
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 Risk 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 companies⁴¹, 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 Group Risk Appetite Framework approved by the Board of Directors of the Parent Company, 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 Risk and Sustainability Committee and the Board of Directors of the Parent Company, as part of the Tableau de Bord of 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 Intesa Sanpaolo Group has continued to carefully monitor the evolution of the fallout of the Russian-Ukrainian crisis - as well as the other situations of geopolitical tension - 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.

With specific regard to risk management, details concerning credit risk are provided in the paragraph “The valuation impacts for the ISP Group of the military conflict between Russia and Ukraine”, and there continue to be no significant impacts of the Russian-Ukrainian conflict on the counterparty risk and market risk measurement metrics for the Group’s trading book and banking book. Likewise, in light of the low exposure to Russian and Ukrainian counterparties, there were no significant

⁴¹ 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.

impacts on the Group’s consolidated liquidity position. With regard to foreign exchange risk, there continue to be no significant impacts due to the low exposures. With regard to operational risks, the additional costs incurred for business continuity and any losses resulting from physical damage to premises/branches located in the conflict zone form part of the monitoring of the exposure to the risk, including that relating to the Risk Appetite Framework. Lastly, with regard to the monitoring of insurance risks, the focus remains on exposures to countries involved in the conflict, which are still entirely residual in nature compared to the total assets.

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, in order to improve the measurement systems and the related risk management systems. In the first half of 2024, the project work continued on the preparations for the incorporation of the restructuring of the Basel Committee agreements (“Basel 4”).

With regard to credit risk, there were no changes compared to 31 December 2023. The periodic updating and alignment to changes in regulations governing IRB systems and their extension continue in accordance with the Regulatory Roadmap agreed with the Supervisory Authorities.

The situation as at 30 June 2024 is shown in the table below.

Portfolio	PD - Model Type	LGD - Model Type	EAD - Model Type	Status
Sovereign	Shadow model based on agency rating	Model based on recovery rates estimated by rating agencies	Regulatory parameters	Used for management purposes only; Standardised approach for reporting purposes
Institutions	Default model (Banks) ⁽⁴⁾	Market model (Banks)	Regulatory parameters (Banks)	AIRB authorised since June 2017
	Default model (Municipalities and Provinces) Shadow model (Regions) ⁽⁴⁾	Workout model (Municipalities, Provinces, Regions)	Regulatory parameters (Municipalities, Provinces, Regions)	AIRB authorised since June 2017
Corporate	Default model (Corporate)	Workout model (Bank products; Leasing and Factoring)	CCF/K factor model (Bank products) Regulatory parameters (Leasing and Factoring)	FIRB authorised since December 2008, AIRB LGD authorised since December 2010, EAD authorised since September 2017 ⁽¹⁾
	Simulation models (Specialised Lending)	Simulation models / Workout models (Specialised Lending)	CCF/K factor model (Specialised Lending)	AIRB authorised since June 2012 EAD authorised since October 2023
	Expert-Based Model (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Used for management purposes only; Standardised approach for reporting purposes
Retail	Default model (Retail)	Workout model (Retail)	CCF/K factor model (Retail)	IRB Other Retail authorised since September 2018, IRB Mortgage since December 2010 ⁽²⁾
	Default model (Retail SME)	Workout model (Retail SME)	CCF/ K factor model (Retail SME)	IRB PD/LGD authorised since December 2012, EAD authorised since June 2021 ⁽³⁾

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

With regard to counterparty risk, the Banking Group has improved its measurement and monitoring by refining the tools required under Basel 3. For regulatory purposes, the Parent Company is authorised to use the internal models approach for the capital requirement related to default risk and credit value adjustment (CVA) risk, for both derivatives and SFTs. This authorisation was obtained for derivatives from the first quarter of 2014, and for SFTs from the report for the fourth quarter 2016. For management purposes, the advanced risk measurement approaches have been implemented for the OTC derivatives of the Parent Company since 2010 and were subsequently extended in 2015 to Securities Financing Transactions. There were no changes in the scope of application of the model compared to 31 December 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. As at 30 June 2024, the scope of the Advanced Measurement Approach (AMA) was comprised of Intesa Sanpaolo (including the former Banks and Companies merged into it) and the main banks and companies in the Private Banking and Asset Management Divisions, as well as of VUB Banka, VUB Operating Leasing and Privredna Banka Zagreb.

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 2024.

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 (www.group.intesasanpaolo.com) each quarter.

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

The valuation of exposures to counterparties resident in Russia and Ukraine

As stated, as at 30 June 2024 the Group presented the following on-balance sheet exposures to counterparties resident in Russia and Ukraine, net of ECA guarantees and gross/net of value adjustments carried out:

(millions of euro)

	30.06.2024 (*)				31.12.2023 (**)			
	Gross exposure		Net exposure		Gross exposure		Net exposure	
	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine
Loans to customers	717	184	527	132	872	186	643	123
<i>Banca Intesa Russia</i>	174	-	101	-	197	-	117	-
<i>Pravex</i>	-	51	-	-	-	62	-	-
<i>Cross-border exposures</i>	543	133	426	132	675	124	526	123
Due from banks	809	60	799	60	707	59	696	59
<i>Banca Intesa Russia</i>	793	-	785	-	691	-	683	-
<i>Pravex</i>	-	60	-	60	-	59	-	59
<i>Cross-border exposures</i>	16	-	14	-	16	-	13	-
Securities	9	51	7	46	12	53	10	49
<i>Banca Intesa Russia</i>	8	-	7	-	11	-	10	-
<i>Pravex</i>	-	44	-	43	-	48	-	47
<i>IMI C&IB Division</i>	-	-	-	-	-	-	-	-
<i>Insurance Division</i>	1	7	-	3	1	5	-	2

(*) In addition to the on-balance sheet exposures shown in the table, there are off-balance sheet exposures to customers for 45 million euro (39 million euro net) at Banca Intesa Russia, and 32 million euro (gross and net value) at Pravex, in addition to 19 million euro (book value nil in net terms) in cross-border off-balance sheet exposures to resident customers in Russia, net of ECA, and 8 million euro (8 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 9 million euro (gross and net value) in cross-border off-balance sheet exposures to banks resident in Ukraine. Lastly, the cross-border exposures to customers resident in Ukraine are, for the corporate part, backed by guarantees provided by European and US persons, while, for the household part, the amounts as at 30 June 2024 and the increase of around 9 million euro compared to 31 December 2023 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 46 million euro (39 million euro net) at Banca Intesa Russia, and 34 million euro (gross and net value) at Pravex, in addition to 24 million euro (book value nil in net terms) in cross-border off-balance sheet exposures to resident customers in Russia, net of ECA, and 25 million euro (24 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 10 million euro (gross and net value) in cross-border off-balance sheet exposures to banks resident in Ukraine.

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

As shown in the table, as at 30 June 2024, the remaining on-balance sheet exposures to the total counterparties resident in Russia amounted, in terms of gross values, to 174 million euro (101 million euro net) for Banca Intesa Russia and 543 million euro (426 million euro net) for cross-border exposures to customers resident in Russia (net of ECA guarantees). These were accompanied by exposures to banks totalling 809 million euro (799 million euro net) and in securities totalling 9 million euro (7 million euro net). Exposures to customers resident in Ukraine amounted to 184 million euro (132 million euro net), of which 51 million euro (book value nil in net terms) related to the subsidiary Pravex Bank. These were accompanied by exposures to banks of 60 million euro (60 million euro net) and in securities totalling 51 million euro (46 million euro net). The majority of the exposures to Russian⁴² and Ukrainian counterparties essentially consist of loans to customers subject to measurement in accordance with IFRS 9 “Financial Instruments”.

⁴² For these purposes, the small exposures to Belarusian counterparties have for simplicity been treated and disclosed together with the exposures to the Russian Federation.

During the first half of 2024, the gross on-balance sheet exposure to the total counterparties resident in Russia and Ukraine decreased by 59 million euro (-3% from the end of the previous year). This reduction was mainly made up of 132 million euro for cross-border exposures to customers resident in Russia, primarily as a result of repayments on various exposures, and 23 million euro for exposures to customers of the investee Banca Intesa Russia, as the effect of the larger decrease in volumes than the increase in exposures due to the appreciation of the exchange rate in the first half, partly offset by the increase of around 102 million euro in exposures to banks of Banca Intesa Russia.

The overall net exposure (customers, banks, and securities) as at 30 June 2024 to counterparties resident in Russia and Ukraine, amounting to 1,571 million euro, decreased by 9 million euro (-1%) from 1,580 million euro on 31 December 2023.

As at 30 June 2024, the Group companies other than those operating in the countries involved in the conflict had a total of 40 million euro of gross on-balance sheet non-performing loans to counterparties resident in Russia.

The non-performing loans of the Russian subsidiary amounted to 63 million euro (40 million euro as at 31 December 2023), while the classification of the entire portfolio of the Ukrainian subsidiary to bad loan status led to the recognition of 51 million euro in bad loans (62 million euro as at 31 December 2023).

In line with the disclosure already provided in the Annual Report as at 31 December 2023, with regard to the portfolio that did not show specific signs of deterioration, 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 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 exposures⁴³, as well as, in line with the treatment set out for capturing the critical issues of another recent emergency situation (COVID-19⁴⁴), using management overlays in the calculation of the ECL, to define the most suitable methods to incorporate the aspects linked to the ongoing conflict into provisions.

For the cross-border positions, the approaches used to determine the ECL as at 30 June 2024 were the same as those already adopted in 2022 and maintained throughout 2023.

The classification to Stage 2 has been confirmed for the counterparties in scope guided by the emergence of “via transfer” risk, namely the risk that counterparties do not honour their debt payment commitments as a result of restrictions or decisions in their countries of residence and not due to aspects directly pertaining to their business, and therefore applied based on the country of residence of the counterparties. This approach was implemented both to determine the SICR and the related classification in Stage 2, and to calculate the ECL.

Specifically, the ECL on the Core scope is calculated using the through the cycle PD associated to 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. On the other hand, an additional prudential buffer was calculated 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 (unconditioned LGD of 55% set by the transfer risk model). At the same time, the ratings for the highest risk class already assigned to the most significant counterparties exposed to conflict-related risk have been maintained. Lastly, adjustments have been applied to a counterparty (increases in the ECL as calculated above) to capture potential expected losses not adequately measured by the estimates.

The banks of the ISB Division adopt the ratings of the Parent Company and the centrally determined “transfer risk” parameter of LGD on the Group’s common cross-border customers. For the other exposures, the ratings are determined by local models, in line with the instructions received from the Parent Company’s Group Rating Desk.

With reference to loans to customers disbursed by Pravex, the absolutely serious situation in all of Ukraine 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 starting from the 2022 Financial Statements 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 Ukrainian 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, following their classification to Stage 2, included a centrally determined prudent factor that takes account of the worsening of the domestic economic situation in light of the continuation of the conflict and the increased isolation of the Russian economy. As a result of the recomposition of the portfolio following repayments and reclassifications to non-performing loans, the total coverage of performing loans of the Russian subsidiary amounted to around 41.4% of their gross value (35% in December 2023).

The Parent Company and two subsidiaries had provided Banca Intesa Russia with loans to support the bank’s operations with a residual book value as at 30 June 2024 of 211 million euro.

⁴³ 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.

⁴⁴ 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.

For completeness, you are reminded that the real estate assets of the two subsidiaries were also subject to valuation. 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 maintain the write-off of the value of Pravex's investment and branch assets and other owner-occupied properties. 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, for Banca Intesa Russia's small real estate asset portfolio, essentially consisting of the Moscow headquarters, the valuation did not identify any items giving rise to the need for a write-down, substantially confirming the carrying amounts.

The securities portfolio of the investee Banca Intesa Russia, amounting to 8 million euro (11 million euro as at 31 December 2023), consisted of Russian government securities. The securities portfolio of the subsidiary Pravex, amounting to 44 million euro (48 million euro as at December 2023), consisted of short-term government securities and securities issued by central banks as an investment of part of the liquidity from the reduction of the loan portfolio.

Overall, there were profit and loss impacts on the Russian and Ukrainian exposures as at 30 June 2024, gross of tax effects, totalling net expenses of 68 million euro. Those charges comprise 22 million euro in net valuation effects essentially linked to net recoveries on loans, mainly attributable to collections, and 90 million euro in additional provisions for risks and charges made on consolidation of the investee Banca Intesa Russia to write off its equity contribution to the Group's consolidated financial statements, which was positive at the end of the first half of 2024 due to the investee's positive operating performance, with a total allowance of around 272 million euro as at 30 June 2024.

CREDIT RISK

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

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

The Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and 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 calculated ratings are then made comparable with those awarded by rating agencies, by means of a like-for-like scale of reference. Ratings and credit-risk mitigating factors (guarantees, loan types and covenants) play a key role in the loan granting and managing process.

The Group has always proactively and prudently managed its risk portfolio. In the 2022-2025 Business Plan, the Group intends to pursue a modular de-risking strategy, which was mostly launched during the previous Business Plan, placing it among the best in Europe in terms of non-performing loan ratio and stock and generating a net drop in the cost of risk. Indeed, the latter will always be maintained at a conservative level, due to the extensive reserves of provisions on loans and ongoing prudent credit management. During the first half, new de-risking initiatives were launched, targeting not only portfolios classified as bad loans, but also portfolios of unlikely-to-pay exposures and impaired past due exposures (in this regard, also see that set out in the disclosure on the Business Plan in the introductory chapter of the Half-Yearly Report on Operations).

As a result of the steps taken, and the conditions laid down in IFRS 5 having been met, at the end of the half year loans were classified as assets held for sale for around 0.9 billion euro in gross value and around 0.5 billion euro in net value, with the latter aligned to the expected proceeds from the sales.

Credit quality

The quality of the loan portfolio is preserved by adopting controls/processes to oversee all phases of the loan, from granting to management, using both IT procedures and activities aimed at systematic supervision of positions, in order to promptly capture any symptoms of imbalance and promote corrective measures to prevent situations of possible impairment. Positions are detected and automatically entered in the credit management processes by way of daily checks using objective risk indicators that allow timely assessments when any anomalies arise or persist and interact with processes and procedures for loan management and monitoring. Total watchlist and non-performing loans are subject to a specific management process that also entails accurately monitoring them using a system of control and periodic management reporting. Specifically, that activity uses performance measurement and control methods that make it possible to construct synthetic risk indicators. In the Group, in compliance with predefined rules, the positions that are assigned a high risk score, confirmed over time, are (manually or automatically) intercepted and classified based on their risk profile, in compliance with regulatory provisions on credit quality, in the following categories:

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

Lastly, non-performing exposures also include individual exposures with forbearance measures, which meet the definition of "Non-performing exposures with forbearance measures" set out by the ITS EBA (Implementing Technical Standards – European Banking Authority) that do not form a separate category of non-performing exposures, rather a subset thereof. Likewise, exposures with forbearance measures are included among performing loans. The management phase of those exposures, strictly in line with the regulatory provisions regarding classification timing and methods, is supported by automatic system mechanisms that guarantee preset autonomous, independent management processes.

Macroeconomic scenario for forward-looking conditioning

For the purposes of forward-looking conditioning of the parameters for estimating the ECL – in accordance with the approach described in Part A - Accounting Policies of the 2023 Financial Statements and in particular in the paragraph “Impairment of assets” – Intesa Sanpaolo’s policy involves the use of the macroeconomic scenario defined and updated by the Research Department of the CFO Area, at least every six months (June/December).

