million euro net) to customers resident in Ukraine.

There is also 66 million euro (gross and net value) in cross-border off-balance sheet exposures to banks resident in Russia and 20 million euro (gross and net value) in cross-border off-balance sheet exposures to banks resident in Ukraine.

On the other hand, the cross-border exposures to customers resident in Ukraine are, for the corporate part, backed by guarantees provided by US persons, while, for the household part, the amounts as at 30 September 2023 and the increase of around 16 million euro compared to 31 December 2022 mainly relate to exposures disbursed by the subsidiary VUB to households with permanent residence in Slovakia.

(**) In addition to the on-balance sheet exposures shown in the table, there are off-balance sheet exposures to customers for 126 million euro (113 million euro net) at Banca Intesa Russia, and 67 million euro (66 million euro net) at Pravex, in addition to 232 million euro (186 million euro net) in cross-border off-balance sheet exposures to resident customers in Russia, net of ECA, and 27 million euro (gross and net value) to customers resident in Ukraine.

There are also 155 million euro (152 million euro net) in cross-border off-balance sheet exposures to banks resident in Russia and 18 million euro (gross and net value) in cross-border off-balance sheet exposures to banks resident in Ukraine.

On the other hand, the cross-border exposures to customers resident in Ukraine are, for the corporate part, backed by guarantees provided by US persons, while, for the household part, they mainly relate to exposures disbursed by the subsidiary VUB to households with permanent residence in Slovakia.

As at 30 September 2023, Banca Intesa Russia’s remaining on-balance sheet exposures to customers amounted to 217 million euro in gross terms (123 million euro net) and those of Pravex Bank amounted to 81 million euro (zero book value in net terms).

The cross-border exposures to customers resident in Russia (net of ECA guarantees) amounted to 761 million euro (608 million euro net). In addition, there were exposures to banks resident in Russia totalling 745 million euro (736 million

euro net) and banks resident in Ukraine totalling 94 million euro (93 million euro net). The exposures in securities were minimal.

The majority of the exposures to Russian²⁶ and Ukrainian counterparties essentially consist of loans to customers subject to measurement in accordance with IFRS 9 “Financial Instruments”.

During the first nine months of the year, following the significant reduction in credit risks related to the Russia-Ukraine conflict achieved in 2022, mainly as a result of the final disposal of two major exposures (for 2.5 billion euro), there were further reductions due to disposals, repayments and settlements (loans and securities) totalling 766 million euro for Russia and an increase of 48 million euro for Ukraine, mainly on debt securities and amounts due from banks. Specifically, in the second quarter of 2023, a position classified as UTP was sold for 154 million euro, which generated a recovery on repayment of 51 million euro, and payments falling due were also collected for another position classified as UTP, whose gross value therefore decreased by around 84 million euro (of which 44 million euro in the second quarter).

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 2023, in the Group companies other than those resident in the countries in conflict, there was a significant decrease compared to 31 December 2022. The on-balance sheet non-performing loans to counterparties resident in Russia amounted to 24 million euro and related to positions already classified as at 30 June 2022, mainly attributable to two counterparties.

The non-performing loans of the Russian subsidiary amounted to 47 million euro, while the classification of the entire portfolio of the Ukrainian subsidiary to bad loan status led to the recognition of 81 million euro in bad loans.

In line with the disclosure already provided in the previous financial reports, for the portfolio for which no impairment has been identified, the methodological choices resulting from the Russian/Ukraine crisis, regarding the valuation of the credit exposures, are substantially the same. The analyses of IFRS 9 and the related Annexes show no indications or examples aimed at setting out specific guidelines for the measurement of Expected Credit Losses (ECLs) in contexts of war or defining specific methods of increasing credit risk due to sudden, serious geopolitical crises such as the current one. The most pertinent references to the current scenario seem to be those set out in the Application Guidance of the standard. These allow/suggest the use of collective assessment to verify the existence of a Significant Increase in Credit Risk (SICR) with a view to staging the credit exposures²⁷, as well as, in line with the treatment set out for capturing the critical issues of another recent emergency situation (COVID-19²⁸), using the post-model adjustment in calculating the ECL, to define the most suitable methods to incorporate the aspects linked to the ongoing conflict into provisions.

With specific reference to cross-border positions, the Group thus decided to adopt a valuation approach strongly guided by the emerging geopolitical risk “via transfer”, i.e. the risk that counterparties do not honour their commitments to pay debt following restrictions or decisions by their countries of residence, not due to aspects directly pertaining to their business, thus applied based on the country of residence of the counterparties. That approach was implemented both to determine the SICR and the related classification in Stage 2, and to calculate the ECL by applying management overlays. This was considered the most appropriate way to incorporate the provisions for country and geopolitical risk related to the current conflict that would otherwise not be properly captured by the risk measurement systems normally used. At the same time, the ratings for the highest risk class already assigned to the most significant counterparties exposed to conflict-related country risk have been maintained.

In detail, the choices made for the purposes of calculating ECL on cross-border exposures were as follows:

- application of PD through the cycle associated with the assigned rating, without forward-looking conditioning. This approach was deemed more prudent, as the conditioning methodology, relating to the approaches currently adopted in the satellite models, would not represent the specific risk linked to the countries in conflict;
- calculation of an additional prudential buffer that ensures equivalence with the use of an estimated loss rate according to an approach based on the transfer of the risk of the country of residence under Pillar 2 modelling (unconditional LGD set by the transfer risk model of 55%);
- introduction of prudent margins in addition to the ECL estimates deriving from the above elements, in relation to potential further worsening of the credit ratings of Russian counterparties.

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

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

²⁶ For these purposes, the small exposures to Belarusian counterparties have been treated and disclosed together with the exposures to the Russian Federation.

²⁷ 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.

²⁸ 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.

a result of the provisions made, the total coverage of performing loans of the Russian subsidiary amounted to around 38% of their gross value.

Also of note was the repayment - between the end of March and the beginning of April - of the intragroup amount made available to Banca Intesa Russia and originally intended for a future capital increase (whose implementation had been suspended as a result of the war events).

The sums repaid amounted to an equivalent value of around 200 million euro, in line with what was initially made available.

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

Overall, these valuation processes on Russian exposures led to the recognition as at 30 September 2023, before tax, of net recoveries totalling 100 million euro, as the offsetting effect of 171 million euro of net recoveries on loans and 71 million euro of other allowances for risks and charges (in addition to the 80 million euro already set aside as at December 2022), made upon consolidation of the investee Banca Intesa Russia, mainly to write off its equity contribution to the Group's consolidated financial statements, which was positive at the end of the first nine months due to the investee's positive operating performance in the period.

CREDIT RISKS

The Intesa Sanpaolo Group has developed a set of techniques and tools for credit risks measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and exposures 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, Public Sector Entities and Banks). These models make it possible to summarise the counterparty's credit quality in a measure, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a consistent scale of reference.