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

Intesa Sanpaolo macroeconomic scenarios for calculating the ECL as at 30 June 2024

		Baseline					Best-case					Worst-case				
		2023	2024	2025	2026	2027	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
Euro Area	Real GDP EUR (annual change)	0.5%	0.6%	1.3%	1.5%	1.5%	0.5%	0.8%	1.7%	1.8%	1.8%	0.5%	0.2%	0.8%	1.0%	1.1%
	CPI EUR (annual change)	5.4%	2.3%	1.7%	1.8%	2.0%	5.4%	2.4%	1.9%	2.0%	2.1%	5.4%	2.3%	1.5%	1.5%	1.7%
	Euribor 3M	3.43	3.66	2.59	2.52	2.52	3.43	3.72	2.84	2.86	3.27	3.43	3.50	2.17	2.02	2.02
	EurIRS 10Y	3.04	2.74	3.24	3.56	3.58	3.04	2.78	3.44	3.81	4.07	3.04	2.67	2.98	3.19	3.21
	EUR/USD	1.08	1.08	1.12	1.14	1.15	1.08	1.08	1.11	1.13	1.15	1.08	1.08	1.12	1.15	1.16
Italy	Real GDP Italy (annual change)	1.0%	0.7%	1.2%	1.0%	0.6%	1.0%	1.0%	1.3%	1.3%	1.1%	1.0%	0.4%	0.6%	0.6%	0.2%
	CPI Italy (annual change)	5.6%	1.3%	2.1%	1.7%	1.7%	5.6%	1.4%	2.3%	1.9%	2.0%	5.6%	1.3%	1.8%	1.2%	1.3%
	Residential Property Italy (annual change)	1.3%	1.3%	1.7%	1.5%	2.5%	1.3%	1.7%	3.4%	3.4%	4.3%	1.3%	0.8%	-0.9%	-1.3%	0.3%
	6-month BOT yield	3.4	3.4	2.8	2.8	2.8	3.4	3.5	3.1	3.2	3.5	3.4	3.3	2.4	2.4	2.3
	10Y BTP yield	4.1	3.8	4.2	4.8	4.9	4.1	3.8	4.3	4.9	5.2	4.1	3.8	4.1	4.6	4.8
	BTP-Bund Spread 10Y (basis points)	170	134	134	149	154	170	130	122	136	138	170	143	147	170	182
	Italian Unemployment (%)	7.6	7.1	7.0	7.1	7.2	7.6	7.0	6.9	6.9	6.9	7.6	7.1	7.3	7.4	7.6
Commodities	Natural gas price (€/MWh)	41	29	28	26	23	41	29	29	26	23	41	29	28	25	23
	Oil price (BRENT)	82.3	81.7	78.0	76.0	74.0	82.3	81.7	79.6	77.4	76.3	82.3	81.6	76.7	72.9	71.7
USA	Real GDP US (annual change)	2.5%	2.2%	1.8%	2.1%	1.6%	2.5%	2.6%	2.1%	2.5%	2.1%	2.5%	2.2%	1.1%	1.7%	1.4%
	US Unemployment (%)	3.6	3.9	4.1	4.1	4.1	3.6	3.9	3.9	3.8	3.8	3.6	3.9	4.2	4.3	4.4

Scenarios produced in June 2024 by CFO - Research Department. Forecast data for the years 2024, 2025, 2026 and 2027.

In the Eurozone, the GDP is expected to grow by 0.6% in 2024 and 1.3% in 2025. The cycle should be over its low point and, starting in the second half, acceleration in growth is expected, boosted by the impact on consumer spending of the recovery in household purchasing power and the consolidation of foreign demand, which will act as a driver of exports. Private consumer spending will positively contribute to growth also in 2025, when fixed investments will once again sharply accelerate, supported by the effects of the drop in interest rates, the recovery in demand and the return of the credit cycle. The labour market shows no signs of weakening: employment is expected to grow, though at a more moderate pace than in 2023. Fiscal policy is expected to tighten in the current year, but the impact on the cycle should be very slight, as the drop in spending should be mainly explained by the definitive removal of the measures launched to combat the energy crisis. On the contrary, 2024 is expected to be a turning point for effectively spending the NGEU funds in Southern European countries, which will continue to be a significant support at least until 2026. However, starting next year, net of European funds, the restrictive impact of fiscal policy could expand due to the entry into force of new fiscal rules.

In Italy, the direction of GDP growth – expected to be 0.7% and 1.2% in 2025 - will largely be determined by consumer spending, due to the recovery in real income, despite a rise in the savings rate. Vice versa, investments are expected to slow, mainly due to the decrease in construction. Specifically, with regard to construction, though the negative effect of the crackdown on the Superbonus was partly offset by the infrastructure works set out in the NRRP, this will translate into a decrease in the sector in 2025, which could hypothetically recover only in 2026. If the targets of the NRRP are fully hit, estimates of growth could be better than that assumed in the baseline scenario. Services are expected to contribute to growth in 2024-2025: following the unexpected slowdown at the end 2023, services began expanding right from the start of 2024, and the recovery in household purchasing power, which could still translate into an increase in the consumption of services rather than goods, should continue to drive this trend also in the second half of 2024 and in 2025.

For the Eurozone, the inflation rate is expected to be 2.3% in 2024 and 1.7% in 2025. The disinflation process continues, though in an irregular manner. Specifically: the contribution of energy to general inflation decreased significantly in the first half, and is expected to return to positive ground in the second half of 2024, and to average levels in 2025; the disinflation process is almost complete for food products; inflation on non-energy industrial goods, which has significantly decreased over the last few months, could drop further in the second half of the year, and it is possible that that component could be negative from the second half of 2024 to the first quarter of 2025. Services is the component that continues to show the most stickiness.

In Italy, the inflation rate is expected to be 1.3% in 2024 and 2.1% in 2025. The disinflation process also continued in the initial months of 2024. It was more impactful than the process in the Eurozone, thanks to a persistent contribution of the energy component to deflation and a lower trend in underlying inflation, most likely due to the lower cost of salaries.

As planned, in June, the European Central Bank decreased the official rates by 25 basis points, and a new cut in official rates is deemed likely between September and December. A gradual and partial removal of monetary restrictions is still justified by the progress of disinflation, bound to continue over the coming months. At the same time, however, the economic outlook and pressure on public accounts justify a long-term level of interest rates higher than forecast in the past.

The conflicts in Ukraine and the Middle East, which may cause unexpected strains on commodity prices and the financial markets, are adding uncertainty to the outlook. If, contrary to expectations, inflation fails to decrease in the final months of 2024, the European Central Bank could postpone additional interest rate cuts.

With regard to the United States, the long-awaited signs of a slowdown in the US cycle have gained strength recently, though in a “soft landing” scenario. The GDP is expected to grow by 2.2% in 2024 and by 1.8% in 2025. With regard to trends in employment in the USA, according to the baseline scenario, the process of rebalancing between demand and supply is expected to continue. Estimates of the unemployment rate amount to 3.9% for 2024 and 4.1% for 2025 (compared to 3.8% for both years in December), with upside risks. The outcome of November’s presidential elections should not significantly impact the short-term macroeconomic framework, but the consequences could be significant in the medium term.

As described in Part A - Accounting Policies of the 2023 Financial Statements, and in particular in the section “Impairment of assets”, the methodology adopted by the Group includes taking into account alternative scenarios (best-case/worst-case), which mainly use external information (among others, the minimum and maximum forecasts of a fundamental variable such as GDP based on data from Consensus Economics).

That methodology involves identifying the highest (best case) and lowest (worst case) forecasts of GDP growth in the most recent Consensus Economics survey for the leading advanced countries, adapting the performance of private consumer spending and fixed investments of the baseline scenario in order to return an annual average GDP growth profile that is consistent with those forecasts. The other variables are also consistently recalculated.

With regard to the favourable scenario, the assumptions adopted yield a scenario with higher real growth rates (the distance of the growth rates from the baseline scenario is moderate between 0.2 and 0.5 percentage points, but stably positive), moderately higher inflation, and lower unemployment rates. The performance of the stock indices and real estate prices is more robust than in the baseline scenario. Interest rates are higher across all maturities: higher growth is expected to lead the ECB to stop cutting rates at 2.75% rather than 2.50%, to then start up the restriction phase. Long-term rates are significantly higher than in the baseline scenario, but interest rate curves will still flatten.

In the “adverse” scenario, the trend in the Italian GDP is expected to be weak: average annual growth is around one-half percentage point over the entire horizon, while GDP performance in the Eurozone will be stronger, with growth rates of around 1% at the end of the horizon. This will result in a slightly faster and deeper fall in inflation, allowing the ECB to ease monetary policy to the point of becoming expansionary. At the end of the three-year period, the level of short-term rates is 50 basis points lower than in the baseline scenario, while the ten-year IRSs are 35 basis points lower.

The adverse scenario also includes higher levels of the BTP-BUND spread, assuming that the global demand shock is compounded by a moderate domestic idiosyncratic shock, e.g. due to difficulties in implementing the NRRP or the significant pressure from the offering of government securities on domestic financial flows in 2024, with repercussions on the domestic financial markets and on the performance of real estate values.

Managerial adjustments to the results of the models

In the first half of 2024, there were no changes to the approaches introduced in the 2023 Financial Statements, which are mainly based on two complementary elements:

- the adjustment to the outcomes of the forward-looking conditioning model, due to the introduction of a factor derived from “extreme scenarios”, aimed at capturing the impacts of increased uncertainty in the macroeconomic conditions (due, for example, to geopolitical risks or repercussions connected to the higher-than-expected inflation) not captured by the current methodology based on the most likely and alternative scenarios;
- the risk-sensitive post-model adjustments, aimed at reinforcing the provisioning on selected portfolios in relation to potential vulnerabilities and credit risk divergences not captured by the models used, especially in the current economic environment often characterised by crises that affect individual product sectors asymmetrically.

The approaches are described in detail in Part E, Section 2 - Risks of the prudential consolidation - 1.1 Credit Risk, of the Notes to the Consolidated Financial Statements 2023.

Overall, the adjustment allowances for performing exposures as at 30 June 2024 included prudential elements of 0.9 billion euro relating to both on-balance sheet exposures and unsecured exposures, substantially unchanged from December. This figure does not include the additional provisions made on exposures to Russian and Ukrainian counterparties, relating to cross-border positions, and those of Banca Intesa Russia and Pravex, already described in the paragraph “The valuation impacts for the ISP Group of the military conflict between Russia and Ukraine” above.

ECL sensitivity analysis

The ECL, calculated in accordance with IFRS 9, was subject to sensitivity analysis aimed at analysing its variability with respect to the individual alternative scenarios in accordance with the ESMA recommendations.

That analysis was conducted on a portfolio of performing loans (Stage 1 and Stage 2) relating to the scope representing the Group (which includes the banks and companies in Italy, Intesa Sanpaolo Lux and Intesa Sanpaolo Ireland, which represent around 90% of the Group's total exposure).

Note that the approach adopted by the Group to estimate the ECL for the macroeconomic conditioning of PD and LGD involves the use of a ("Most Likely") baseline scenario which is then adjusted with an Add-On calculated based on the distance between the baseline scenario and the best-case/worst-case scenarios. These are largely determined from the selection of the most optimistic/pessimistic assumptions of the Consensus Economics macroeconomic variables and therefore incorporate the forecasts made.

The sensitivity analysis is the difference between the ECL determined using the assumptions adopted for the alternative scenarios (best-case and worst-case) and the ECL derived from the model referred to above, which therefore already includes the alternative forecasts factored by means of their distance from the baseline scenario.

Based on the above, and the fact that the distance between the worst-case and best-case scenarios compared to the baseline scenario is small and broadly symmetrical, the application of the worst-case scenario would result in 0.7 billion euro of exposure sliding into Stage 2, an increase of around 32 million euro in the ECL, and a slight increase in the coverage ratio. On the other hand, the sensitivity of the portfolio to the best-case scenario would see a decrease of 45 million euro in the ECL, with a return to Stage 1 of 0.8 billion euro of exposures. The coverage ratio for performing exposures would decrease by 1 basis point.

In order to consider the greater uncertainty inherent in the forward-looking scenarios, the Group has included in the ECL of performing loans detected starting in the 2023 Financial Statements, an adjustment (referred to in the previous section and described in detail in Part E, Section 2 - Risks of the prudential consolidation - 1.1 Credit risk, of the Notes to the Consolidated Financial Statements 2023) aimed at capturing those elements of uncertainty by considering assumptions from more extreme alternative scenarios that incorporate assumptions of significant deviations from the expected evolution of the macroeconomic framework. The adjustment for the extreme alternative scenarios, which resulted in an increase in the ECL of performing loans of around 290 million euro, is not incorporated in the sensitivity analysis described above. A further intervention of managerial adjustment to the results of the models, referred to in the section above, is aimed at capturing vulnerabilities that affect the individual economic sectors asymmetrically, which are not captured by the models being used and, therefore, cannot be directly linked to the forward-looking components subject to sensitivity analysis.

Counterparty risk

Counterparty risk is a particular kind of credit risk arising from derivatives (OTC – Over The Counter and ETD – Exchange-Trade-Derivatives) and SFTs (Securities Financing Transactions) which refers to the possibility that a counterparty may default before the expiry of a contract with a positive market value.

The Group adopts counterparty risk mitigation techniques through bilateral netting arrangements which, in the event of the counterparty's default, allow the offsetting of credit and debit positions. This is achieved by entering into ISDA – International Swaps and Derivatives Association arrangements for OTC derivatives, which also reduce the absorption of regulatory capital in accordance with supervisory provisions. Where possible, the Bank also implements margin agreements, usually on a daily basis, to cover OTC bilateral derivative transactions (CSA – Credit Support Annex) and SFTs (GMRA – Global Master Repurchase Agreement and GMSLA – General Market Securities Lending Agreement). Transactions in ETD are also subject to daily margining, according to the rules of the reference markets.

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

Those advanced risk measurement methodologies are also used for managerial purposes to assure use test of such advanced models: on a daily basis, the IMI CIB Risk Management Head Office Department calculates, validates and sends the metrics to the credit monitoring systems, to measure the usage of credit lines for derivatives and SFTs. The other banks of the Group, whose operations result in a residual counterparty risk requirement compared to the Parent Company, apply, for operational purposes, the advanced metrics in the simplified form.

In order to ensure use testing of the model, the Group implemented the processes required under the Basel 3 regulations. Specifically, stress tests are conducted to measure the impacts on risk measures under extreme market conditions. Backtesting is also conducted to verify the robustness of the approach.

The following company processes were activated on conclusion of the risk analysis process:

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

There were no changes in the scope of application of the model compared to 31 December 2023.

MARKET RISKS

TRADING BOOK

General aspects

The regulatory requirements for the trading book are established in Regulation (EU) 876/2019 (CRR2 – Part Three, Title I, Chapter 3, in Articles 102, 103, and 104 respectively). The combined provisions of those articles lay down the set of minimum requirements for the identification of the trading strategies and the measurement and control of the associated risks.

In accordance with the requirements of the applicable regulations, the Intesa Sanpaolo Group has established an internal policy that identifies the trading book based on:

- measurement at fair value through profit or loss of the instruments held for trading;
 - the strategies defined;
 - the risk-taking centres identified;
 - the monitoring, limitation and management of the risks defined in accordance with the internal regulations on market risk.
- In particular, the assets classified in the regulatory trading book coincide – apart from some specific exceptions – with the financial assets held for trading (Bank of Italy Circular 262). This association derives from the set of strategies, powers, limits and controls that feed and guarantee the adjacency and consistency between the accounting and prudential portfolios.

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

- generic interest rate risk (including inflation rate risk);
- specific interest rate risk (credit spread variability in relation to trading in credit derivatives, bonds and loans);
- generic equity risk;
- specific equity risk;
- incremental risk of migration and default (incremental risk charge);
- foreign exchange risk;
- risk of implied volatility on optional instruments;
- risk of illiquid factors (correlation, dividends, ABS, Originate-to-Share (OtS) loans, hedge funds);
- position risk for units of UCIs;
- commodity position risk.

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

Risk management processes and measurement methods

The allocation of capital for trading activities is set by the Parent Company's Board of Directors, through the attribution of operating limits in terms of VaR to the various Group units.

The structure of limits reflects the risk level deemed to be acceptable with reference to single business areas, consistent with operating and strategic guidelines defined by top management. The attribution and control of limits at the various hierarchical levels imply the assignment of delegated powers to the heads of business areas, aimed at achieving the best trade-off between a controlled risk environment and the need for operating flexibility. The functioning of the system of limits and delegated powers is underpinned by the basic concepts of hierarchy and interaction.

The application of such principles led to the definition of a structure of limits in which the distinction between first level and second level limits is particularly important:

- **first-level limits (VaR):** the overall limits of the Group as well as those of the IMI C&IB Division and Group Treasury & Capital Management Area are included in the Group's Risk Appetite Framework (RAF). At the same time, the Board of Directors of the Parent Company defines the operating limits in terms of VaR for other Group companies which hold smaller trading books whose risk is marginal. Following approval, these limits are then allocated to the desks of the individual legal entities, considering the proposals by the business units. Limit absorption trends and the relative congruity analysis are periodically assessed by the Group Financial Risk Committee and Board of Directors of the Parent Company within the framework of the Tableau de Bord for the Group's risks;
- **second level limits (sensitivity and greeks):** they have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures;
- **other significant limits:** they have the objective of monitoring particular transactions (e.g. limits of negative maximum exposure of the valuation reserve, ceilings for transactions with issuer risk).

Some of these limits may be covered by the RAF rules.

The Parent Company represents the main portion of the Group's market risks, while some other Group subsidiaries hold smaller trading books with a marginal risk (approximately less than 10% of the Group's overall management risk): in particular, the risk factors of the international subsidiaries' trading books are local government bonds, positions in interest rates, and foreign exchange rates relating to linear pay-offs.

A more detailed representation of the market risk metrics monitored in the limit structure is set out below:

Managerial VaR

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

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

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

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

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

Please note that, in the first quarter of 2024, on the ordinary annual update of the market risk managerial framework, the Board of Directors (as part of the 2024 Group Risk Appetite Framework) confirmed the specific limit for trading within an overall limit for trading and the hold to collect and sell (HTCS) business model.

Sensitivity and greeks

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

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

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

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

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

Level measures

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

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

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

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

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

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

Stress tests

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

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

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

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

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

Stressed VaR

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

Method: that period was identified considering the following guidelines:

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

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

As at the date of preparation of the 2024 Half-yearly Report, the period for the measurement of Stressed VaR for Intesa Sanpaolo was from 1 April 2022 to 21 March 2023.

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

Incremental Risk Charge (IRC)

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

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

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

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

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

Daily managerial VaR of the trading book

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

(millions of euro)

	2024			2023				
	average 2nd quarter	minimum 2nd quarter	maximum 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Total Group Trading Book (a)	30,9	25,2	37,5	31,9	26,4	33,7	35,5	27,9
<i>of which: Group Treasury & Capital Management</i>	13,1	9,3	14,2	6,2	3,8	3,7	4,4	5,1
<i>of which: IMI C&IB Division</i>	20,3	14,6	28,0	23,3	23,3	31,1	33,7	25,3

The table shows the historical variability of the daily managerial VaR calculated on the quarterly time series of Intesa Sanpaolo Group (including the subsidiaries in the perimeter), Group Treasury & Capital Management and 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 subsidiaries in the perimeter.

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

As shown in the table above, during the second quarter of 2024, managerial risk on the trading book was substantially stable on the average amounts of the previous quarter. This risk decreased from 31.9 million euro (average value in the first quarter of 2024) to 30.9 million euro (average value in the second quarter of 2024). The slight decrease seen is attributable to the declining trend in VaR in the second quarter, due to scenario updates starting from the second half of the period. That stability was also seen in the comparison of the average value of the first half of 2023 (31.6 million euro) and the first half of 2024 (31.4 million euro), as shown in the table below.

(millions of euro)

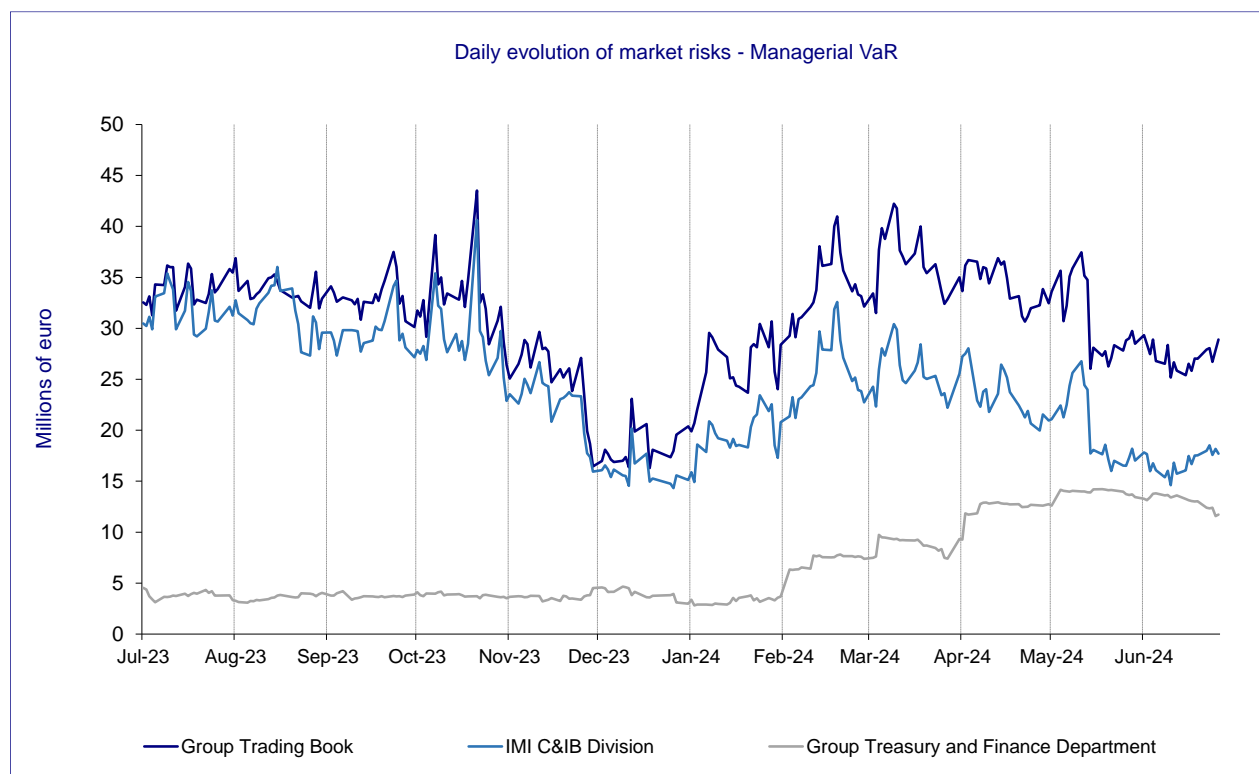
	2024			2023		
	average 1st half	minimum 1st half	maximum 1st half	average 1st half	minimum 1st half	maximum 1st half
Total Group Trading Book (a)	31,4	19,9	42,2	31,6	21,5	45,9
<i>of which: Group Treasury & Capital Management</i>	9,6	2,8	14,2	4,8	3,5	6,3
<i>of which: IMI C&IB Division</i>	21,8	14,6	32,6	29,3	19,5	43,7

The table shows the historical variability of the daily managerial VaR calculated on the time series for the first six months of the year for Intesa Sanpaolo Group (including the subsidiaries in the perimeter), Group Treasury & Capital Management and 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 subsidiaries in the perimeter.

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

The trend in the trading VaR in the second quarter of 2024 was marked by a decrease, mainly attributable to the issue of observations on the tail of the distribution underlying the calculation of the VaR. That effect was partially offset by portfolio movements, mainly due to the increase in exposure in Tax Credits classified in the trading book (Group Treasury & Capital Management).

The movements are shown in the chart below:



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

2nd quarter 2024	Shares	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Group Treasury & Capital Management	3%	77%	1%	19%	0%	0%
IMI C&IB Division	12%	41%	31%	4%	5%	7%
Group Total	9%	51%	24%	7%	4%	5%

(a) The table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the second quarter of 2024, broken down between Group Treasury & Capital Management and IMI C&IB Division, in addition to the distribution of the Group's overall capital at risk (including the subsidiaries in the perimeter).

The breakdown of the Group's risk profile in the trading book in the second quarter of 2024 shows a prevalence of interest rate risk and credit spread risk, accounting for 51% and 24% respectively, of the Group's total managerial VaR. The individual risk-taking centres, on the other hand, show a prevalence of interest rate risk and exchange rate risk for the Group Treasury & Capital Management (77% and 19%, respectively) and of interest rate risk and credit spread risk for the IMI C&IB Division (41% and 31%, respectively).

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

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES		INFLATION	
	Crash	Bullish	+40bps	lower rate	-25bps	+25bps	-5%	+5%	Crash	Bullish	Up	Down
Total Trading Book	80	77	-97	102	-3	10	26	32	5	-2	5	2

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 97 million euro in the event of a rise in interest rates;
- for positions in credit spreads, a tightening of credit spreads of 25 basis points would result in an overall loss of 3 million euro;
- for positions in exchange rates, there would be no potential losses either in the event of appreciation or depreciation of the Euro against the other currencies;
- for positions in commodities, there would be a loss of 2 million euro in the event of a rise in prices of commodities other than precious metals;
- lastly, for positions linked to inflation, there would be no potential losses, either in the event of a rise or a fall in inflation.

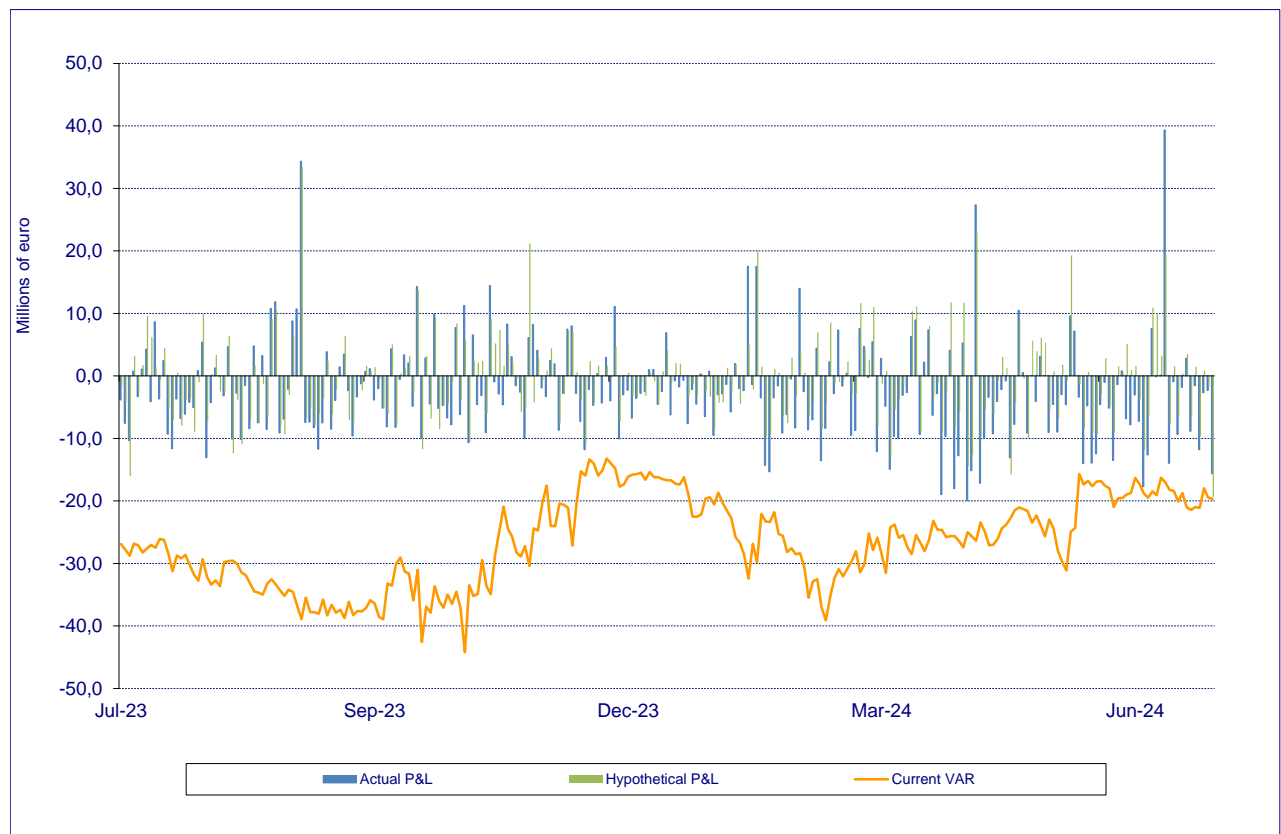
Backtesting

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

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

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

During the last twelve months there were no backtesting exceptions for the regulatory VaR measure of Intesa Sanpaolo.



BANKING BOOK

Qualitative information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Based on the definition by the EBA, **CSRBB – Credit Spread Risk of the Banking Book** is the risk driven by changes of the market credit spread and market liquidity spread, which respectively represent the credit risk premium required by market operators for a specific credit quality and liquidity premium, which stimulates the market appetite of investors, and by other potential characteristics of credit risk instruments which are not detected by other existing prudential frameworks. The CSRBB framework was introduced as a criterion to assess and monitor the risk deriving from market credit spreads and market liquidity spreads, which impact the EVE and the NII of the bank's non-trading assets.

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

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

For mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the risk of excess hedging in relation to real exposure to interest rate risk (overhedging). The prepayment ratios for Retail mortgages and consumer loans are estimated through a Survival Analysis that expresses the repricing portfolio of each single mortgage, based on macroeconomic variables, personal details of the counterparty and financial variables.

For core deposits (customer current accounts), a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations.

Both models are continuously monitored and periodically revised to promptly reflect changes in customer behaviour and characteristics over time, as well as in the relevant regulatory framework.

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

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

- regulatory scenarios produced by the Supervisory Outlier Test (SOT), which introduces an Early Warning referring to changes in economic value of 15% of Tier 1, calculated with reference to the BCBS scenarios (Parallel shock up, Parallel shock down, Steepener shock, Flattener shock, Short rates shock up and Short rates shock down) and changes in net interest income equal to 5% of Tier 1, calculated solely with reference to the parallel scenarios (parallel shock up and parallel shock down);
- shocks diversified by reference curve of the main risk factors and calculated as the difference between the yields of the curves of the individual factors and those of a curve relating to the selected pivot parameter (basis risk);
- stress scenarios in historical simulation.

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

Quantitative information

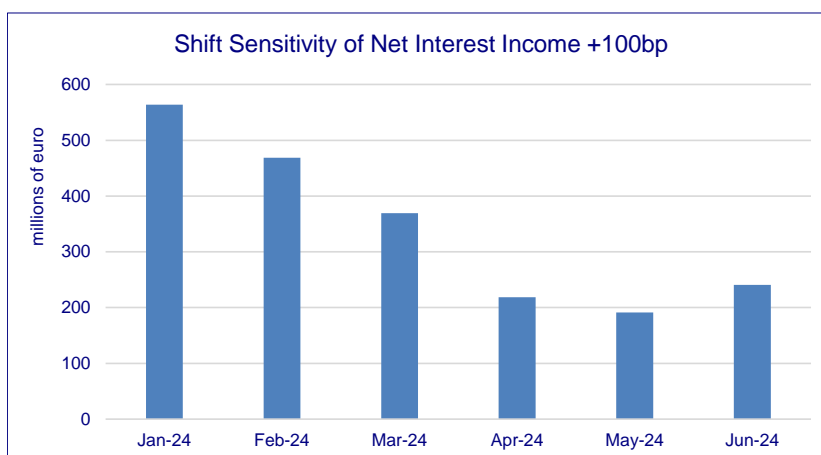
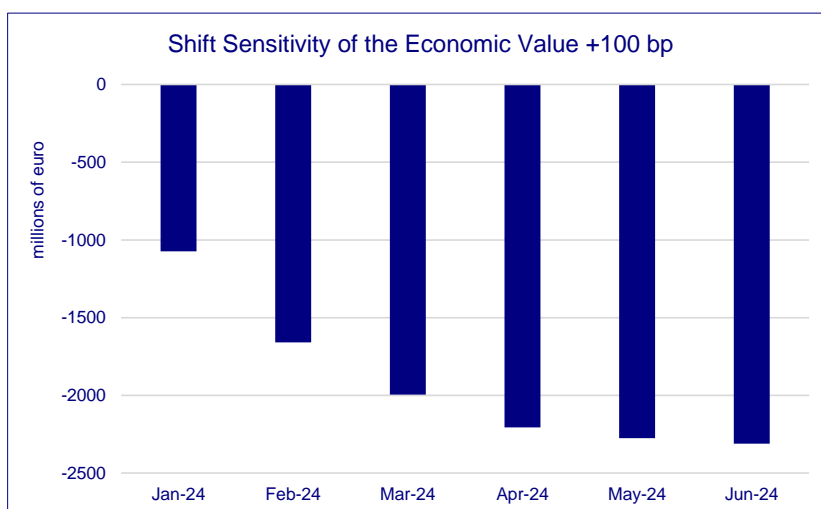
Banking book: internal models and other sensitivity analysis methodologies

In the first half of 2024, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through sensitivity of economic value, averaged -1,920 million euro, with a minimum value of -1,074 million euro and a maximum value of -2,312 million euro, with the latter coinciding with the value at the end of June 2024. The latter figure increased by -1,311 million euro compared to a value of -1,001 million euro at the end of 2023. The increase from the end of 2023 reflected the implementation of a strategy to protect the net interest income from expected interest rate declines. The increase in exposures of the securities portfolio HTCS recorded during the half year also contributed to the change.