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

Credit quality

	30.09.2023			31.12.2022			(millions of euro)
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Change
Bad loans	3,886	-2,668	1,218	3,667	-2,536	1,131	87
Unlikely to pay	6,031	-2,461	3,570	6,423	-2,471	3,952	-382
Past due loans	575	-156	419	552	-139	413	6
Non-Performing Loans	10,492	-5,285	5,207	10,642	-5,146	5,496	-289
<i>Non-performing loans in Stage 3 (subject to impairment)</i>	10,430	-5,265	5,165	10,597	-5,134	5,463	-298
<i>Non-performing loans designated at fair value through profit or loss</i>	62	-20	42	45	-12	33	9
Performing loans	424,986	-2,416	422,570	437,616	-2,590	435,026	-12,456
<i>Stage 2</i>	36,195	-1,637	34,558	45,801	-1,936	43,865	-9,307
<i>Stage 1</i>	388,085	-779	387,306	390,932	-654	390,278	-2,972
<i>Performing loans designated at fair value through profit or loss</i>	706	-	706	883	-	883	-177
Performing loans represented by securities	5,870	-28	5,842	6,274	-28	6,246	-404
<i>Stage 2</i>	912	-22	890	838	-23	815	75
<i>Stage 1</i>	4,958	-6	4,952	5,436	-5	5,431	-479
Loans held for trading	91	-	91	86	-	86	5
Total loans to customers	441,439	-7,729	433,710	454,618	-7,764	446,854	-13,144
<i>of which forbore performing</i>	5,087	-381	4,706	7,473	-553	6,920	-2,214
<i>of which forbore non-performing</i>	3,564	-1,605	1,959	3,480	-1,417	2,063	-104
Loans to customers classified as non-current assets held for sale	741	-564	177	754	-386	368	-191

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

As at 30 September 2023, the Group's gross non-performing loans amounted to 10.5 billion euro, down by 150 million euro (-1.4%) compared to December 2022. Their ratio to total loans increased slightly to 2.4% while it remained stable at 1.2% net of adjustments (2.3% and 1.2% respectively at the end of 2022). According to the EBA methodology, on the same date the NPL ratio stood at 1.9% and 1% before and after adjustments, respectively, unchanged compared to December.

This result is attributable to the de-risking initiatives already implemented in the second quarter of the year (in this regard see the information on the de-risking initiatives provided in the initial chapter of this Interim Statement), and in particular to the classification under assets held for sale of a portfolio of bad loans amounting to a gross value of 0.3 billion euro, as the conditions for applicability based on IFRS 5 were met.

The process of reducing non-performing loans also continues to benefit from new inflows from performing loans which remain low due to the performance of the prevention initiatives on non-performing loans.

During the first nine months, gross inflows amounted to 2.2 billion euro, of which around 0.7 billion euro in the first quarter, around 0.9 billion euro in the second quarter, and around 0.7 billion euro in the third quarter. In the 2022 comparison period, the gross inflow was 2.7 billion euro, of which 0.5 billion euro attributable to Pravex Bank and Banca Intesa Russia. In net terms, that is, net of outflows to performing loans, inflows came to 1.6 billion euro (0.4 billion euro in the first three months, 0.7 billion euro in the second quarter, and 0.5 billion euro in the third quarter), compared to 2 billion euro in the first nine months of 2022.

The table shows that the decrease in gross non-performing loans was due to unlikely-to-pay loans for 392 million euro, against a slight increase in bad loans of 219 million euro and past-due loans of 23 million euro.

Net non-performing loans of the Group amounted to 5.2 billion euro at the end of the first nine months, a new all-time low. The reduction from the beginning of the year (-289 million euro; -5.3%) confirms the virtuous trend already recorded in previous years. The ratio of net non-performing loans to total net loans to customers came to 1.2% (1% according to the EBA definition) with the coverage ratio for non-performing loans amounting to 50.4%, up on the 48.4% at the end of 2022.

In further detail, in September 2023 bad loans amounted to 1.2 billion euro (+7.7%), net of adjustments, representing 0.3% of total net loans with a coverage ratio of 68.7%. Loans included in the unlikely-to-pay category amounted to 3.6 billion euro, down by 9.7%, accounting for 0.8% of total net loans to customers, with a coverage ratio of 40.8%. Past-due loans amounted to 419 million euro (+1.5%), with a coverage ratio of 27.1%. Within the non-performing loan category, forbore exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 2 billion euro, with a coverage ratio of 45%. Forborne exposures in the performing loan category amounted to 4.7 billion euro.

At the end of the third quarter of 2023, net performing loans totalled 422.6 billion euro, down by 12.5 billion euro (-2.9%) from December, with an overall coverage ratio of 0.57%, unchanged from December. Within these, the coverage ratio of the Stage 2 loans was 4.52% (vs. 4.23% at the end of 2022) and 0.20% (vs. 0.17%) for the Stage 1 loans.

Net performing loans amounted to 387.3 billion euro in Stage 1 and 34.6 billion euro in Stage 2, with decreases of 3.0 billion euro and 9.3 billion euro respectively. For the Stage 2, factors such as the movements resulting from management effects, were also accompanied by the effects of the update of the macroeconomic scenario in June and the reclassification to Stage 1 of forbearance portfolios (mainly originating from COVID moratoria) following the positive outcome of the probation period.

Macroeconomic scenario for forward-looking conditioning

For the purposes of forward-looking conditioning of the ECL estimation parameters, Intesa Sanpaolo's policy envisages the use of the macroeconomic scenario produced and updated by the Research Department on at least a half-yearly basis (June/December). For the purposes of the Half-yearly Report as at 30 June 2023, therefore, the above-mentioned parameters were updated. The Research Department produced an update of the forecasts as at September 2023 which, with regard to the baseline macroeconomic scenario, slightly revised the GDP growth estimates for the Eurozone and Italy for 2023, compared to the previous forecast, on the basis of lower-than-expected figures observed in the second quarter of the year and the first signs of the effects of the monetary tightening. More specifically, the domestic estimates for economic growth were revised downwards for both the Eurozone (from the June forecast of 0.7% to 0.6% for 2023 and from 1.2% to 0.9% for 2024) and Italy (to 1% for both this year and the next, from 1.2% and 1.3%, respectively, forecast in June).

With regard to the modelling used for the forward-looking conditioning of the ECL for IFRS 9 purposes, also taking into account the updated forecasts for the alternative scenarios, the application of the updated scenario would not have a significant impact on the provisions estimate. At the same time, uncertainties and downside risks of the forecast remain, as highlighted below, leading to the substantial maintenance of the prudence measures, already in place as at 30 June 2023, adopted on the provisions for performing loans.

In the first half of 2023, the Eurozone economy was essentially stagnant, and for the second half of the year growth was also estimated to be almost zero, mainly due to the effects of monetary tightening. According to the ECB, however, the recovery of incomes, also in real terms, could favour a moderate pace of recovery of household consumption between the end of 2023 and the first half of 2024, and become more robust from the second half of 2024, when support will also be provided by the re-acceleration of foreign demand. Growth could be supported by expenditure related to the ecological and digital transition, less sensitive to cyclical dynamics, which could support more investment in intellectual property. However, there is still a risk of GDP contraction, and the downside risks are intensifying: persistently high inflation, a less resilient labour market than expected, and a stronger-than-expected transmission of monetary policy to the real economy could be enough to trigger a recessionary episode, in a context of lower support from fiscal policy. Additional forecasting risks relate to expectations regarding the gradual recovery in private consumption, the rising cost of loans to households, especially in Eurozone countries with a predominance of floating-rate mortgages, which will continue to erode household incomes, and the recent rise in energy prices, which could slow the fall in inflation, in a context where nominal wages are rising less than expected.