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 149 million euro, -73 million euro and 241 million euro, respectively, at the end of June 2024. The latter figure was down on the value at the end of 2023, amounting to 614 million euro, reflecting the mentioned strategy to protect the net interest income, implemented mainly through hedging derivatives on demand deposits, both at the Parent Company and at the main banks of the Group. The increase in the exposure in securities in the HTCS portfolio also contributed to the drop in this measure.

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

	1st half 2024			30.06.2024	(millions of euro) 31.12.2023
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100bp	-1,920	-1,074	-2,312	-2,312	-1,001
Shift Sensitivity of Net Interest Income -50bp	-150	-52	-323	-73	-332
Shift Sensitivity of Net Interest Income +50bp	199	116	320	149	350
Shift Sensitivity of Net Interest Income +100bp	342	191	564	241	614



Interest rate risk, measured in terms of VaR, averaged 568 million euro in the first half of 2024, with a maximum value of 717 million euro, reached in April, and a minimum value of 326 million euro, recorded in January. The figure at the end of June 2024 came to 657 million euro, up on the value at the end of December 2023, equal to 273 million euro, due to the increase in banking book exposure to interest rates hikes carried out during the half year.

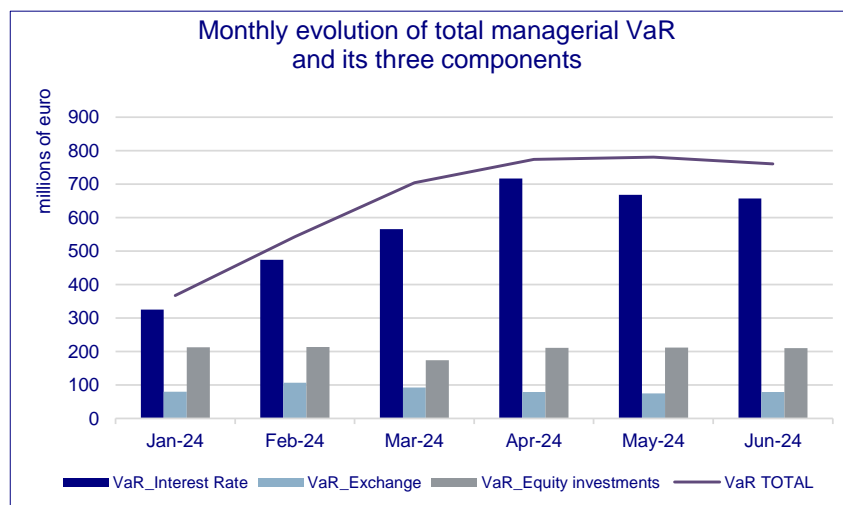
Foreign exchange risk, expressed by equity investments in foreign currency (banking book) and measured in terms of VaR, averaged 86 million euro in the first half of 2024, with a maximum value of 107 million euro, reached in February, and a minimum value of 75 million euro, recorded in May 2024. The figure at the end of June amounted to 79 million euro, down on the value at the end of December 2023, equal to 118 million euro, due to the decreased overall volatility of the portfolio.

The price risk generated by the equity portfolio recorded an average in terms of VaR of 206 million euro in the first half of 2024, with a minimum value of 174 million euro recorded in March and a maximum value of 213 million euro, recorded at the end of February. The figure at the end of June amounted to 211 million euro, down on the value of 247 million euro at the end of December 2023.

Total VaR, consisting of the three components described above (Interest Rate VaR, Exchange Rate VaR and Equity VaR) averaged 655 million euro in the first half of 2024, with a maximum value of 781 million euro recorded in May and a minimum value of 367 million euro, recorded at the end of January. The figure at the end of June amounted to 761 million euro, up on the value at the end of December 2023, equal to 311 million euro, due to the increase in exposure of the banking book to bearish scenarios in the medium/long-term section, previously illustrated in relation to interest rate VaR.

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

	1st half 2024			30.06.2024	(millions of euro) 31.12.2023
	average	minimum	maximum		
Value at Risk - Interest Rate	568	326	717	657	273
Value at Risk - Exchange	86	75	107	79	118
Value at Risk - Equity investments	206	174	213	211	247
Total Value at Risk	655	367	781	761	311



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

Price risk: impact on Shareholders' Equity

		Impact on shareholders' equity at 30.06.2024	Impact on shareholders' equity at 31.03.2024	Impact on shareholders' equity at 31.12.2023
Price shock	10%	70	57	52
Price shock	-10%	-70	-57	-52

LIQUIDITY RISK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group's liquidity position, which continues to be supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding, remained within the risk limits set out in the current Group Liquidity Policy for the entire first half of 2024. The levels of both regulatory indicators, LCR and NSFR, were above the regulatory requirements. The Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average of 163.5% (168.1% in December 2023). As at 30 June 2024, the exact value of unencumbered HQLA reserves at the various Treasury Departments of the Group amounted to 130.9 billion euro (160.3 billion euro at the end of 2023), approximately 40% of which consisted of cash as a result of temporary excess liquidity payments in the form of unrestricted deposits held at central banks. Including the other marketable reserves and/or eligible Central Bank reserves, also comprising retained self-securitisations, the Group's total unencumbered liquidity reserves amounted to 209.6 billion euro (202.2 billion euro in December 2023).

The total unencumbered reserves of the Group increased mainly due to the higher liquidity surplus from operations of the Group's Commercial Network and the new volumes of MLT funding on the financial markets.

Reserves HQLA decreased due to the repayment of the TLTRO tranches during the half year, which freed up collateral non-HQLA eligible for use at the Central Bank.

	(millions of euro)	
	Unencumbered (net of haircut)	
	30.06.2024	31.12.2023
HQLA Liquidity Reserves	130,919	160,309
Cash and Deposits held with Central Banks (HQLA)	48,711	80,461
Highly liquid securities (HQLA)	71,768	68,522
Other HQLA securities not included in LCR	10,440	11,326
Other eligible and/or marketable reserves	78,704	41,877
Total Group's Liquidity Buffer	209,623	202,186

The NSFR was higher than 100% also following the repayment of the tranche of TLTRO matured in June, amounting to 9 billion euro, supported by a solid base of stable deposits from customers, in addition to adequate wholesale medium/long-term securities funding. As at 30 June 2024, the Group NSFR, measured according to regulatory instructions, came to 124.0% (121.1% at the end of December 2023).

The stress tests, in a combined scenario of market and specific crises (with significant loss in customer deposits), also yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.

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

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

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

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

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

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

As illustrated in the 2023 Financial Statements, climate change risks can be divided into physical and transitional risks.

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

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

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

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

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

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

Climate/ESG Materiality Assessment

The Climate/ESG Materiality Assessment is aimed at identifying business sectors, geographic areas and portfolios (e.g. corporates, households and sovereigns) with higher vulnerability to climate change and ESG risks based on qualitative and quantitative approaches, in order to prioritise the risk controls to be implemented. The results of the Materiality Assessment provide the basis for:

- updating the mapping of the various climate and ESG risk factors, their transmission channels and the impact on other risk categories;
- setting the limits and Key Risk Indicators (KRIs) within the Risk Appetite Framework;
- calibrating and performing stress tests on specific climate and ESG risk factors;
- guiding the sectoral credit policies and strategies (ESG Sectoral Color Coding) and establishing specific actions aimed at mitigating ESG risks.

Risk Appetite Framework (RAF)

The RAF integrates and translates what has been defined in terms of strategic guidelines, Climate/ESG Materiality Assessment, and ESG Sectoral Color Coding into specific controls, identifying, on an annual basis, limits, key risk indicators (KRIs) and specific actions aimed at containing the ESG risks, with particular regard to the sectors most exposed to those risks. This also includes specific actions related, for example, to the Group's strategic choices, such as subscribing to the Net-Zero targets. Specifically, intermediate sector targets for 2030 have been set within the Business Plan for the most emission-intensive sectors, subject to a transition plan for mitigating the potential future risk, in accordance with the recommendations of the Net-Zero Banking Alliance (NZBA). In addition to the Oil & Gas, Power Generation and Automotive sectors, which are already covered by targets, the Iron & Steel and Commercial Real Estate sectors have been added, and further sectors will be progressively added in the future, in line with the commitments made in joining the NZBA and with the request for validation by the Science Based Target initiative (SBTi).

The ESG Climate Change and Reputational Risk section of the Group RAF includes:

- specific limits in relation to the exposure to the coal mining and oil & gas sectors; for coal mining in particular, the limit is reviewed annually in line with the target of phasing out lending by 2025;
- specific early warning thresholds/KRIs relating to the emission intensity (CO₂eq) in terms of financed production of the counterparties belonging to the Oil & Gas, Power Generation and Automotive sectors, with the aim of meeting the commitments made within the Net-Zero Banking Alliance and the Science Based Target initiative;
- monitoring of new underwritings broken down by energy performance class (EPC), to improve the quality of the residential properties taken as collateral and consequently reduce the transition risk associated with mortgages;
- an early warning threshold in relation to the Group's exposure has also been introduced for sectors characterised by significant issues, especially with regard to the social dimension, in line with the ESG sectoral strategy of associated credit disincentives;
- setting of limits on investment activity in the banking book financial portfolios.

The development work under way in 2024 will enable the further strengthening of this section and the expansion of its scope, also in terms of portfolios covered (e.g. Residential Real Estate and Commercial Real Estate, and investment portfolios with financial instruments).

The RAF also identifies the main limitations and exclusions to lending to sectors/counterparties most exposed to ESG risks, which are then integrated into the self-regulatory policy and/or company processes. Specifically, Intesa Sanpaolo has issued the "Rules for lending operations in the coal sector", the "Rules governing transactions in the Oil&Gas sector" at the beginning of 2024 and the "Rules governing transactions with subjects active in the armaments sector", aimed at establishing general and specific criteria for limiting and excluding lending operations to counterparties in those sectors.

Climate Scenario Analysis

Scenario analysis is a key element in integrating the risks and opportunities associated with climate change into the business strategies, also considering the medium- to long-term implications. The Climate Scenario Analysis is used, within the more general framework of the materiality assessment, to explore potential portfolio vulnerabilities, particularly in the credit portfolio, as part of the regulatory stress testing exercises or the Internal Capital Assessment Adequacy Process (ICAAP) and the Internal Liquidity Assessment Adequacy Process (ILAAP).

In conducting the ICAAP process, Intesa Sanpaolo adopts an approach that incorporates specific solutions designed to verify the impact of transition and physical risk on the Non Financial Corporate (NFC) portfolio and the real estate-backed portfolio. With regard to transition risk, the impact is assessed by means of shocks applied to the balance sheets of the individual counterparties and to the energy efficiency level of the residential and commercial properties. The estimate of the impact of physical risk, on the other hand, is determined based on the geolocation of collateral real estate or NFC customer production sites, according to the different types of weather events. Within the ILAAP, particular attention is paid to analysing the impact of climate and environmental risk factors that could compromise the liquidity positions from a forward-looking perspective over medium-term horizons (1-3 years).

December 2023 also saw the start of the "One-off Fit-for-55 climate risk scenario analysis" exercise carried out by the European Banking Authority (EBA) on behalf of the European Commission in cooperation with the European Supervisory Authorities (ESAs), the European Central Bank and the European Systemic Risk Board (ESRB). This exercise involves the application of top-down scenarios to data collected from banks to assess the resilience of the EU financial sector and its ability to support the transition to a low-carbon economy, also under stress conditions. The phase of data collection by the banks involved in the exercise was completed in the first quarter of 2024. The results, at the banking industry level, will be released by the EBA in the first quarter of 2025.

The results of the impact assessments conducted so far (materiality assessment and climate scenario analysis) have shown that the Group is not exposed to a material extent to climate risks in the short term. Over the medium- to long-term horizon, exposure to these risks could intensify in a limited and concentrated manner in areas already subject to control and monitoring. In particular, with regard to the transition risk on the most emission-intensive sectors of the Banking Book (Oil & Gas, Power Generation and Automotive), intermediate sector targets to 2030 have been set in the Business Plan – aligned to the Net-Zero target by 2050 – subject to a transition plan in accordance with the NZBA guidance, to mitigate the potential future risk. The monitoring will be progressively extended to other sectors, in line with the commitments made upon joining the NZBA and with the request for validation by the SBTi.

Monitoring of ESG/climate risks in the different risk categories

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

With regard to **credit risk**, the qualitative component of the models currently validated and used by the Group considers various ESG and Climate-related aspects and elements. For Large Corporates, a specific module has also been incorporated into the model that considers quantitative ESG data provided by external providers, and for the Corporate model (companies or groups with a size of less than 500 million euro), an ad hoc module has been developed – in addition to the qualitative questions that also consider socio-environmental risks, to take account of the counterparty's exposure to physical risks arising from catastrophic events (e.g. damage to production facilities and/or warehouses) – that statistically identifies potential deteriorations in the Probability of Default, using historic and public information on catastrophic events observed at geographic area level. More specifically, for domestic counterparties, this module provides an assessment of the risk of damage related to natural disasters (floods, fires, earthquakes) to which a company is potentially exposed depending on the region (and/or municipality) where it operates and/or mainly conducts its business. Overall, the weight of these modules in the final rating is limited. Consequently, at present there does not appear to be any appreciable "large-scale" effect attributable to those modules on the ratings expressed by the internal models and, therefore, on the downstream metrics that use them (e.g. ECL).

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

- analyses and monitors market prices and liquidity of financial instruments to identify possible evidence of climate and environmental risk factors;
- analyses the impact of climate and environmental risks on the fair value measurement of financial instruments, focusing in particular on the main asset classes, payoffs and positions explicitly linked to climate and environmental (C&E) risk factors, as well as the future investments proposed by the business structures;
- classifies current positions subject to market risk using the ESG indicators available internally (e.g. ESG Sectoral Assessment and ESG Sectoral Color Coding) and externally (e.g. economic-industrial business sectors, ESG score/rating), also through recognised providers, in order to identify specific risk controls, also considering the materiality of the exposures. These controls consist of the establishment of market risk limits on the investment activity (e.g. allocation of ceiling limits) which also contribute to the ESG Climate Change and Reputational Risk sections of the Group RAF. In principle, the indicators used for assessing the ESG risks associated with the investment activity enable the establishment of negative/positive screening criteria and strategies, taking into account the specific characteristics of the different asset classes concerned, such as instruments issued by corporate counterparties and instruments issued by government or supranational counterparties.

Within the market risk management model, the assessment of exposure to ESG risks also involves stress tests to investigate the sensitivity of the portfolios to ESG risk factors and estimate the impact that those factors, particularly climate and environmental risks, may have on the actual risk level of the exposures.

With regard to **liquidity risk**, significant climate and environmental risks may lead to an increase in net cash outflows or erode available liquidity reserves. Even though, according to the general consensus in the banking industry, the link between C&E risks and liquidity is mainly indirect and potentially more long term in nature, it is considered important not to underestimate these risks and their potential transmission, and to duly incorporate an assessment of their potential effects on the Group's current and future liquidity position.

To this end, after the prior identification of climate and environmental risk factors that could adversely affect the Group's liquidity positions, specific analyses and monitoring of exposures are carried out to assess the materiality of the risk factors identified, maintaining a close connection with the qualitative assessments adopted:

- by the Bank at sector and sub-sector level (e.g. ESG Sectoral Assessment) for credit risk purposes;
- for the valuation of government securities for market risk purposes.

In the assessment of the various scenarios, including stress scenarios, on the timing of inflows and outflows and the quantitative and qualitative adequacy of liquidity buffers, particular attention is also devoted to analysing the impact of climate and environmental risk factors that could compromise the liquidity positions on a forward-looking basis over a medium-term time horizon. These analyses are incorporated into the annual report on the Internal Liquidity Adequacy Assessment Process (ILAAP) without highlighting material absorptions of Group liquidity reserves.

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

- within the loss data collection for operational events, identifies those related to climate and environmental risks, through specific event types;
- during the Operational Risk Assessment process, uses specific risk scenarios dedicated to climate and environmental risks to assess possible losses resulting from property damage, possible disruptions to its operations and potential legal liabilities;
- to protect business continuity, assesses the impact of the physical risks associated with IT centres and sites (including outsourced IT services), identifying alternative locations for disaster recovery.
- as of 2023, uses a dedicated scenario to assess the impacts on the Bank of an extreme weather event affecting a key supplier and compromising its ability to provide the service it was engaged for.

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

The operational losses identified in relation to climate and environmental risks, together with the results (in terms of expected loss and VaR) of the Self-Diagnosis of the assessment of the possible impacts of those risks, contribute to the calculation of the capital requirement at individual and consolidated Group level, using an advanced approach, and are included in the operational risk reporting periodically submitted to the Group Control Coordination and Non-Financial Risks Committee.

In managing **reputational risk**, the Group makes prior assessments of the potential ESG and reputational risks associated with the Group's business operations and supplier/partner selection through the ESG & Reputational Risk Clearing process. With regard to the corporate credit granting process in particular, it is aimed at making a prior assessment of the potential ESG and reputational risks associated with credit transactions involving counterparties operating in sectors sensitive to ESG and/or reputational risks. The ESG & Reputational risk clearing process is applied on a proportional basis and in a differentiated manner according to the complexity of the counterparties/transactions and has escalation mechanisms differentiated according to the ESG/reputational risk class assigned to the transaction/counterparty. The Group also monitors its web and press reputation by integrating specific assessments of events related to environmental risks/climate change (e.g. events resulting from protests or adverse campaigns arising from the Bank's lending activities). Lastly, specific scenarios relating to ESG and climate issues are included in the annual reputational risk assessment by the top management.

In relation to the **risks associated with the Investment Service for Customers**, the Group has set up a series of centralised controls aimed, on one hand, at monitoring the sustainability risk implicit in the size of the ESG score provided by a specialist infoproducer at instrument and portfolio level and, on the other hand, at ensuring that sufficient stress is given to Sustainable Development Goal (SDG) factors in the analyses carried out within the Product Governance process for the assets under administration issued by the Parent Company and distributed through the captive networks.

With regard to **direct environmental risks**, in view of the increasing strategic significance of the issue of CO₂ emissions, in 2022 Intesa Sanpaolo drew up a new plan, called the Own Emissions Plan, which sets a 2030 Carbon Neutrality target for own emissions combined with a 53% decrease in gross emissions (compared to 2019), through energy efficiency measures and greater use of energy from renewable sources. Intesa Sanpaolo is also committed to analysing and containing possible risks on its properties, as well as taking swift action to deal with any environmental emergencies that may arise. To this end, in line with the provisions of the Business Plan, in 2023 a specific tool was selected that identifies the degree of exposure of Intesa Sanpaolo's real estate assets to the main geographical and climate change risks, such as floods, hydrogeological risks, drought, forest fires, etc. This platform geolocalises each individual asset in Italy and calculates the exposure index for each risk, based on data from the main national and international certified sources, such as SwissRE, Copernicus, World Bank, INGV, ISPRA, and the Department of Civil Protection. With regard to hydrogeological risk (floods and landslides), which also relates to climate change and the possible occurrence of crisis scenarios in Italy which could have repercussions on Intesa Sanpaolo's properties, a series of company structures is to be activated. In the second half of 2024, the platform will also integrate the international branches and offices, and a function for the computerised management of emergency events will be developed.

The potential impacts, the related time horizon (short, medium and long-term) and the actions identified for each observed potential risk, which are updated annually, for both indirect and direct risks, set out in the 2023 Financial Statements, to which reference is made.

Further information on the monitoring of environmental and climate risks is provided in the Climate Report⁴⁵, in the Consolidated Non-Financial Statement and in the document Basel 3 Pillar 3 Disclosure.

⁴⁵ Previously the TCFD Report.

INFORMATION ON FINANCIAL PRODUCTS

In line with the requests for the utmost transparency made by supranational and national Supervisory Authorities, below we provide information on the method for determine the fair value, structured credit products, operations carried out through Special Purpose Entities (SPEs), leveraged transactions, investments in hedge funds and transactions in trading derivatives entered into with customers. This section also includes the disclosure on the Interest Rate Benchmark Reform.

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

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

Fair value of financial instruments

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

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

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

The methodologies for the fair value measurement of financial instruments, as well as any adjustments attributable to uncertainties in valuation, are governed by the Intesa Sanpaolo Group through the “Rules for Valuation of Financial Instruments at Fair Value” and are described in detail in the 2023 Annual Report, to which reference is made for more information.

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

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

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

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

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

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

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

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

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

Those techniques include:

- the use of market values that are indirectly linked to the instrument being measured, deriving from products with similar risk characteristics (level 2 inputs);
- valuations carried out using – even only partially – inputs not deriving from parameters observable on the market, for which estimates and assumptions are used by the valuator (level 3 inputs).

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

The following are measured using level 2 input models:

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

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

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

The following are measured using this method:

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

Independent Price Verification (IPV)

Independent Price Verification (IPV) of financial instruments is "the regular verification of the accuracy and independence of market prices or the data input in pricing models" (Art. 4 (1.70) Regulation (EU) no. 575/2013), carried out "in addition to daily marking to market or marking to model [...] by a person or unit independent from persons or units that benefit from the trading book" (Art. 105(8) Regulation (EU) no. 575/2013).

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

The Intesa Sanpaolo Group governs and defines the independent price verification process through the Group "Guidelines and Rules on Independent Price Verification", as illustrated in detail in the reporting package for the year 2023, to which reference is made for more information.

Prudent value of financial instruments

The framework of financial measurements is completed with the prudent valuation of financial instruments measured at fair value. In accordance with the provisions of Regulation (EU) no. 575/2013 (Capital Requirements Regulation – CRR), prudent valuation entails the calculation of specific additional valuation adjustments (AVAs) for the financial instruments measured at fair value, aimed at capturing different sources of valuation uncertainty and ensuring the achievement of a suitable level of certainty in the measurement of the positions. The total value of the AVAs is deducted from the Common Equity Tier 1 capital, without impacts on accounting fair values.

The Intesa Sanpaolo Group, in line with the criteria indicated in Delegated Regulation (EU) 2016/101, is subject to the application of the core approach for the determination of AVAs both at individual and at consolidated level for all the positions measured at fair value. The prudent value corresponds to the exit price from the position with a level of certainty equal to 90%. The Group governs and defines the prudent value measurement of financial instruments through the Group "Guidelines

and Rules for Prudent Valuation of Financial Instruments at Fair Value”, illustrated in greater detail in the reporting package for the year 2023, to which reference is made for more information.

Fair value hierarchy

Assets and liabilities measured at fair value on a recurring basis: fair value by level

Assets / liabilities at fair value	(millions of euro)					
	30.06.2024			31.12.2023		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	107,611	27,699	9,482	107,488	27,918	9,188
a) Financial assets held for trading	11,428	26,169	146	11,546	26,487	130
of which: equities	1,761	-	28	1,892	-	23
of which: quotas of UCI	320	-	6	444	-	6
b) Financial assets designated at fair value	-	2	4	-	1	-
c) Other financial assets mandatorily measured at fair value	96,183	1,528	9,332	95,942	1,430	9,058
of which: equities	5,853	276	97	5,578	205	210
of which: quotas of UCI	83,033	202	7,983	83,672	192	7,501
2. Financial assets measured at fair value through other comprehensive income	137,378	9,303	403	130,591	9,489	673
of which: equities	537	499	235	458	497	344
3. Hedging derivatives	-	7,406	-	-	7,006	-
4. Property and equipment	-	-	6,663	-	-	7,222
5. Intangible assets	-	-	-	-	-	-
Total	244,989	44,408	16,548	238,079	44,413	17,083
1. Financial liabilities held for trading	8,907	36,011	170	7,829	35,614	50
2. Financial liabilities designated at fair value	5,116	68,669	304	91	72,660	31
3. Hedging derivatives	-	4,058	-	-	5,188	-
Total	14,023	108,738	474	7,920	113,462	81

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.

Looking at the table, with regard to assets, level 3 instruments, which allow for more discretion in fair value measurement, they represent a small portion of the portfolio, with an impact of 5.4% on total assets (5.7% as at 31 December 2023).

Level 3 financial assets refer mainly to UCI units under Financial assets mandatorily measured at fair value, and are mainly attributable to equity and bond funds of insurance companies.

With regard to the banking segment, the UCI units under Financial assets mandatorily measured at fair value are mainly attributable to the Parent Company and in terms of composition they relate, in order of significance, to real estate funds, private equity funds, private debt funds, infrastructure funds, hedge funds, and venture capital funds.

The caption also includes 236 million euro relating to interests held by the bank in the Atlante Fund and in the Italian Recovery Fund (formerly Atlante Fund II), alternative investment funds to support Italian banks in their recapitalisation transactions and in the management of the bad loans in the sector.

Property and equipment measured at level 3 fair value includes real estate assets and valuable art assets, which represent 40.3% of the balance sheet assets at level 3 fair value.

A total of 80.1% of assets measured at fair value are determined based on market prices (level 1), and therefore without any discretion by the valuator.

A total of 88.2% of the liabilities at fair value are attributable to Level 2, primarily to Financial liabilities designated at fair value.

Assets and liabilities measured at fair value on a recurring basis: fair value by level (of which: Banking Group and Other Companies)

Assets / liabilities at fair value	30.06.2024			31.12.2023		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	11,599	27,097	4,155	11,703	27,257	3,940
a) Financial assets held for trading	11,401	26,169	146	11,521	26,485	130
of which: equities	1,761	-	28	1,892	-	23
of which: quotas of UCI	320	-	6	444	-	6
b) Financial assets designated at fair value	-	2	4	-	1	-
c) Other financial assets mandatorily measured at fair value	198	926	4,005	182	771	3,810
of which: equities	151	276	10	137	205	128
of which: quotas of UCI	47	202	3,453	45	192	3,130
2. Financial assets measured at fair value through other comprehensive income	70,950	6,635	349	61,003	7,135	480
of which: equities	537	492	235	458	490	344
3. Hedging derivatives	-	7,386	-	-	6,982	-
4. Property and equipment	-	-	6,656	-	-	7,214
5. Intangible assets	-	-	-	-	-	-
Total	82,549	41,118	11,160	72,706	41,374	11,634
1. Financial liabilities held for trading	8,906	36,002	170	7,825	35,611	50
2. Financial liabilities designated at fair value	5,116	17,894	304	91	21,222	31
3. Hedging derivatives	-	3,961	-	-	5,105	-
Total	14,022	57,857	474	7,916	61,938	81

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 8.3% on total assets (9.3% as at 31 December 2023).

A total of 61.2% of assets measured at fair value are determined based on market prices (level 1), 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 59.6% of the balance sheet assets at level 3 fair value.

A total of 80% of these liabilities are classified in level 2. The share of level 3 instruments is less than 1% of total liabilities.

Lastly, the caption "Other assets", not directly included in the table above, comprised tax credits recognised and measured at fair value for 11.8 billion euro as at 30 June 2024, of which 3.7 billion euro held under the Hold to Collect and Sell business model and 8.1 billion euro held under the Other/Trading business model. The fair value of those credits was determined with reference to the changes in interest rates. Given the specific characteristics of the credits in question, they have been assigned to level 3, also in line with the considerations set out in the clarification note issued by the Bank of Italy on 24 July 2023 ("Clarification Note on credit risk").

In addition to the transfers relating to financial assets and liabilities measured at level 3 as detailed below, please note that the following transfers were made during the first half of 2024 (book value as at 30 June 2024):

- from level 1 to level 2:
 - o financial assets held for trading of 45 million euro;
 - o financial assets measured at fair value through other comprehensive income of 80 million euro;
 - o financial liabilities designated at fair value of 89 million euro;
- from level 2 to level 1:
 - o financial assets held for trading of 34 million euro;
 - o financial assets measured at fair value through other comprehensive income of 10 million euro;
 - o financial liabilities held for trading of 37 million euro;
 - o financial liabilities designated at fair value of 4,596 million euro.

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

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

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

Assets / liabilities at fair value	30.06.2024			31.12.2023		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	96,012	602	5,327	95,785	661	5,248
a) Financial assets held for trading	27	-	-	25	2	-
of which: equities	-	-	-	-	-	-
of which: quotas of UCI	-	-	-	-	-	-
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily measured at fair value	95,985	602	5,327	95,760	659	5,248
of which: equities	5,702	-	87	5,441	-	82
of which: quotas of UCI	82,986	-	4,530	83,627	-	4,371
2. Financial assets measured at fair value through other comprehensive income	66,428	2,668	54	69,588	2,354	193
of which: equities	-	7	-	-	7	-
3. Hedging derivatives	-	20	-	-	24	-
4. Property and equipment	-	-	7	-	-	8
5. Intangible assets	-	-	-	-	-	-
Total	162,440	3,290	5,388	165,373	3,039	5,449
1. Financial liabilities held for trading	1	9	-	4	3	-
2. Financial liabilities designated at fair value	-	50,775	-	-	51,438	-
3. Hedging derivatives	-	97	-	-	83	-
Total	1	50,881	-	4	51,524	-

With regard to assets in the insurance segment, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the portfolio, with an impact of 3.1% on total assets (3.1% as at 31 December 2023).

94.9% of financial assets measured at fair value in the insurance segment are determined based on market prices (level 1), and therefore without any discretion by the valuator.

Liabilities at fair value of the segment were almost entirely measured using level 2 inputs and attributable to Financial liabilities designated at fair value.

In addition to the transfers relating to financial assets and liabilities in the insurance segment designated at level 3 as detailed below, please note that the following transfers were made during the first half of 2024 (book values as at 30 June 2024):

- from level 1 to level 2:
 - o other financial assets mandatorily measured at fair value for 41 million euro;
 - o financial assets measured at fair value through other comprehensive income for 301 million euro;
- from level 2 to level 1:
 - o financial assets measured at fair value through other comprehensive income for 742 million euro.

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

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

Half-yearly changes in assets measured at fair value on a recurring basis (level 3)

	Assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	(millions of euro)	
	TOTAL	of which: a) Financial assets held for trading	of which: b) Financial assets designated at fair value	of which: c) Other financial assets mandatorily measured at fair value			Property and equipment	Intangible assets
1. Initial amount	9,188	130	-	9,058	673	-	7,222	-
2. Increases	1,330	45	4	1,281	69	-	55	-
2.1 Purchases	725	14	1	710	34	-	16	-
2.2 Gains recognised in:	220	7	-	213	8	-	21	-
2.2.1 Income statement	220	7	-	213	-	-	3	-
- of which capital gains	206	5	-	201	-	-	3	-
2.2.2 Shareholders' equity	-	X	X	X	8	-	18	-
2.3 Transfers from other levels	21	19	-	2	9	-	-	-
2.4 Other increases	364	5	3	356	18	-	18	-
3. Decreases	-1,036	-29	-	-1,007	-339	-	-614	-
3.1 Sales	-454	-14	-	-440	-100	-	-4	-
3.2 Reimbursements	-4	-1	-	-3	-20	-	-	-
3.3 Losses recognised in:	-216	-8	-	-208	-7	-	-52	-
3.3.1 Income statement	-216	-8	-	-208	-1	-	-48	-
- of which capital losses	-212	-7	-	-205	-	-	-48	-
3.3.2 Shareholders' equity	-	X	X	X	-6	-	-4	-
3.4 Transfers to other levels	-6	-6	-	-	-82	-	-	-
3.5 Other decreases	-356	-	-	-356	-130	-	-558	-
4. Final amount	9,482	146	4	9,332	403	-	6,663	-

The captions “Other increases” and “Other decreases” under Financial assets mandatorily measured at fair value refer to UCI units and to loans for the banks and to only loans for the insurance companies.

The captions of Property and equipment “Other increases” and “Other decreases” include the transfers from Investment property to Property and equipment used in operations and vice versa. These also include transfers among assets held for sale. Specifically, “Other decreases” include a portfolio of real estate reclassified by Intesa Sanpaolo S.p.A. to assets held for sale pursuant to IFRS 5, as part of a contribution of real estate assets to funds managed by Coima, for a total value of 475 million euro.