For Italy as a whole, beyond the quarterly volatility of GDP, after the lively post-pandemic rebound, the economy has entered a phase of substantial stagnation in the last year, due to high inflation and the effects of monetary tightening (in terms of both interest rate rises and more restrictive lending conditions). The most recent data suggest that growth was also weak in the summer quarter. As a result, the average annual growth for 2023 could settle at the lower end of the range indicated by the scenarios. The biggest downside risks for Italy mainly depend on the effects of the gradual phasing out of the bonuses for construction and the delayed impact of the monetary tightening. The supporting factors could be the resilience of the labour market, the recovery of household purchasing power and the expected acceleration in actual expenditure flows funded by the NRRP in 2024.

Management overlays (Post-Model Adjustments)

For the valuation of the loans in the Half-yearly Report as at 30 June 2023, changes were made to the results of the ECL estimation methodologies, mainly through post-model adjustments, within the framework of IFRS 9 and in light of the greater prudence required due to the significant uncertainties arising from the current and prospective situation. These uncertainties, as noted in the previous section, remain and are contributing to heightening the forecast risks. As at 30 September, the adjustments in the application methodologies adopted as at 30 June 2023 were essentially maintained. In line with the Half-yearly Report as at 30 June, they resulted in an additional component on the adjustment allowances for credit exposures of 0.9 billion euro.

The main component relates to the Parent Company, due in particular to the post-model adjustments applied to the Retail/SME Retail and SME Corporate segments starting from medium/high risk levels, with specific modulation for sectors particularly exposed to risks deriving from macroeconomic forecasts (commercial real estate perimeter or sectors with negative performance or energy-intensive sectors of the Banca dei Territori Division). The banks of the International Subsidiary Banks Division have also adopted prudent margins based on specific assessments of the current and future situation and the characteristics of their portfolios.

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

	2023						2022			(millions of euro)
	average 3 rd quarter	minimum 3 rd quarter	maximum 3 rd quarter	average 2 nd quarter	average 1 st quarter	average 4 th quarter	average 3 rd quarter	average 2 nd quarter	average 1 st quarter	
Total Group Trading Book ^(a)	33.7	30.7	37.5	35.5	27.9	26.6	26.0	22.8	21.4	
<i>of which: Group Treasury and Finance Department</i>	3.7	3.1	4.5	4.4	5.1	6.6	7.2	6.1	3.8	
<i>of which: IMI C&IB Division</i>	31.1	27.3	36.0	33.7	25.3	24.7	26.0	21.2	17.5	

Each line in the table shows the historical variability of the daily managerial VaR calculated on the quarterly time series of the Intesa Sanpaolo Group (including the other subsidiaries), the Group Treasury and Finance Department and the IMI C&IB Division respectively. The values calculated on the Group perimeter (average, minimum and maximum) do not correspond to the sum of the values of the individual columns, because they are recalculated on the aggregate time series which also includes the perimeter of the other subsidiaries.

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

During the third quarter of 2023, as shown in the table above, there was a slight reduction in the managerial VaR of the trading book compared to the averages of the second quarter of 2023, from 35.5 million euro (2023 second quarter average) to 33.7 million euro (2023 third quarter average). The slight reduction was mainly attributable to the management of the trading book's exposure to interest rate risk and to the scenario "rolling effect", both of which led to a reduction in risk.

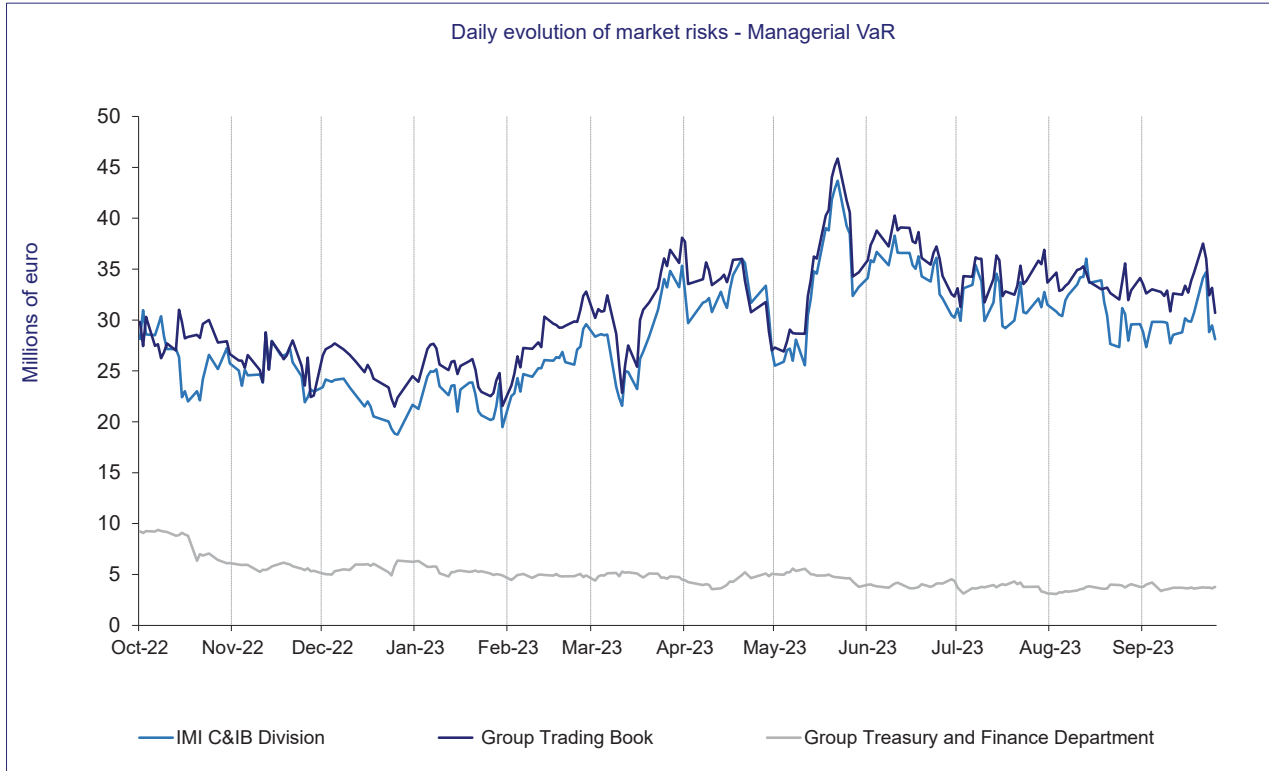
With regard to the overall performance in the first nine months of 2023 compared to the same period in 2022, there was an increase in the trading managerial VaR. This increase was attributable both to portfolio actions for interest rate risk management and to market scenarios for interest rates characterised by higher volatility than in the same period of 2022.