Half-yearly changes in assets measured at fair value on a recurring basis (Level 3) (of which: Banking Group and Other Companies)

	Assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	TOTAL	of which: a) Financial assets held for trading	of which: b) Financial assets designated at fair value	of which: c) Other financial assets mandatorily measured at fair value				
							(millions of euro)	
1. Initial amount	3,940	130	-	3,810	480	-	7,214	-
2. Increases	728	45	4	679	59	-	55	-
2.1 Purchases	422	14	1	407	34	-	16	-
2.2 Gains recognised in:	95	7	-	88	7	-	21	-
2.2.1 Income statement	95	7	-	88	-	-	3	-
- of which capital gains	81	5	-	76	-	-	3	-
2.2.2 Shareholders' equity	-	X	X	X	7	-	18	-
2.3 Transfers from other levels	21	19	-	2	-	-	-	-
2.4 Other increases	190	5	3	182	18	-	18	-
3. Decreases	-513	-29	-	-484	-190	-	-613	-
3.1 Sales	-281	-14	-	-267	-	-	-4	-
3.2 Reimbursements	-4	-1	-	-3	-20	-	-	-
3.3 Losses recognised in:	-127	-8	-	-119	-6	-	-52	-
3.3.1 Income statement	-127	-8	-	-119	-	-	-48	-
- of which capital losses	-123	-7	-	-116	-	-	-48	-
3.3.2 Shareholders' equity	-	X	X	X	-6	-	-4	-
3.4 Transfers to other levels	-6	-6	-	-	-34	-	-	-
3.5 Other decreases	-95	-	-	-95	-130	-	-557	-
4. Final amount	4,155	146	4	4,005	349	-	6,656	-

Half-yearly changes in assets measured at fair value on a recurring basis (Level 3) (of which: Insurance Companies)

	Assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	(millions of euro)	
	TOTAL	of which: a) Financial assets held for trading	of which: b) Financial assets designated at fair value	of which: c) Other financial assets mandatorily measured at fair value			Property and equipment	Intangible assets
1. Initial amount	5,248	-	-	5,248	193	-	8	-
2. Increases	602	-	-	602	10	-	-	-
2.1 Purchases	303	-	-	303	-	-	-	-
2.2 Gains recognised in:	125	-	-	125	1	-	-	-
2.2.1 Income statement	125	-	-	125	-	-	-	-
- of which capital gains	125	-	-	125	-	-	-	-
2.2.2 Shareholders' equity	-	X	X	X	1	-	-	-
2.3 Transfers from other levels	-	-	-	-	9	-	-	-
2.4 Other increases	174	-	-	174	-	-	-	-
3. Decreases	-523	-	-	-523	-149	-	-1	-
3.1 Sales	-173	-	-	-173	-100	-	-	-
3.2 Reimbursements	-	-	-	-	-	-	-	-
3.3 Losses recognised in:	-89	-	-	-89	-1	-	-	-
3.3.1 Income statement	-89	-	-	-89	-1	-	-	-
- of which capital losses	-89	-	-	-89	-	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-48	-	-	-
3.5 Other decreases	-261	-	-	-261	-	-	-1	-
4. Final amount	5,327	-	-	5,327	54	-	7	-

Half-yearly changes in liabilities measured at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value	(millions of euro) Hedging derivatives
1. Initial amount	50	31	-
2. Increases	164	276	-
2.1 Issues	159	275	-
2.2 Losses recognised in:	3	1	-
2.2.1 Income statement	3	1	-
- of which capital losses	3	1	-
2.2.2 Shareholders' equity	X	-	-
2.3 Transfers from other levels	2	-	-
2.4 Other increases	-	-	-
3. Decreases	-44	-3	-
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-3	-
3.3 Gains recognised in:	-2	-	-
3.3.1 Income statement	-2	-	-
- of which capital gains	-2	-	-
3.3.2 Shareholders' equity	X	-	-
3.4 Transfers to other levels	-42	-	-
3.5 Other decreases	-	-	-
4. Final amount	170	304	-

A single table is shown, fully referring to the Banking Group and Other Companies (this case is not present in the insurance segment).

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	(millions of euro)							
	30.06.2024				31.12.2023			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	514,168	42,765	265,633	192,453	518,950	38,622	296,383	174,096
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and discontinued operations	1,139	-	-	1,139	264	-	-	264
Total	515,307	42,765	265,633	193,592	519,214	38,622	296,383	174,360
1. Financial liabilities measured at amortised cost	608,512	57,830	504,760	47,001	642,119	60,128	538,963	43,238
2. Liabilities associated with non-current assets	17	-	-	17	2	-	-	2
Total	608,529	57,830	504,760	47,018	642,121	60,128	538,963	43,240

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level (of which: Banking Group and Other Companies)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	(millions of euro)							
	30.06.2024				31.12.2023			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	514,166	42,765	265,631	192,453	518,945	38,622	296,378	174,096
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and discontinued operations	1,139	-	-	1,139	214	-	-	214
Total	515,305	42,765	265,631	193,592	519,159	38,622	296,378	174,310
1. Financial liabilities measured at amortised cost	606,324	57,830	502,719	47,001	639,914	60,128	537,323	42,886
2. Liabilities associated with non-current assets	17	-	-	17	2	-	-	2
Total	606,341	57,830	502,719	47,018	639,916	60,128	537,323	42,888

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level (of which: Insurance Companies)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	(millions of euro)							
	30.06.2024				31.12.2023			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	2	-	2	-	5	-	5	-
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and discontinued operations	-	-	-	-	50	-	-	50
Total	2	-	2	-	55	-	5	50
1. Financial liabilities measured at amortised cost	2,188	-	2,041	-	2,205	-	1,640	352
2. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	2,188	-	2,041	-	2,205	-	1,640	352

Sensitivity analysis for financial assets and liabilities measured at level 3

As required by IFRS 13, for the financial assets and liabilities measured at level 3 fair value, the following table lists the effects of a change in one or more significant non-observable parameters used in the valuation techniques adopted to determine the fair value. Note that only the total material effects as at 30 June 2024 are shown in the table.

Financial assets/liabilities	Non-observable parameters	Sensitivity (thousands of euro)	Change in non-observable parameter
FVTPL and FVTOCI securities and loans	Credit spread	-223	1 bp
FVTPL and FVTOCI securities and loans	JD parameters	-25	1%
FVTPL and FVTOCI securities and loans	Correlation	-144	1%
OTC Derivatives - Equity	Historical volatility	168	10%
OTC Derivatives - Equity	Correlation between underlying equity baskets	1,175	10%
OTC Derivatives - Equity CPPI	Historical correlation	-16	10%
Hedge Fund	Net Asset Value	54	1%

Information on “Day one profit/loss”

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

As at 30 June 2024, the amount of the DOPs deferred in the balance sheet had been fully released to the income statement, following the closing of the associated transactions.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products came to 5,542 million euro as at 30 June 2024, a net increase of 1,074 million euro compared to the stock of 4,468 million euro as at 31 December 2023. The exposure included investments in CLOs (Collateralised Loan Obligations) of 2,905 million euro, in ABSs (Asset Backed Securities) of 2,566 million euro and in CDOs (Collateralised Debt Obligations) of 71 million euro, which was again a marginal activity also in the first half of 2024.

Accounting categories	30.06.2024			31.12.2023		Changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	374	634	-	1,008	775	233	30.1
Financial assets mandatorily measured at fair value	-	3	-	3	3	-	-
Financial assets measured at fair value through other comprehensive income	1,619	723	-	2,342	2,106	236	11.2
Financial assets measured at amortised cost	912	1,206	71	2,189	1,584	605	38.2
Total	2,905	2,566	71	5,542	4,468	1,074	24.0

In this disclosure, structured credit products include debt securities held by the Group divided into tranches upon issuance consisting of various degrees of subordination and not issued within transactions originated by entities of the Intesa Sanpaolo Group or by public entities, in addition to those issued within transactions where the Group finances its corporate and financial institution customers⁴⁶.

The performance of the portfolio in the first half of 2024 shows higher overall investments in ABS and CLO debt securities than disposals and redemptions, with a total increase of 1,074 million euro, mainly attributable to the operations of the IMI Corporate & Investment Banking Division.

Exposures measured at fair value (CLO and ABS debt securities) increased sharply by 469 million euro, from 2,884 million euro in December 2023 to 3,353 million euro in June 2024. The increase was attributable to higher investments totalling 1,320 million euro, of which 700 million euro relating to financial assets held for trading and 620 million euro to financial assets measured at fair value through other comprehensive income, offset by redemptions and disposals totalling 851 million euro, of which 467 million euro relating to the first component and 384 million euro to the second component.

Exposures classified among assets measured at amortised cost (CLO, ABS and CDO debt securities) amounted to 2,189 million euro in June 2024, compared with a balance of 1,584 million euro in December 2023, a net increase of 605 million euro, generated by higher investments of 793 million euro, only partially offset by disposals and reimbursements of 188 million euro.

From the perspective of the income statement, the overall profit of +12 million euro as at 30 June 2024 compares with nil as at 30 June 2023.

The performance of assets held for trading in the first half of the year, caption 80 of the income statement, amounted to +8 million euro and was attributable to exposures in CLO and ABS (+7 million euro from realisation impacts and +1 million euro from valuation effects). In the first six months of 2023, this amounted to +1 million euro, attributable to realisation impacts on CLO exposures (+1 million euro) as well as a zero overall impact on ABS exposures (+4 million euro realisations and -4 million euro valuation).

The profits (losses) from financial assets mandatorily measured at fair value as at 30 June 2024 were essentially nil, the same as the situation as at 30 June 2023.

The exposures to debt securities classified as assets measured at fair value through other comprehensive income recorded a net increase in fair value of +15 million euro in the first six months of 2024 through a shareholders' equity reserve (from a reserve of -30 million euro in December 2023 to -15 million euro in June 2024), in addition to impacts from sales from the portfolio of +3 million euro (which were not present in the first six months of 2023).

On the debt securities classified as assets measured at amortised cost, the result as at 30 June 2024 of +1 million euro from realisation impacts compared to the results of -1 million euro as at 30 June 2023 (also referring to realisation impacts).

Income statement results broken down by accounting category	30.06.2024			30.06.2023		Changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	5	3	-	8	1	7	
Financial assets mandatorily measured at fair value	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	3	-	-	3	-	3	-
Financial assets measured at amortised cost	-	-	1	1	-1	2	
Total	8	3	1	12	-	12	-

⁴⁶ This is implemented by the Group through its subsidiary Duomo Funding Plc.

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 2023 Annual Report.

With regard to the Covered Bond issuance programmes, under the programme issued by ISP CB Pubblico, in January, the last two remaining series, respectively the 13th and 14th, both retained, were redeemed in advance for an overall total of 1,850 million euro. In addition, during the first quarter of 2024, the Bank repurchased the entire residual loan portfolio segregated in the Vehicle, with payment of the sale price totalling 1,850 million euro in mid-March. The final payments for the closure of the Programme were made on 2 April 2024.

Within the covered bond programme guaranteed by ISP OBG, the 32nd retained series matured in February, for an amount of 1,650 million euro. In June, 21st retained series was partially redeemed for an amount of 500 million euro and the 25th for an amount of 50 million euro.

With regard to the loan portfolio, in January a selective repurchase of bad, substandard and unlikely-to-pay loans was carried out for 22.6 million euro.

Within the covered bond programme guaranteed by UBI Finance, the 14th series matured in February for an amount of 1 billion euro.

With regard to the loan portfolio, in January a selective repurchase of bad, substandard and unlikely-to-pay loans was carried out for 22.7 million euro.

Under the covered bond programme guaranteed by ISP CB Ipotecario, the 25th series matured in March for an amount of 1 billion euro. Furthermore, the 21st series was subject to early redemption in May, for a total residual amount of 1,200 million euro.

In the first half of 2024, five Covered Bond were made:

- in March the 34th retained series was issued for 1 billion euro, with a floating rate and a 5-year maturity;
- three retained series were issued in May:
 - o the 36th for 1,400 million euro, with a floating rate and a 4-year maturity;
 - o the 37th for 1,700 million euro, with a floating rate and a 9-year maturity;
 - o the 38th for 1,700 million euro, with a floating rate and an 11-year maturity;
- in June the 35th series was issued for 500 million euro, with a floating rate and a 6-year maturity. This is a private placement subscribed by the EIB.

All the Covered Bond issues are listed on the Luxembourg Stock Exchange and have a Moody's Aa3 rating.

With regard to the loan portfolio, two loan portfolios were sold: the first in February for an amount of 5,763 million euro and the second in May for an amount of 4,230 million euro.

Lastly, regarding self-securitisations, for Brera SEC 2017, the first Residential Mortgage Backed Security ("RMBS") transaction in the Brera series, the loan portfolio was fully repurchased in January, paying the price at the end of the same months for an amount of 3,339 million euro. The self-securitisation was redeemed in advance in the last ten days of May, with full early repayment of the securities.

INFORMATION ON LEVERAGED TRANSACTIONS

In line with the ECB reference regulations, "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. 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 that scope. Specialised lending transactions (project finance, real estate and asset financing) and certain other types of credit facilities, such as trade finance transactions, are also excluded.

As at 30 June 2024, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions as per the ECB Guidance amounted to 26.9 billion euro, relating to 1,938 credit lines. The geographical distribution shows that more than half of the transactions, in terms of volume, were with domestic counterparties (58%). The main economic macro-sectors of the counterparties concerned were the industrial, services and financial sectors.

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 Group's risk appetite on these types of operations.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Parent Company's hedge fund portfolio as at 30 June 2024 amounted to 223 million euro for the trading book and 200 million euro for the banking book for a total of 423 million euro, compared to 163 million euro and 184 million euro, respectively, as at 31 December 2023, for a total of 347 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 average redemption times that are longer than those of UCITS (Undertakings for Collective Investment Schemes in Transferable Securities) funds.

In the first half of 2024, there was an increase of 76 million euro on the end of the previous year, including investments of 58 million euro, increases in fair value of 19 million euro and impacts from repayments of -1 million euro.

Specifically, the investments were mainly made in the trading book (49 million euro) in UCITS hedge funds that better meet the capital absorption requirements in accordance with the CRR2. The positive changes in fair value were made up of 8 million euro for the banking book and 11 million euro for the trading book, while the repayments referred to the banking book.

In terms of effects on the income statement, as at 30 June 2024 there was an overall profit of +19 million euro, attributable to the valuation effects of funds in the portfolio, including financial assets mandatorily measured at fair value (+8 million euro) and financial assets held for trading (+11 million euro). As at 30 June 2023, the result in the income statement totalled +11 million euro, attributable to valuation effects of funds held among financial assets mandatorily measured at fair value (+8 million euro) and among financial assets held for trading (+2 million euro), in addition to realisation impacts on the trading segment (+1 million euro).

In the Intesa Sanpaolo Group, Eurizon Capital SGR held hedge funds amounting to 14 million euro as at 30 June 2024 (exposure unchanged on 31 December 2023) of which +0.5 million euro was recognised in the income statement for the half year, fully deriving from valuations (as at 30 June 2023 +2 million euro was recognised, also from valuations, for exposures that amounted to 51 million euro). Hedge funds are held according to a seeding approach that involves setting up a service portfolio consisting of shares of mutual funds for which marketing has begun in support of the funds.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 30 June 2024, 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 2,378 million euro (2,830 million euro as at 31 December 2023). The notional value of these derivatives totalled 38,413 million euro (40,555 million euro as at 31 December 2023).

In particular, the notional value of plain vanilla contracts was 35,477 million euro (37,575 million euro as at 31 December 2023), while that of structured contracts was 2,936 million euro (2,980 million euro as at 31 December 2023).

The positive fair value of contracts outstanding with the 10 customers with the highest exposures was 1,381 million euro (1,628 million euro as at 31 December 2023).

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 3,321 million euro as at 30 June 2024 (3,545 million euro as at 31 December 2023). The notional value of these derivatives totalled 59,973 million euro (60,349 million euro as at 31 December 2023).

In particular, the notional value of plain vanilla contracts was 55,140 million euro (56,166 million euro as at 31 December 2023), while that of structured contracts was 4,833 million euro (4,183 million euro as at 31 December 2023).

The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 30 June 2024, this led to a positive impact of 8 million euro under "Profits (Losses) on trading" in the income statement (negative impact of 18 million euro as at 31 December 2023).

For details of the methodologies used in determining the fair value of financial instruments, see the paragraphs specifically dedicated to this subject in the 2023 Annual Report.

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

INTEREST RATE BENCHMARK REFORM

Interest Rate Benchmark Reform – General aspects

Launched in 2016, following the publication of the European Union Benchmark Regulation (Regulation EU no. 2016/1011), the interest rate benchmark reform in Europe can be considered completed, with the existence, to date, of two interest rates published on a daily basis, which fully comply with the Regulation, the Euribor rate for maturities of up to 12 months, administered by the EMMI (European Money Market Institute) and the €STR rate for overnight maturities, recorded and published by the ECB. Also outside the Eurozone, these have been identified and are operational for all the main currencies of risk-free interest rates (RFR) which gradually replaced the LIBOR rate. There is only one exception, which will soon be resolved, relating to USD. In April 2023 the Financial Conduct Authority (FCA) requested that the benchmark administrator continue publishing the USD LIBOR in synthetic form, for maturities at 1, 3 and 6 months also after the termination date of 30 June 2023, up to September 2024 to facilitate the transition of legacy contracts (excluding derivatives subject to clearing).

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

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

Source: ICE Benchmark Administration, Intesa Sanpaolo

Interest Rate Benchmark Reform – Intesa Sanpaolo's activities

Since 2016, Intesa Sanpaolo constantly worked to oversee and implement all necessary actions to comply with the changes in the benchmarks, closed its projects at the end of 2023, passing the matter to ordinary management by the various company functions involved. The activities of working groups at European level, in which Intesa Sanpaolo always played an active role, organised by the EMMI, the ECB, and then transferred to the ESMA, were stopped at the end of 2023.