	2023			2022			(millions of euro)
	average 30.09	minimum 30.09	maximum 30.09	average 30.09	minimum 30.09	maximum 30.09	
Total Group Trading Book (a)	32.3	21.5	45.9	23.4	15.4	32.5	
<i>of which: Group Treasury and Finance Department</i>	4.4	3.1	6.3	5.7	2.4	9.2	
<i>of which: IMI C&IB Division</i>	30.0	19.5	43.7	21.6	13.9	34.1	

Each line in the table shows the historical variability of the daily managerial VaR calculated on the time series for the first nine months of the year for the Intesa Sanpaolo Group (including the other subsidiaries), the Group Treasury and Finance Department and the IMI C&IB Division respectively. The values calculated on the Group perimeter (average, minimum and maximum) do not correspond to the sum of the values of the individual columns, because they are recalculated on the aggregate time series which also includes the perimeter of the other subsidiaries.

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

The trend in the trading VaR in the third quarter of 2023 was mainly marked by the activity conducted by the IMI C&IB Division. In particular, the trading managerial VaR was substantially stable during the quarter.



The breakdown of the Group’s risk profile in the trading book in the third quarter of 2023 shows a prevalence of interest rate risk and credit spread risk, accounting for 45% and 33% 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 (51% and 38%, respectively) and of interest rate risk and credit spread risk for the IMI C&IB Division (46% and 35%, respectively).

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

3rd quarter 2023	Shares	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Group Treasury and Finance Department	6%	38%	5%	51%	0%	0%
IMI C&IB Division	10%	46%	35%	3%	4%	2%
Total	9%	45%	33%	7%	4%	2%

(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 2023, 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, commodity prices and inflation at the end of September is summarised in the following table:

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES		INFLATION	
	Crash	Bullish	+40bps	lower rate	-25bps	+25bps	-5%	+5%	Crash	Bullish	Up	Down
Total Trading Book	105	79	-74	59	-7	10	21	-9	-17	-3	11	-6

In particular:

- for stock market positions, there would not be potential losses either in the case of sudden increases in stock prices or in the case of sharp decreases therein;
- for positions in interest rates, there would be potential losses of 74 million euro in the event of a rise in interest rates;
- for positions in credit spreads, a tightening of credit spreads of 25 basis points would result in an overall loss of 7 million euro;
- for positions in exchange rates, there would be potential losses of 9 million euro in the event of appreciation in the Euro against the other currencies;
- for positions in commodities, there would be a loss of 17 million euro in the event of a fall in prices of commodities other than precious metals;
- lastly, for the inflation-indexed positions, there would be potential losses of 6 million euro in the event of a reduction in inflation.

With regard to the use of the overall limit relating to trading and the hold to collect and sell (HTCS) business model, there was a reduction in managerial VaR in the third quarter of 2023 from 166 million euro (average managerial VaR second quarter of 2023) to 159 million euro (average managerial VaR third quarter of 2023).

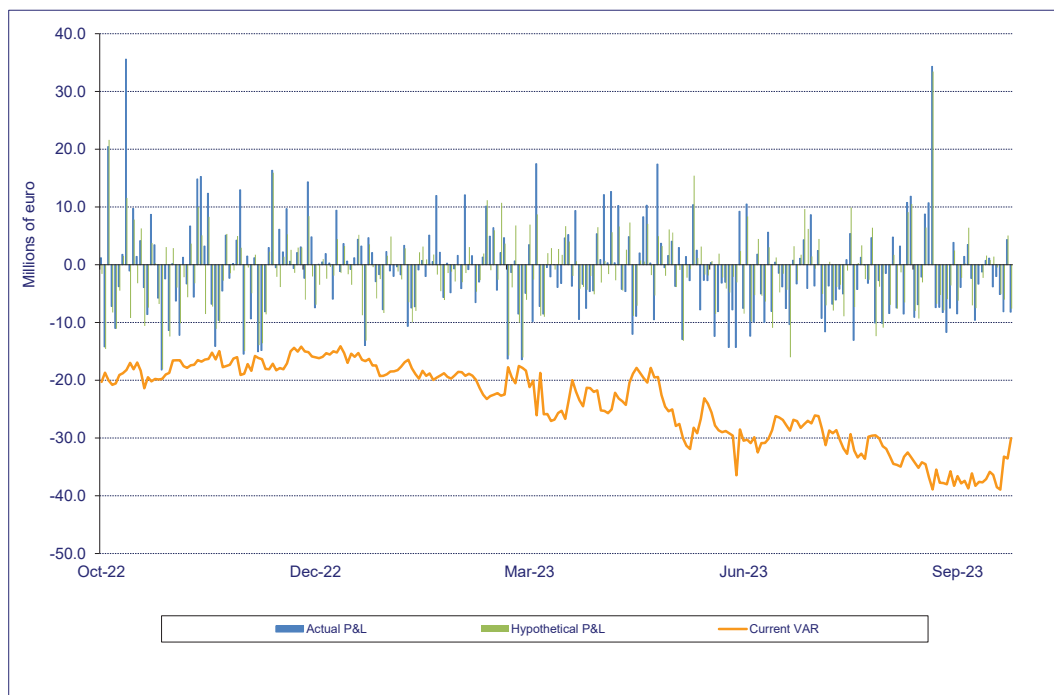
Backtesting

The soundness of the VaR calculation methods must be monitored daily via backtesting which, for the regulatory backtesting, compares:

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

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

As shown in the chart below, no backtesting exceptions were registered over the past 12 months.



Impacts of the Russia-Ukraine conflict

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

BANKING BOOK

At the end of September 2023, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, amounted to -1,106 million euro.

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 164 million euro, -432 million euro and 256 million euro, respectively, at the end of September 2023.

Interest rate risk, measured in terms of VaR, recorded a value of 420 million euro at the end of September 2023.

The price risk generated by the minority stakes in listed companies, measured with a price shock of +/-10%, amounted to +/-55 million euro at the end of September 2023.

The table below shows the changes in the main risk measures during the third quarter of 2023, with regard to the Group's banking book.

	3rd quarter 2023			30.09.2023	31.12.2022
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	-1,094	-826	-1,332	-1,106	-1,016
Shift Sensitivity of Net Interest Income -50bp	-455	-398	-575	-432	-668
Shift Sensitivity of Net Interest Income +50bp	232	147	495	164	633
Shift Sensitivity of Net Interest Income +100bp	208	134	256	256	251
Value at Risk - Interest Rate	508	420	584	420	442

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on shareholders' equity of a price shock of $\pm 10\%$ for the above-mentioned minority interests, mainly held under the HTCS business model.

Price risk: impact on Shareholders' Equity

		(millions of euro)			
		Impact on shareholders' equity at 30.09.2023	Impact on shareholders' equity at 30.06.2023	Impact on shareholders' equity at 31.03.2023	Impact on shareholders' equity at 31.12.2022
Price shock	10%	55	58	65	73
Price shock	-10%	-55	-58	-65	-73

Impacts of the Russia-Ukraine conflict

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

LIQUIDITY RISK

The Group's liquidity position, supported by suitable high-quality liquid assets (HQLA) and the significant contribution from stable customer deposits, remained largely within the risk limits set out in the current Group Liquidity Policy in the third quarter of 2023.