As stated in the 2023 Financial Statements, with reference to the benchmarks being wound down by 31 December 2023, the transition activities have been successfully completed for all these benchmarks, with the exception of several residual positions for the USD LIBOR, which were outstanding also as at 30 June 2024 (mainly referring to several loans disbursed and debt securities under assets and liabilities). Currently, for those positions, the USD LIBOR rates published with synthetic methodology are used, and the underlying benchmark rates are being renegotiated through agreements between the parties or by activating the fallback clauses set out in the contracts.

There are also several residual positions of loans linked to the Canadian Dollar Offered Rate (CDOR), whose transition will be completed at the next contractual refixing.

OPERATIONAL RISKS

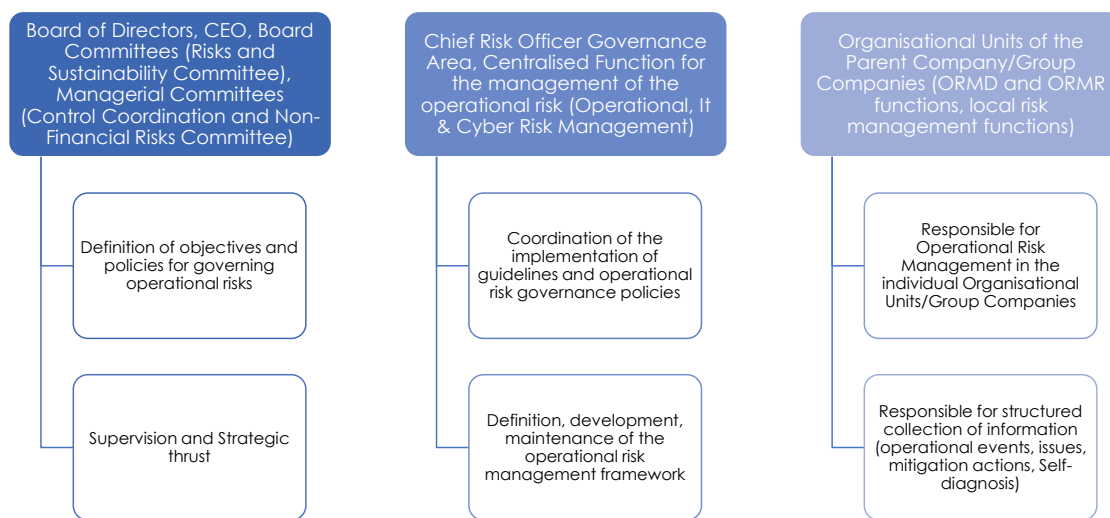
Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events⁴⁷.

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

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

Governance Model

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



The Intesa Sanpaolo Group’s operational, ICT and security risk governance process is divided into the following phases:

- identification: identification and description of potential areas of operational, ICT and security risks (e.g., operating events, presence of critical elements, applicability of risk factors, significant risk scenarios);
- assessment and measurement: determination of exposure to operational, ICT and security risks (e.g., self-diagnosis⁴⁸, determination of economic and regulatory capital, preventive analyses of operational, ICT and security risks, assessment of the significance of the issues identified);
- monitoring and control: ongoing supervision of the development of the exposure to operational, ICT and security risks, including to prevent the occurrence of harmful events and promote active risk management;
- mitigation: containment of operational, ICT and security risks through appropriate mitigation actions and suitable risk-transfer strategies according to a risk-driven approach;
- reporting: preparation of information flows related to operational, ICT and security risk management, designed to ensure adequate knowledge of the exposure to this risk.

ICT and security risk

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

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

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

ICT (Information and Communication Technology) and security risk is defined as the risk of incurring losses due to breaches of confidentiality, lack of integrity and inadequacy of systems and data, unavailability of systems and data, or the inability to replace information technology within reasonable time and cost limits, in the event of changes in the requirements of the

⁴⁷ 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.

⁴⁸ Self-diagnosis is the annual process through which the Organisational Units identify their level of exposure to operational, ICT and security risk. It includes Operational Risk Assessment and ICT Risk Assessment, both of which are further broken down into Business Environment Evaluation (VCO) and Scenario Analysis (SA).

external environment or the business (agility). It also includes security risk resulting from inadequate or incorrect internal processes or external events, including cyber attacks, or an inadequate level of physical security. In the integrated view of corporate risk for supervisory purposes, this risk is considered, according to specific aspects, as operational, reputational and strategic risk. ICT risk includes Cyber risk and IT risk.

Internal model for the measurement of operational risk

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

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

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

Operational risk capital requirement

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

As at 30 June 2024, the scope of the Advanced Measurement Approach (AMA) was comprised of Intesa Sanpaolo (including the former Banks and Companies merged into it) and the main banks and companies in the Private Banking and Asset Management Divisions, as well as of VUB Bank, VUB Operating Leasing and PBZ Banka. It is important to note that First Bank, the Romanian bank whose entry into the ISP Group was finalised at the end of May 2024, entered the scope of the BIA approach.

Capital absorption thus determined came to 2,364 million euro as at 30 June 2024, slightly up on the 2,278 million euro as at 31 December 2023. That increase is partly attributable to the inclusion of First Bank and partly to the historical component of the AMA approach, specifically due to the slight worsening of the risk profile of the categories "Customers, products and operating practices" and "Processes".

Legal risks

As at 30 June 2024, there were a total of around 10,300 non-tax related disputes – excluding those involving Risanamento S.p.A., which is not subject to management and coordination by Intesa Sanpaolo – pending at Group level (in addition to around 20,800 “mass” disputes at the international subsidiary banks, which, as a whole, account for a very low remedy sought), with a total remedy sought⁴⁹ of around 3,370 million euro. This amount includes all disputes for which the risk of a disbursement of financial resources resulting from a potential negative outcome has been deemed possible or likely and therefore does not include disputes for which risk has been deemed remote.

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

The disputes with likely risk are about 23,200 (of which around 16,600 relating to the above-mentioned “mass” disputes) with a remedy sought of 1,698 million euro and provisions of 659 million euro. Compared to last year, there was a decrease in the number of disputes, which mainly concerned disputes certain loan contractual topics relating to the subsidiary Banca Intesa Beograd.

The component referring to the Parent Company Intesa Sanpaolo totals around 5,000⁵⁰ disputes, with a remedy sought of 1,420 million euro and provisions of 457 million euro. These include around 2,600 positions relating to disputes concerning anatocism.

There were around 500 disputes relating to other Italian subsidiaries, with a remedy sought of 160 million euro and provisions of 82 million euro.

With regard to the international subsidiaries, there were around 17,700 disputes with a remedy sought of 118 million euro and provisions of 120 million euro, impacted by the previously mentioned mass disputes. Specifically, there were around 14,000 disputes relating to the subsidiary Banca Intesa Beograd in relation to two areas of litigation⁵¹ that have involved the entire Serbian banking system. The first concerns processing fees charged by banks when granting loans and the second relates to real estate loans insured through the National Housing Loan Insurance Corporation (NKOSK).

For the main pending disputes, the significant developments in the half year are described below. For previous disputes and a detailed illustration of significant individual disputes, see the Notes to the 2023 Financial Statements.

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.

Specifically, disputes are pending with 15 local authorities, with possible or likely risk, for total claims of 58 million euro, and disputes with 3 Companies controlled by public entities, with total claims of 37.1 million euro. Disputes with individuals, assessed as having possible or likely risk, total 169, and of these, 45 positions also regard requests for refunds of amounts on other accounts held with the Bank. Net of those latter positions, the total value of the claims lodged in the proceedings regarding only derivatives amounts to around 138.4 million euro.

Disputes linked to Group acquisitions/integrations - former UBI Good Banks

In execution of the Share Purchase Agreement (“SPA”) on 18 January 2017 and the Closing on 10 May 2017, UBI Banca acquired from the National Resolution Fund managed by the Bank of Italy (NRF), “Nuova Banca Marche”, “Nuova Banca Etruria” and “Nuova Carichieti” (the “Target Bridge Institutions” or “Bridge Institutions” or “Good Banks”).

Subsequently, those Bridge Institutions were incorporated into UBI Banca.

Following the incorporation of UBI Banca, Intesa Sanpaolo (ISP) took on over the management of the “Good Banks dispute”, that is, all those disputes regarding events or acts that occurred prior to 10 May 2017 and referring to the operations of the three banks impacted by the resolution orders (the “Old Banks”) or “Good Banks”, which were then acquired by UBI Banca.

Those disputes are backed by the warranties and obligations to indemnify by the Seller (NRF) 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.

On 27 May 2024, as part of wider negotiations, ISP and the Bank of Italy entered into an Agreement to simplify the management of the pending Good Banks dispute. The Agreement aims to simplify the administrative management of disputes that have already been settled in court, but not yet indemnified, and to limit the guarantees (General Cap) with regard to a scope of pending disputes that has been accurately identified.

⁴⁹ The figures for the remedy sought do not include claims of indeterminate value, i.e. those that do not contain a specific financial claim when the dispute is initiated; the value of these disputes is determined during the course of the proceedings when sufficient information emerges for the valuation.

⁵⁰ These include disputes arising from the acquisition of certain assets, liabilities and legal relationships of Banca Popolare di Vicenza S.p.A. in compulsory administrative liquidation and Veneto Banca S.p.A. in compulsory administrative liquidation, so-called Excluded Disputes covered by public guarantee (“Indemnification Guarantee”).

⁵¹ For those cases, the provisions are relatively higher than the remedy sought (which is determined based on the customer’s original claim) to take account of the interest and legal fees to be paid to the adverse party and the potential increase of the original claim submitted in the legal proceedings.

Italian Antitrust Authority proceedings and representative action of the consumer association “Associazione Movimento Consumatori” against Intesa Sanpaolo and Isybank

In November 2023, the Italian Antitrust Authority (AGCM) announced the initiation of proceedings against Intesa Sanpaolo and Isybank aimed at verifying the existence of an unfair commercial practice regarding the transfer of relationships of around 2.4 million “predominantly digital” customers from Intesa Sanpaolo to Isybank as part of a transfer of business lines, with the accompanying unilateral amendment of the transferred contracts. The transfer of the first business line had already been made on 16 October 2023, while the transfer of the second business line was scheduled for 18 March 2024.

According to the arguments made by the Authority, among other things, the communication sent to the customers concerned was inadequate and the manner and timing of its distribution was not commensurate with the importance of the matter addressed.

In November 2023, the AGCM ordered the suspension, on a precautionary basis, of the commercial practice considered unfair.

In December 2023, Intesa Sanpaolo and Isybank filed a report containing the measures envisaged to comply with the precautionary measure.

In December 2023, the two banks also submitted a proposal of commitments to the AGCM, detailing what they had already outlined in the report of compliance with the precautionary measure, for the purpose of reaching a positive conclusion of the proceedings.

In March 2024, the two banks submitted an addition to the proposal of commitments to the AGCM containing further measures in favour of the customers concerned.

The proposed commitments – most of which already implemented – specifically envisage:

- providing to the customers involved in the operation suitable disclosure: i) on the banking services that are unavailable in Isybank (though, instead, are available in Intesa Sanpaolo); ii) on the main elements, terms and conditions of the Isybank offering;
- notifying customers whose accounts were included in the first business line that, up to 31 December 2026, they can open a new account with Intesa Sanpaolo at better conditions than those applied before the transfer to Isybank;
- with regard to customers whose accounts are potentially included in the second business line, transferring to Isybank only the accounts of customers who have granted their “express consent”.

By way of order dated 11 June 2024, the Authority accepted the commitments proposed by the two Banks, rendering them binding. The proceedings concluded, thus, without imposing a fine.

Also with regard to the above-mentioned operation, the consumer association “Associazione Movimento Consumatori” brought a representative action against Intesa Sanpaolo and Isybank (with a petition served in January 2024) before the Court of Turin for alleged “violations of the collective interests of consumers”.

The association asked the Court to prohibit the use of the new clauses in the transferred contracts, without the consent of the consumers, and the prohibition of the repetition of the unlawful conduct, as well as the adoption of appropriate measures to eliminate or reduce the effects of the violations if the unlawful conduct is confirmed.

The two banks filed their defence briefs, contesting the arguments of the Associazione Movimento Consumatori – with detailed reasons both on the merits and from a procedural perspective – and requesting the rejection of the claims in consideration of the measures (outlined above) taken in the meantime in favour of the customers within the AGCM proceedings.

On 27 May 2024, the two Banks and the Associazione Movimento Consumatori entered into a settlement agreement which settled the dispute.

In execution of the settlement, on 29 May 2024, the Associazione Movimento Consumatori filed at the Court the petition to withdraw the claim and proceedings, asking for the discontinuance of action. On the same date, the two Banks accepted the petition to withdraw the claim and, at the following hearing of 31 May, the proceedings were declared discontinued.

Italian Antitrust Authority proceedings against Intesa Sanpaolo RBM Salute

In May 2023, the AGCM initiated proceedings against Intesa Sanpaolo RBM Salute (ISP RBM) for alleged unfair business practices, purported to have been adopted from January 2023, aimed at hindering the exercise of consumers’ rights arising from the contractual relationship, leading them to give up financial and welfare benefits provided by the insurance coverage held by them.

In its communication dated 15 February 2024, the Authority issued its conclusions on the preliminary findings, based on which it upheld the claims made in the decision to initiate proceedings and also considered that the unfair business practice was still ongoing.

ISP RBM submitted a defence brief, in which it highlighted, among other things, the strategic and operational measures it had already taken prior to the commencement of the proceedings and the further improvements these measures had brought to the service levels provided to the policyholders.

With order dated 20 May 2024, the AGCM ruled that ISP RBM’s conduct constituted an ongoing unfair commercial practice, prohibiting its dissemination or continuation, and imposing an administrative fine of 2.5 million euro.

On 19 July 2024, ISP RBM submitted an appeal to the Lazio Regional Administrative Court, asking that the fine ordered be cancelled.

Offering of diamonds

In 2017, the AGCM instituted proceedings to verify the conduct in breach of the provisions on unfair business practices against the companies that sold diamonds (DPI and another company) and the banks that recommended the services of those companies. At the end of those proceedings, the AGCM issued penalties as a result of verifying that the conduct of DPI and the banks breached the Consumer Code.

The Authority issued a fine of 3 million euro against ISP, reduced from the initial fine of 3.5 million euro, after the Authority had recognised the value of the measures taken by the Bank since 2016 to strengthen the safeguards on the offering process.

ISP filed an appeal at the Lazio Regional Administrative Court, which rejected the appeal in November 2022. The Bank then filed an appeal at the Council of State, which, in a ruling of March 2024, rejected the appeal and upheld the penalty measure. The judgment of the Council of State became final and rendered the penalty final.

Within the criminal proceedings pending before the Court of Milan, with ruling dated 9 April 2024, the Preliminary Investigation Judge ordered the dismissal of the case against the two ISP relationship managers under investigation, on the grounds of “the act not constituting an offence”, thus rendering the proceedings fully closed.

Anatocism

In February 2017, the AGCM initiated proceedings against ISP for alleged unfair business practices involving, among other things, the methods used to request the authorisation from customers for the charging of the interest to the account imposed by the new regulations introduced in 2016.

The Authority completed the proceedings in October 2017, ruling that the Bank had implemented an “aggressive” policy aimed at acquiring the above-mentioned authorisation. As a result, the Authority issued a fine of 2 million euro against ISP.

The Bank has submitted an appeal before the Lazio Regional Administrative Court. By ruling of 2 January 2023, the Lazio Regional Administrative Court upheld the fine. ISP submitted an appeal to the Council of State, which, in a ruling of March 2024, rejected the appeal and upheld the fine.

The judgment of the Council of State became final and rendered the penalty final.

Reference for a preliminary ruling to the Court of Cassation on the legitimacy of the fixed instalment repayment plan

On 29 May 2024 the Joint Divisions of the Court of Cassation (by ruling no. 15130) ruled on an important issue for banking operations: specifically, whether the failure to indicate in a fixed-rate mortgage loan agreement the fixed instalment repayment method (called French amortization method) and the compound capitalisation regime makes the purpose of the contract vague or impossible to determine.

The Joint Divisions set out the following approach to interpretation, also applicable beyond the case submitted to their examination (as per the role as guarantor of the uniform interpretation of the law): “Regarding fixed-rate bank mortgages with repayment of the loan in instalments governed by a standardised, traditional repayment plan, the failure to indicate the repayment method and compound capitalization of debt interest regime cannot give rise to partial nullity of the contract, either due to vagueness of or the inability to determine the purpose of the contract, or due to breach of the regulations on transparency of contractual conditions and relations between credit institutions and their customers”.