The levels for both the regulatory indicators – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) – are above the minimum regulatory requirements.

Over the last 12 months, the Liquidity Coverage Ratio of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, has amounted to an average of 169.3% (181.9% in December 2022).

At the end of September 2023, the value of all the Group's unencumbered liquidity reserves totalled 182.1 billion euro (177.7 billion euro at the end of December 2022), of which 143.6 billion euro (172.5 billion euro at the end of 2022) represented by unencumbered HQLA reserves with the Group Treasuries and 38.5 billion euro (5.2 billion euro as at 31 December 2022) relating to other marketable reserves and/or eligible reserves for Central Banks, including retained self-securitisations.

The Group's total reserves increased thanks to the repayment by the ECB of the collateral backing the TLTROs repaid in the first nine months of the year, a change only partially offset by the decrease in available cash among HQLAs, thanks to the inflows from the sales networks and new medium and long-term (MLT) funding volumes in the financial markets.

	(millions of euro)	
	Unencumbered (net of haircut)	
	30.09.2023	31.12.2022
HQLA Liquidity Reserves	143,556	172,528
Cash and Deposits held with Central Banks (HQLA)	77,376	109,792
Highly liquid securities (HQLA)	56,868	55,931
Other HQLA securities non included in LCR	9,312	6,805
Other eligible and/or marketable reserves	38,526	5,222
Total Group's Liquidity Buffer	182,082	177,750

As at 30 September 2023, the Intesa Sanpaolo Group's NSFR, supported by a solid base of stable deposits from customers, adequate wholesale medium/long-term securities funding and, now to a residual extent, the remaining portion of TLTRO funding from the ECB, was 121.0% (126.0% at the end of 2022).

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

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

Impacts of the Russia-Ukraine conflict

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

INFORMATION ON FINANCIAL PRODUCTS

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

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

Assets / liabilities at fair value	30.09.2023			31.12.2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
(millions of euro)						
1. Financial assets designated at fair value through profit or loss	104,742	31,967	9,037	108,649	33,035	8,932
a) Financial assets held for trading	11,147	30,584	124	10,381	32,043	183
<i>of which: Equities</i>	1,073	-	23	860	-	22
<i>of which: quotas of UCI</i>	221	5	7	264	5	21
b) Financial assets designated at fair value	-	1	-	-	1	-
c) Other financial assets mandatorily designated at fair value	93,595	1,382	8,913	98,268	991	8,749
<i>of which: Equities</i>	5,165	205	281	5,059	107	309
<i>of which: quotas of UCI</i>	81,968	198	7,323	87,284	191	6,655
2. Financial assets designated at fair value through other comprehensive income	121,732	8,177	584	108,301	10,567	640
<i>of which: Equities</i>	486	510	228	513	517	325
3. Hedging derivatives	-	9,607	-	-	10,075	-
4. Property and equipment	-	-	7,071	-	-	7,151
5. Intangible assets	-	-	-	-	-	-
Total	226,474	49,751	16,692	216,950	53,677	16,723
1. Financial liabilities held for trading	8,097	39,245	97	7,285	39,085	142
2. Financial liabilities designated at fair value	57	67,016	30	-	62,977	30
3. Hedging derivatives	-	4,845	-	-	5,517	-
Total	8,154	111,106	127	7,285	107,579	172

The table above shows the figures for the entire Group, including the insurance companies, which are applying IFRS 9 Financial Instruments from 2023, for which the application had been deferred under the Deferral Approach. The balance sheet figures are compared with 31 December 2022, adjusted following the retrospective application of the above-mentioned standard.

Looking at the table, with regard to assets, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the portfolio, with an impact of 5.7% on total assets (5.8% as at 31 December 2022). The level 3 financial assets mainly relate to quotas of UCIs, of which, under Financial assets mandatorily measured at fair value, 272 million euro is represented by units of the Atlante Fund and the Italian Recovery Fund put in place as part of the regulations to support the banking system.

Property and equipment measured at level 3 fair value includes real estate assets and valuable art assets, which represent 42.4% of the balance sheet assets at level 3 fair value.

A total of 77.3% of assets measured at fair value are determined based on market prices, and therefore without any discretion by the valuator.

With regard to liabilities, 93.1% are classifiable as level 2 and mainly as financial liabilities designated at fair value.

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

Assets / liabilities at fair value	30.09.2023			31.12.2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
(millions of euro)						
1. Financial assets designated at fair value through profit or loss	11,314	31,361	3,851	11,311	32,672	3,594
a) Financial assets held for trading	11,116	30,579	124	10,331	32,008	183
<i>of which: Equities</i>	1,073	-	23	860	-	22
<i>of which: quotas of UCI</i>	221	5	7	264	5	21
b) Financial assets designated at fair value	-	1	-	-	1	-
c) Other financial assets mandatorily designated at fair value	198	781	3,727	980	663	3,411
<i>of which: Equities</i>	116	205	200	122	107	242
<i>of which: quotas of UCI</i>	82	198	2,958	858	191	2,401
2. Financial assets designated at fair value through other comprehensive income	54,422	6,528	407	41,937	7,422	357
<i>of which: Equities</i>	486	504	228	513	510	325
3. Hedging derivatives	-	9,601	-	-	10,062	-
4. Property and equipment	-	-	7,064	-	-	7,144
5. Intangible assets	-	-	-	-	-	-
Total	65,736	47,490	11,322	53,248	50,156	11,095
1. Financial liabilities held for trading	8,087	39,244	97	7,285	39,085	142
2. Financial liabilities designated at fair value	57	16,301	30	-	8,765	30
3. Hedging derivatives	-	4,663	-	-	5,346	-
Total	8,144	60,208	127	7,285	53,196	172

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 9.1% on total assets (9.7% as at 31 December 2022).

A total of 52.8% 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 62.4% of the balance sheet assets at level 3 fair value.

With regard to liabilities, 87.9% are classifiable as level 2, while level 3 instruments account for less than 1% of total liabilities.

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

Assets / liabilities at fair value	30.09.2023			31.12.2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets designated at fair value through profit or loss	93,428	606	5,186	97,338	363	5,338
a) Financial assets held for trading	31	5	-	50	35	-
of which: Equities	-	-	-	-	-	-
of which: quotas of UCI	-	-	-	-	-	-
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily designated at fair value	93,397	601	5,186	97,288	328	5,338
of which: Equities	5,049	-	81	4,937	-	67
of which: quotas of UCI	81,886	-	4,365	86,426	-	4,254
2. Financial assets designated at fair value through other comprehensive income	67,310	1,649	177	66,364	3,145	283
of which: Equities	-	6	-	-	7	-
3. Hedging derivatives	-	6	-	-	13	-
4. Property and equipment	-	-	7	-	-	7
5. Intangible assets	-	-	-	-	-	-
Total	160,738	2,261	5,370	163,702	3,521	5,628
1. Financial liabilities held for trading	10	1	-	-	-	-
2. Financial liabilities designated at fair value	-	50,715	-	-	54,212	-
3. Hedging derivatives	-	182	-	-	171	-
Total	10	50,898	-	-	54,383	-

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 3.2% on total assets (3.3% as at 31 December 2022).

95.5% 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 and refer to Financial liabilities designated at fair value.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products came to 4,315 million euro as at 30 September 2023, a net increase of 1,012 million euro compared to the stock of 3,303 million euro as at 31 December 2022. The exposure includes investments in CLOs (Collateralised Loan Obligations) of 2,435 million euro, in ABSs (Asset-Backed Securities) of 1,808 million euro and in CDOs (Collateralised Debt Obligations) of 72 million euro, which continued to be a marginal activity also in 2023.

Accounting categories	30.09.2023				31.12.2022		(millions of euro) changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total				
					absolute	%	absolute	%
Financial assets held for sale	373	352	-	725	817	-92	-11.3	
Financial assets mandatorily measured at fair value	-	3	-	3	3	-	-	
Financial assets measured at fair value through other comprehensive income	1,370	754	-	2,124	1,545	579	37.5	
Financial assets measured at amortised cost	692	699	72	1,463	938	525	56.0	
Total	2,435	1,808	72	4,315	3,303	1,012	30.6	

In this disclosure, structured credit products include debt securities held by the Group divided into tranches upon issue consisting of various degrees of subordination and not issued within the framework of transactions originated by entities of the Intesa Sanpaolo Group or by public entities, in addition to transactions whereby the Group finances its corporate and financial institution customers (operations implemented by the Group through the subsidiary Duomo Funding Plc).

The performance of the portfolios in the first nine months of 2023, in a scenario of market recovery in the segment, reflected higher investments than disposals and redemptions for a total of 1,012 million euro, and was mainly attributable to the operations of the IMI Corporate & Investment Banking Division.

The exposures measured at fair value (ABS and CLO debt securities) increased by 487 million euro, from 2,365 million euro in December 2022 to 2,852 million euro in September 2023, due to higher investments for a total of 1,128 million euro, consisting of financial assets measured at fair value through other comprehensive income totalling 748 million euro and financial assets held for trading of 380 million euro, offset by redemptions and disposals totalling 641 million euro, made up of 169 million euro for the first segment and 472 million euro for the second segment.

Exposures classified under assets measured at amortised cost (ABS, CLO and CDO debt securities) amounted to 1,463 million euro in September 2023, compared with a balance of 938 million euro in December 2022, representing a net increase of 525 million euro, due to higher investments of 646 million euro, partially offset by disposals and redemptions.

In terms of profit or loss, the overall result was a profit of +3 million euro as at 30 September 2023 compared with the loss of -33 million euro in the first nine months of 2022, which had been affected by the negative valuations recognised to capture the geopolitical tensions, the widening of credit spreads and the rise in inflation.

The performance of assets held for trading, caption 80 of the income statement, amounted to +4 million euro and was attributable to impacts from realisation of +7 million euro (+5 million euro on ABS exposures and +2 million euro on CLO exposures) as well as valuation effects of -3 million euro (-4 million euro on ABS exposures and +1 million euro on CLO exposures). In contrast, the result recognised as at 30 September 2022 was -32 million euro, essentially relating to the valuation components on the CLO and ABS exposures.

The profits (losses) from financial assets mandatorily measured at fair value were nil as at 30 September 2023, as in the first nine months of the previous year.

The exposures to debt securities classified as assets measured at fair value through other comprehensive income recorded an increase in fair value as at 30 September 2023 of +12 million euro through a shareholders' equity reserve (from a reserve of -44 million euro in December 2022 to -32 million euro in September 2023). In the year, there have been no impacts from sales on the portfolio (-3 million euro as at September of the previous year).

On the debt securities classified as assets measured at amortised cost, the result as at 30 September 2023 of -1 million euro was substantially attributable to losses on disposals, compared with the impact from realised gains of +2 million in the first nine months of 2022.

Income statement results broken down by accounting category	30.09.2023				30.09.2022		(millions of euro) changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total				
					absolute	%	absolute	%
Financial assets held for sale	3	1	-	4	-32	36		
Financial assets mandatorily measured at fair value	-	-	-	-	-	-	-	
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-3	-3		
Financial assets measured at amortised cost	-	-1	-	-1	2	-3		
Total	3	-	-	3	-33	36		

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

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

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

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

With regard to the Covered Bond issue programme, during the third quarter of the year, as part of the programme guaranteed by ISP CB Pubblico, the 12th retained series was partially redeemed in July for an amount of 150 million euro, bringing the remaining nominal amount to 900 million euro.

Under ISP OBG's covered bond programme, the 42nd retained series was partially extinguished in July for an amount of 300 million euro, bringing the remaining nominal amount to 2.1 billion euro. In addition, the 20th retained series expired in August, for an amount of 1.6 billion euro.

With regard to securitisations, for Berica ABS 3, the last active transaction of the former Banca Popolare di Vicenza, the entire loan portfolio was repurchased in July, with the related consideration paid in September, close to the final payment date, at which time the Class J retained was fully repaid, with early closure of the transaction.

INFORMATION ON LEVERAGED TRANSACTIONS

In line with the ECB Guidance on Leveraged Transactions, the scope of leveraged transactions 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. 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. 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 2023, the transactions that meet the definition of leveraged transactions as per the ECB Guidance amounted to around 25.2 billion euro at Group level, relating to 1,763 credit lines. The stock was down compared to the end of the previous year (26.2 billion euro as at 31 December 2022). This performance, mainly driven by the Parent Company, was influenced by incoming and outgoing turnover – with flows that essentially offset each other – and by the decrease of around 1 billion euro, mostly due to the reduction in balances on positions left in scope (0.9 billion euro). Compared to 30 June 2023, the stock increased by 0.7 billion euro, mainly due to new inflows of 0.4 billion euro from the Parent Company.

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

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Parent Company's hedge fund portfolio as at 30 September 2023 amounted to 191 million euro for the trading book and 191 million euro for the banking book for a total of 382 million euro, compared to 173 million euro and 184 million euro, respectively, as at 31 December 2022, for a total of 357 million euro.

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

In the first nine months of 2023, there was an increase in stocks compared to the end of the previous year of 25 million euro, which included an increase in investments of 51 million euro carried out exclusively on the trading book, on UCITS (Undertakings for Collective Investment Schemes in Transferable Securities) hedge funds that better meet the capital absorption requirements, in continuity with the action taken in 2022 and in compliance with the CRR2 that came into force on 30 June 2021.

Disposals in the period amounted to 37 million euro (5 million euro for the banking book and 32 million euro for the trading book), and positive fair value changes of 11 million euro (+12 million euro for the banking book and -1 million euro for the trading book).

In terms of income statement effects, as at 30 September 2023, overall income was recorded of +12 million euro, relating entirely to valuation effects of funds held in the portfolio within the financial assets mandatorily measured at fair value (+12 million euro) and financial assets held for trading (-1 million euro), in addition to impacts from realisation on the trading segment (+1 million euro). As at 30 September 2022, the net income amounted to -8 million euro and related to valuation effects of funds held in the portfolio within the financial assets mandatorily measured at fair value.