This ruling will make it possible to significantly limit the risk of proliferation of disputes regarding objections to fixed instalment repayment methods.

Azzurro 2000 S.a.s. di Tilli Renzo & C.

In 2004, the company Azzurro 2000 brought an action for damages against the former Sanpaolo Banco di Napoli for alleged unlawful reporting to the Central Credit Register, quantifying the claim at around 50 million euro.

The plaintiff's claim was rejected at both first and second instance.

Against the appeal ruling, the plaintiff filed (i) an appeal before the Court of Cassation and (ii) a revocation proceeding before the same Court of Appeal. The latter declared the request for revocation inadmissible and the plaintiff filed a further appeal before the Court of Cassation against this second ruling of the Court of Appeal.

The Supreme Court combined the two cases and upheld the first appeal, basing solely on one of the grounds of appeal, overturning the decision and referring the case back to the Naples Court of Appeal, and declared the request for revocation inadmissible.

The plaintiff then resumed the action and the Bank appeared before the Court. The hearing was scheduled in 2026 to refer the lawsuit to judgement.

Azienda Agricola Turelli S.S. Soc. Agricola

In 2017, as party of an objection to an order to pay obtained by ISP to recover its credit, Azienda Agricola Turelli S.S. and its members Attilio and Laura Turelli filed a counterclaim for compensation for damages quantified at a total of around 20 million euro, for alleged breach of the obligations of good faith and contractual fairness.

In August 2023, the Court of Brescia rejected the objection and the claim for compensation for damages, ordering the opponents to pay the legal fees to ISP. In the meantime, the credit covered by the order to pay was subject to two subsequent assignments.

In February 2024 the opponents lodged an appeal against the first instance ruling, with an initial hearing in September 2024. The Bank appeared before the Court. The following parties also appeared:

- the second assignee, which also requested that ISP and/or the first assignee (its assignor) be ordered to return the price paid to purchase the credit, or to compensate for the (not specifically quantified) damages, as well as to hold it harmless and/or indemnified from any claim for reimbursement/compensation that may be recognised against the appellant, though it had not concluded any contracts with the Bank;
- the first assignee of the credit.

IMI/SIR

At the end of 2023, the Bank brought proceedings before the Tax Court to demand the refund of 33.2 million euro, previously paid as withholding tax for overdue interest on the compensation for damages under the 1994 ruling paid to Mrs Battistella, as Nino Rovelli's heir. The Italian Revenue Agency filed an appearance on 20 December 2023, arguing that the request for reimbursement was unfounded.

The First Instance Tax Court of Rome rejected the Bank's appeal by way of ruling dated 24 April. The term for appeal ends on 24 November 2024.

Reyl & Cie (Switzerland) – Proceedings pursuant to Legislative Decree 231/2001 of the Public Prosecutor's Office of the Court of Milan

Within the criminal proceedings pursuant to Italian Legislative Decree 231/01, pending before the Court of Milan, on conclusion of discussion between Reyl's defence counsel and the Public Prosecutor at the hearing of 3 July 2024, with the view to avoiding a drawn out dispute, and without recognising any liability for the circumstances alleged, the bank filed a petition to apply a financial penalty (plea bargain). The next hearing is scheduled for 24 September 2024, when the Preliminary Investigating Judge will rule on that petition.

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 subsidiary filed an appeal with the Supreme Court, which overturned the second-instance decision, upholding the ruling of the First Instance Court.

The plaintiff then brought an action before the Constitutional Court and initiated review proceedings before the Court of First Instance. Both proceedings failed the admissibility test.

The opponent submitted an appeal before the Court of Appeal against the ruling of the Court of First Instance (on the admissibility test). This petition was also rejected, and the terms for the opponent to file an appeal before the Constitutional Court are pending.

Intesa Sanpaolo's subsidiaries took action in 2012 for the recognition of their receivables claimed against the tenant resulting from unpaid lease rentals. These proceedings are currently pending.

Labour litigation

In line with the situation as at 31 December 2023, as at 30 June 2024 there were no significant cases of labour litigation from either a qualitative or quantitative standpoint. In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

Tax litigation

At Group level, the total value of the claims for tax disputes (taxes, penalties and interest) was equal to 152 million euro as at 30 June 2024, down on 155 million euro as at 31 December 2023.

The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges (51 million euro as at 30 June 2024, amount unchanged on 31 December 2023).

The Parent Company had 448 pending litigation proceedings (487 as at 31 December 2023) for a total amount claimed (taxes, penalties and interest) of 107 million euro (107.6 million euro as at 31 December 2023), considering both administrative and judicial proceedings at various instances.

In relation to these proceedings, the actual risks were quantified at 41.1 million euro as at 30 June 2024 (41.4 million euro as at 31 December 2023).

During the half year, a total of 129 disputes, with a total amount claimed of 4.2 million euro, were settled, for a total disbursement (including legal and court fees) of 0.8 million euro, of which 0.4 million euro through profit and loss, mainly referring to the municipal property tax (IMU) disputes on terminated and ongoing lease contracts, using allowances for risk of 0.4 million euro (including legal fees).

With regard to the Italian subsidiaries, tax disputes totalled 37 million euro as at 30 June 2024 (compared to 39 million euro as at 31 December 2023), covered by specific provisions amounting to 5 million euro (unchanged on 31 December 2023).

For the international subsidiaries, tax disputes as at 30 June 2024 had a low amount, and 70% of their risk is covered: they amount to a total of 8 million euro (substantially unchanged on 31 December 2023), with provisions of 5 million euro (amount also unchanged on 31 December 2023).

There is nothing significant to report.

Parent Company

With regard to the main outstanding disputes, there were no significant changes during the half year and, therefore, reference should be made to the Notes to the 2023 Consolidated Financial Statements for a detailed analysis.

The main new disputes that arose in the first half of 2024 regard (i) disputes on registration tax on judicial documents, (ii) disputes on municipal property tax (IMU) on real estate not repossessed following the termination of the related lease contracts.

With regard to questionnaires, the following is noted.

As widely reported in the Notes to the 2023 Consolidated Financial Statements (to which reference is made for more details), from the end of 2023 to the start of 2024, Intesa Sanpaolo (ISP), as the incorporating and/or consolidating entity, was served "orders" and "questionnaires" by several Regional and Provincial Directorates of the Italian Revenue Agency, relating to the tax period 2017. Those documents set out IRES (corporate income tax) claims regarding the tax treatment that the Italian companies of the Group applied to the income recognised through profit and loss at the time, against the commitment that the Parent Company unilaterally took on, to hold them harmless from the charges that would arise for those companies following the integration into the Group of Banca Popolare di Vicenza and Veneto Banca, the so called "Venetian Banks" (these were charges for IT integration, charges for exit incentives for employees, and charges for the closure/merger of branches, etc.).

In the case in question, the subsidiaries considered IRES inapplicable to that income, while the Directorates argued that it should have been taxed.

During the discussions with the Italian Revenue Agency, we illustrated the reasons why the claims lodged should be considered completely unfounded.

On 19 March 2024, the Agency communicated:

- it was of the opinion that the contributions in question a) fall within the provisions of Article 88, paragraph 3 of the Income Tax Code, and, therefore, were only taxable on a cash basis (obviously, therefore, only if and up to the amounts in which they were actually paid/received, thus excluding cases of contributions not paid due to the intervening merger of the subsidiary into ISP); and b) were in any case only taxable outside the ISP tax consolidation (because within the consolidation, the taxation at the level of the consolidated entity corresponds to a deduction at the level of the consolidating parent company);
- it had consequently decided to abandon the initial claims and thus to close the assessments relating to 2017 (the year in which no contribution was paid by ISP to the subsidiaries).

A brief submitted on 1 July 2024 set out the terms and operating methods that ISP, along with its subsidiaries (excluding those incorporated in the meantime), intends to apply, to spontaneously comply with classifying the contributions as "capital contribution", taxable and deductible "on a cash basis".

Specifically: i) no claims on 2017, as ISP did not pay any income to the subsidiaries; ii) no claims in the cases of subsidiaries incorporated prior to collection of the contribution; and iii) settlement of the years 2018-2022 in which the subsidiaries received the contribution. In operating terms, that adjustment would be carried out through a voluntary correction of tax return pursuant to Article 13 of Italian Legislative Decree no. 472 of 18 December 1997, filing supplementary tax returns "unfavourable" to the subsidiaries and "favourable" to ISP.

The Italian Revenue Agency confirmed that it agrees with that approach. The total cost for net taxes, penalties and interest to heal the tax position of all years of the companies involved, also considering the deductibility for ISP, will be low.

On 11 March 2024 the Italian Revenue Agency - Lombardy Regional Directorate served a questionnaire to ISP for the incorporated entity Mediocredito Italiano, regarding the tax return for 2018 and, specifically, several tax credits, totalling 2.4 million euro, declared and used to offset the payment of VAT due for that period. ISP replied to the questionnaire on 15 March 2024, providing the information requested. There have been no developments.

Group Companies

For details regarding Banca Fideuram – Intesa Sanpaolo Private Banking and Intesa Sanpaolo Private Banking, given that there have been no significant changes, see the Notes to the 2023 Financial Statements.

On 28 December 2023, Fideuram ISPB Asset Management SGR (hereinafter, Fideuram SGR) received from the Italian Revenue Agency – Lombardy Regional Directorate an order to file an appearance for 28 December regarding the year 2017 for IRES and IRAP, following the delivery of documentation in response to a questionnaire served on 4 August 2023, in order to establish adversarial proceedings on the alleged transfer pricing issues arising in relation to the consideration for fees and commissions received by Fideuram SGR in delegated manager activities for investment funds performed in favour of the Irish associate Fideuram Asset Management Ireland (principal). With specific regard to those management fees and commissions, the Agency has repeated the same adjustments made for the years 2011 to 2013 (which gave rise to tax settlement proposals for those years) as well as for the year 2016, which Fideuram accepted by signing the settlement proposal on 15 December 2022 and paying the amount due (220 thousand euro) on 20 December 2022. In this order, the Agency adjusted Fideuram SGR's 2017 taxable income upwards by 1.14 million euro, resulting in higher IRES and IRAP (plus interest) for a total of around 300 thousand euro.

As a result of that order, adversarial proceedings were initiated, which resulted in the finalisation of the tax settlement proposal on 12 April 2024, which settled the payment of IRES and IRAP of 190 thousand euro plus interest of 40 thousand euro and, thus, for a total of 230 thousand euro (nothing for penalties, given that the transfer pricing documentation had been correctly prepared).

In May 2023 SIREF Fiduciaria, as the incorporating entity of FIGE Fiduciaria, was served a payment notice of a total of 1.1 million euro following an automated check of Form 770/2019 (for the year 2018) as the non-recognition of the payments made for Tax on the Value of Insurance Contracts (and the related penalty for non-payment plus interest), due to errors in form in filling out the Form 770/2019. The Company submitted an appeal before the First Instance Tax Court of Milan, and in the meantime, requested and obtained from the Italian Revenue Agency the administrative suspension of the payment order. By ruling of March 2024 the Court declared the discontinuance of the matter in issue, as a result of the removal of the payment order.

Cargeas Assicurazioni – now merged into Intesa Sanpaolo Assicura – underwent a tax audit by the Italian Revenue Agency, Lombardy Regional Directorate, Large Taxpayers Office, aimed at verifying the correct application, for the years from 2010 to 2018, of the tax rules on private insurance and life annuity contracts pursuant to Italian Law no. 1216 of 29 October 1961. Reference should be made to the Notes to the 2023 Financial Statements for analysis.

As previously noted in the Notes to the 2023 Financial Statements and in the Interim Statement as at 31 March 2024, on 29 November 2023, the former Intesa Sanpaolo Life DAC – an insurance company incorporated under Irish law – received a summons from Guardia di Finanza (Italian Tax Police) for clarifications regarding tax monitoring requirements.

Note that Intesa Sanpaolo Vita S.p.A. (as the incorporating entity of Intesa Sanpaolo Life DAC) replied, with communication dated May 2024, to the requests of the Guardia di Finanza (Italian Tax Police) of March 2024, requesting the addition to the statements submitted in 2022, solely for the years 2018-2020 (as the year 2017 had lapsed in the meantime), both for the premiums collected and the amounts paid (relating to the insurance benefits provided), with detailed evidence of: year of reference and insurance policy numbers; type of transaction, i.e., whether this was a premium initially paid (recurring and/or single premium) or an additional premium and, with regard to the insurance benefits, whether they were a partial or total surrender or other transactions (thus settlement due to expiry and/or due to claims); date and amount of each single transaction; identification of the party (person) “monitored”; and any reasons for objective exemption from the notification obligation. In addition, the same documentation provided for the years 2017 to 2020 was also requested for the years 2021 and 2022, accompanied by the same detailed schedules.

Then, the claims regarding Transfer Pricing on the benefits provided to Eurizon Capital Luxembourg by Eurizon Capital SGR S.p.A. (“EC ITA”) for the years 2016, 2017 and 2018, which began with a questionnaire served to the latter company on 22 December 2022 relating to IRES and IRAP for 2016, were settled.

A similar claim raised for the years 2017 and 2018 against Epsilon SGR S.p.A., which began on 4 April 2023 with a tax audit by the Italian Revenue Agency – Lombardy Regional Directorate – Large Taxpayers Office regarding the year 2017 (then extended also to 2018) concerning direct taxes, IRAP, VAT and obligations of tax collection agents, was settled. The claim related to the failure of the cross-border transaction regarding the service of UCI (Undertaking for Collective Investment) management provided by Epsilon to the Luxembourg associate company EC LUX to align with the conditions of free competition.

For more details on claims to both companies, refer to the previous Notes to the financial statements.

Action was taken with the Italian Revenue Agency so that the transactions between EC ITA, Epsilon SGR and EC LUX were examined in a consistent and coordinated manner. Following numerous meetings between the company and the Lombardy Regional Directorate, an agreement was reached on the use of the median for 2017 and the first quartile for 2018.

The proceedings concluded with the signing of the tax settlement agreements for IRES and IRAP on 24 April 2024 and the payment of the amounts due, which were in line with the provisions previously allocated by the subsidiaries in their financial statements as at 31 December 2023, namely:

- for EC ITA, total provisions of 9.6 million euro for the years 2017 and 2018 (outlay due of 9.7 million euro), given by the higher IRES and IRAP taxes for 8.1 million euro (previously allocated as at 30 September 2023) and interest for 1.5 million euro (of which 1.4 million euro previously allocated as at 30 September 2023);
- for Epsilon, total provisions of 4.1 million euro for the years 2017 and 2018, given by the higher IRES and IRAP taxes for a total of 3.4 million euro (previously allocated as at 30 September 2023) and interest for 700 thousand euro (of which 600 thousand euro previously allocated as at 30 September 2023).

INSURANCE RISKS

Investment portfolios

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

As at 30 June 2024, the investment portfolios of Group companies, recorded at book value, amounted to 173,958 million euro. Of these, a part amounting to 88,082 million euro relates to traditional adjustable life policies (the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on assets subject to separately managed account determined), non-life policies and shareholders' 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 85,876 million euro.

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

In terms of breakdown by asset class, net of derivative financial instruments, around 84% of assets, amounting to 74,014 million euro, were bonds, whereas assets subject to equity risk represented around 2% of the total and amounted to 1,942 million euro. The remainder (12,186 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (around 14%).

The carrying value of derivatives came to around -60 million euro, of which around 17 million euro relating to effective management derivatives, and the remaining portion (around -77 million euro) is attributable to hedging derivatives.

At the end of the first six months of 2024, investments made with the shareholders' fund of Intesa Sanpaolo Vita and Fideuram Vita amounted to around 1,293 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of around 13 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 -4,331 million euro.

The distribution of the portfolio by rating class was as follows: AAA/AA bonds represented around 4.4% of total investments and A bonds around 11.9%; low investment grade securities (BBB) represented around 80.6% of the total and the portion of speculative grade or unrated was minimal (3.1%); and in the BBB area a considerable proportion was 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 70.7% of the total investments, while financial companies (mostly banks) contributed around 19.4% of exposure and industrial securities made up around 9.9%.

At the end of the first half of 2024, the sensitivity of bonds fair value to a change in credit rating of issuers, intended as a market credit spreads shock of +100 basis points, was -4,544 million euro, with -3,693 million euro due to government issuers and -851 million euro to corporate issuers (financial institutions and industrial companies).