In the Intesa Sanpaolo Group, in addition to the Parent Company, as at 30 September 2023 Eurizon Capital SGR had hedge funds in its portfolio amounting to 52 million euro (50 million euro as at December 2022), with an impact on the income statement for the year of +2 million euro from valuation effects (-3 million euro as at 30 September 2022, also including the valuation component). Hedge funds are held according to a seeding approach that involves setting up a service portfolio consisting of shares of mutual funds for which marketing has begun in support of the funds.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 30 September 2023, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 2,435 million euro (3,049 million euro as at 31 December 2022). The notional value of these derivatives totalled 30,677 million euro (29,872 million euro as at 31 December 2022).

The positive fair value of contracts outstanding with the 10 customers with the highest exposures was 1,330 million euro (1,726 million euro as at 31 December 2022).

Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 4,997 million euro as at 30 September 2023 (6,149 million euro as at 31 December 2022). The notional value of these derivatives totalled 69,450 million euro (74,174 million euro as at 31 December 2022).

The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 30 September 2023, this led to a positive impact of 10 million euro under "Profits (Losses) on trading" in the income statement (positive impact of 102 million euro as at 31 December 2022).

For details of the methodologies used in determining the fair value of financial instruments, see the paragraphs specifically dedicated to this subject in the 2022 Annual Report.

Please note that the figures reported above do not include fair value of derivatives embedded in structured bond issues as well as the related hedges taken out by the Group.

OPERATIONAL RISKS

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events²⁹.

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

To determine its capital requirements, the Group uses a combination of the methods allowed under applicable regulations (advanced measurement approach partially used along with the standardised approach and basic indicator approach). The capital absorption resulting from this process amounted to 2,119 million euro as at 30 September 2023, unchanged compared to 30 June 2023.

Impacts of the Russia-Ukraine conflict

With regard to operational risks concerning the third quarter of 2023, there are no specific updates to report, and readers are referred to the description provided in the same section of the Half-yearly Report of the Group as at 30 June 2023.

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 broader information regarding the disputes below and the pending significant ones, see the Notes to the 2022 Annual Report and the 2023 Half-yearly Report of the Intesa Sanpaolo Group.

Lawsuit against two Hungarian subsidiaries of Intesa Sanpaolo

The lawsuit is connected with a lease agreement terminated by one of the subsidiaries in 2010. During 2011, the tenant initiated proceedings in civil court, and during 2021, it supplemented its initial claim, formulating new claims and, as a result, increasing the total of the claims to around 31 million euro.

In July 2022, the Court rejected all the plaintiff company's claims, finding that it lacked standing. The plaintiff filed an appeal against that decision.

In December 2022, the Court of Appeal partially upheld the adverse party's appeal, ordering one of the two defendant companies to pay around 9.5 million euro. The decision was appealed before the Hungarian Supreme Court, which suspended the enforcement of the challenged ruling.

A ruling in favour of the subsidiary, upholding its arguments, was issued on 11 April 2023.

In the third quarter of 2023, plaintiff initiated proceedings before the Constitutional Court claiming violation of the Hungarian Charter of Fundamental Rights. The admissibility of the action is currently being examined.

Fondazione Cassa di Risparmio di Jesi

In January 2016, Fondazione Cassa di Risparmio di Jesi brought a compensation claim against UBI Banca (as the alleged successor-in-interest to the issuer Banca Marche S.p.A.) and PwC (the independent auditors that certified the financial statements and the figures presented in the Prospectus) alleging that the defendants published data and information regarding the financial performance and the income outlooks of Banca delle Marche S.p.A. that later proved to be totally incorrect and misleading. This information, contained in the financial statements as at 31 December 2010 and 30 June 2011 and included in the Prospectus, is claimed to have led the Foundation to subscribe for the bank's shares issued as part of the capital increase in March 2012. The value of these shares then fell to zero, resulting in a loss quantified at approximately 25 million euro.

During the trial the Bank of Italy joined the suit, upholding the lack of capacity to be sued invoked by UBI, by virtue of the provisions of Legislative Decree 180/2015 governing the resolution procedure for Banca delle Marche.

By judgment rendered on 18 March 2020, the Court of Ancona granted the objection of lack of capacity to be sued raised by the Bank, rejecting the Foundation's claims lodged.

In the appeal brought by the Foundation, the Court of Appeal of Ancona, by judgment filed on 17 July 2023, rejected the appeal brought by the adverse party and upheld the first instance judgment, ordering the appellant to pay the costs of the proceedings to Intesa Sanpaolo. The deadline for an appeal is pending.

Dispute regarding financial derivative instruments

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

With regard to disputes with companies owned by local authorities, in the case brought by Terni Reti Sud S.r.l. concerning a derivative contract entered into in August 2007 by the former Banca delle Marche, the adverse party stated its willingness to reach an amicable settlement. The settlement was authorised by the Bank of Italy, as manager of the National Resolution Fund. To date, the complex decision-making process by the Company (wholly owned by the Municipality of Terni) is pending. If the outcome of this process is positive, since the dispute is part of the Good Banks (former UBI) disputes, the Fund will fully reimburse the Bank for the payment resulting from the settlement.

²⁹ As far as the financial losses component is concerned, the Operational Risk includes the following risks: legal, conduct, compliance, financial crime, fiscal, IT and Cyber, physical security, business continuity, third-party, data quality, fraud, process and employer. Strategic and reputational risk are not included.

Contingent assets

With regard to the IMI/SIR dispute, with respect to the initiatives taken by the Bank following the judgment of the Court of Cassation and described in the 2023 Half-yearly Report, there are no updates as yet concerning the reinstatement of the case before the Court of Appeal of Rome. On its part, the Registry of the European Court of Human Rights has communicated that the application lodged by the Bank has been registered, which implies that on initial summary examination, the grounds brought by the Bank have not been found to be manifestly inadmissible, as otherwise a single Judge would have immediately declared the application inadmissible pursuant to Article 27 of the European Convention on Human Rights. Although the ECHR may yet declare the application inadmissible at a later stage of the proceeding following a more thorough evaluation of the file, the fact that it has been registered is a positive initial signal, given that a very high percentage of applications (approximately 90%) are dismissed immediately without further investigation. There will now be a second assessment of admissibility by the Judge-Rapporteur. If this is successful, the case on the merits will be established.

Labour litigation

In line with the situation as at 30 September 2023, 30 June 2023 and 31 December 2022, there are no significant pending labour disputes in terms of importance or number. 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.

There were no significant new disputes in the quarter for Intesa Sanpaolo S.p.A. (hereinafter also referred to as "ISP" or "Parent Company"). For the subsidiaries, please refer to the matters discussed below concerning the claims on Eurizon Capital and its subsidiary Epsilon SGR in relation to the Transfer Pricing applied in cross-border intragroup relations with Eurizon Capital SA Luxembourg.

The size of pending disputes has decreased significantly, also thanks to the "tax truce" that both the Parent Company and Intesa Sanpaolo Private Banking ("ISPB") made use of (lower claims of 13.2 million euro for ISP, of which 9.3 million euro in the quarter, and 47.4 million euro for ISPB).

As at 30 September 2023, **Intesa Sanpaolo** had 431 pending litigation proceedings (483 as at 30 June 2023) for a total amount claimed (taxes, penalties and interest) of 112.4 million euro (125.4 million euro as at 30 June 2023), considering both administrative and judicial proceedings at various instances.

In relation to these proceedings, the actual risks were quantified at 45.6 million euro as at 30 September 2023 (57.4 million euro as at 30 June 2023).

Compared to 30 June 2023, the main events that gave rise to significant changes in the claims against the Parent Company (-13.0 million euro) are as follows:

- an increase (about 5.3 million euro) from: i) 4.6 million euro in respect of a long-standing claim by the Portuguese tax authorities on the discontinued Sanpaolo IMI Bank International S.A. (based in Madeira), which was charged with having failed to apply withholding taxes in 2002, 2003 and 2004 on interest paid to foreign bondholders. The increased provision is necessary in order to take into account the most recent certificate of pending tax liabilities issued by the Portuguese tax authorities, which for the first time sets forth the criteria for calculating interest on the principal tax claim; ii) 0.2 million euro in respect of municipal property tax (IMU) on property from terminated and current leasing contracts; iii) 0.2 million euro in respect of new disputes for registration tax on judicial documents, mainly relating to a request to pay registration tax due, served on 3 August 2023 in relation to a civil judgment in a case between the Prime Minister's Office and the former Centrobanca (merged into UBI Banca); and iv) 0.3 million euro in interest accrued on pending litigation;
- a decrease (approximately 18.3 million euro) from: (i) 8.0 million euro in respect of the favourable final judgment of the Court of Cassation in July 2023 on the dispute on registration tax on the spin-off of a business line from Intesa Sanpaolo to State Street Bank, as the Court deemed that the transaction should not be reclassified a transfer of a going concern; ii) 0.1 million euro for the closure of disputes on registration tax, relating mainly to judicial documents; iii) 1.8 million euro for the closure of disputes on municipal property tax (IMU) on properties from both terminated and current leasing contracts, settled under the "tax truce" for 1.3 million euro; iv) 8.0 million euro for the closure of various disputes through a "tax truce"; v) 0.4 million euro for the closure of disputes relating to registration and cadastral and mortgage records taxes on the purchase of leased property.

As regards Intesa Sanpaolo's branches located abroad, as there were no significant new developments in the quarter, please refer to the Consolidated Half-yearly Report as at 30 June 2023.

With reference to the subsidiaries, please note the following updates with respect to 30 June 2023.

As already reported in previous financial reporting (to which reference should be made), first **Eurizon Capital SGR** and then **Epsilon SGR** were audited by the Italian Revenue Agency, Lombardy Regional Directorate, Large Taxpayers Office, with regard to transfer prices charged in the relationships with Eurizon Capital SA Luxembourg.

It should be noted that the first claim dates back to the end of 2022 and concerned the year 2016 of Eurizon Capital SGR alone. The Office revised its initial position (higher Italian taxable income of 151.1 million euro, corresponding to higher taxes of 50 million euro, interest of 9.6 million euro and penalties of 45 million euro, for a total charge of 104.6 million euro) and formulated a settlement proposal - accepted in April 2023 - which provided for: (i) recognition of the CUP as a suitable method, with positioning of the benchmark in the third quartile and (ii) reduction of the higher Italian taxable income from 151.1 million euro to 26.8 million euro, the consequent reduction of the higher taxes from 50 million euro to 8.8 million euro

and of interest from 9.6 million euro to 1.8 million euro, and the non-application of penalties. Ultimately, the 2016 tax audit on Eurizon Capital SGR closed with a total disbursement of 10.6 million euro (about 10% of the initial total claim).

In the following months, discussions with the Office continued for the years 2017 and 2018 of both Eurizon Capital SGR and Epsilon SGR. In detail, these discussions were formally initiated: the Office's tax audit continued with the notification to Eurizon in June 2023 of a questionnaire for 2017 and with the start of the tax audit on Epsilon in April 2023 for tax year 2017, then extended in September 2023 for tax year 2018.

The Bank's position is aimed at obtaining (i) firstly, confirmation of the soundness of the CUP as a tax audit method and consequently the non-application of penalties (as is well known, in transfer pricing matters, the correctness of the method adopted ensures protection from penalties) and then (ii) the positioning of the benchmark on the first quartile or the median.

Lastly, it should be noted that, as mentioned in the introduction, in addition to ISP, **Intesa Sanpaolo Private Banking** ("ISPB") also made use of the abovementioned settlement of disputes pursuant to Italian Law No. 197 of 29 December 2022 ("Budget Law 2023"), the "tax truce" with regard to 5 of the 7 pending disputes on IRES and IRAP tax assessments (notified solely for IRES purposes also to ISP as consolidating entity) for the years from 2011 to 2017. These tax assessments challenged the tax deduction of the amortisation of goodwill arising from contributions received by ISPB in 2009, 2010 and 2013 and released by ISPB by using the option for the realignment of tax values to balance sheet values pursuant to Article 15, paragraph 10, of Italian Law Decree No. 185/2008.

Although we are fully convinced of the soundness of the tax behaviour adopted over the years and of the defence arguments, in order to take advantage of the economic-financial opportunity offered by the tax truce, it was decided, in agreement with the consultant in charge of managing the litigation, to settle for the years 2011, 2013, 2014, 2015 and 2017. This choice was influenced by the following aspects: i) the fact that the total amount for taxes paid by way of substitute tax and provisional tax as well as for the settlement was for each of the aforementioned years lower than the higher tax assessed; ii) the non-application of penalties and interest (amounting to approximately 26 million euro as at 30 September); iii) the right to deduct from the cost of the settlement the substitute tax of 16% paid at the time by ISPB as recognised by the same Italian Revenue Agency in its response to question No. 158 of 27 May 2019.

INSURANCE RISKS

Investment portfolios

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

As at 30 September 2023, the investment portfolios, recorded at book value, amounted to 169,788 million euro. Of these, a part amounting to 86,152 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 83,636 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, 84.3% of assets, i.e. approximately 72,729 million euro, were bonds, whereas assets subject to equity risk represented 2% of the total and amounted to 1,762 million euro. The remainder (11,812 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (13.7%).

The carrying value of derivatives came to around -151.2 million euro, of which around 20.3 million euro relating to effective management derivatives³⁰, and the remaining portion (around -171.5 million euro) is attributable to hedging derivatives.

At the end of the first nine months of 2023, investments made with the shareholder fund of Intesa Sanpaolo Vita and Fideuram Vita amounted to around 255 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of around 6 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 4,359 million euro.

The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented around 5.3% of total investments and A bonds around 10.2%. Low investment grade securities (BBB) were around 80.9% of the total and the portion of speculative grade or unrated was minimal (3.6%).

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

The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central Banks made up around 74.4% of the total investments, while financial companies (mostly banks) contributed around 16.3% of exposure and industrial securities made up around 9.3%.

At the end of the third quarter of 2023, the fair value sensitivity of bonds to a change in issuer credit rating, intended as a market credit spread shock of +100 basis points, was -2,162 million euro, with -1,326 million euro due to government issuers and -836 million euro to corporate issuers (financial institutions and industrial companies).

Impacts of the Russia-Ukraine conflict

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

³⁰ 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.