
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 companies²¹, 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.

²¹ 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.

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 metrics for measuring the counterparty risk and market risks in the Group’s trading book and banking book. Likewise, in light of the low exposure to Russian and Ukrainian counterparties, there were no significant 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

The Intesa Sanpaolo Group, in relation to the implementation of the Basel Committee agreements (“Basel 3”), has undertaken adequate project initiatives in order to improve the measurement systems and the related risk management systems, to guarantee ongoing regulatory compliance. In the first nine months of 2024, the project work also 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 with respect to 30 June 2024.

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

With regard to both counterparty risk and operational risks, there were also no changes in the scope of application compared to 30 June 2024.

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 (group.intesasanpaolo.com) on a quarterly basis.

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

As at 30 September 2024, the Group had the following on-balance sheet exposures to counterparties resident in Russia and Ukraine, net of ECA guarantees and gross/net of adjustments made:

(millions of euro)

	30.09.2024 (*)				31.12.2023 (**)			
	Gross exposure		Net exposure		Gross exposure		Net exposure	
	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine
Loans to customers	612	184	458	137	872	186	643	123
<i>Banca Intesa Russia</i>	143	-	86	-	197	-	117	-
<i>Pravex</i>	-	45	-	-	-	62	-	-
<i>Cross-border exposures</i>	469	139	372	137	675	124	526	123
Due from banks	626	70	616	69	707	59	696	59
<i>Banca Intesa Russia</i>	610	-	602	-	691	-	683	-
<i>Pravex</i>	-	70	-	69	-	59	-	59
<i>Cross-border exposures</i>	16	-	14	-	16	-	13	-
Securities	2	47	1	45	12	53	10	49
<i>Banca Intesa Russia</i>	1	-	1	-	11	-	10	-
<i>Pravex</i>	-	42	-	42	-	48	-	47
<i>IMI C&IB Division</i>	-	-	-	-	-	-	-	-
<i>Insurance Division</i>	1	5	-	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 37 million euro (32 million euro net) at Banca Intesa Russia, and 29 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 (gross and net value) to customers resident in Ukraine.

There is also 27 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 September 2024 and the increase of around 15 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 September 2024, the remaining on-balance sheet exposures to the total counterparties resident in Russia amounted, in terms of gross values, to 143 million euro (86 million euro net) for Banca Intesa Russia and 469 million euro (372 million euro net) for cross-border exposures to customers resident in Russia (net of ECA guarantees). These were accompanied by exposures to banks totalling 626 million euro (616 million euro net) and in securities totalling 2 million euro (1 million euro net). Exposures to customers resident in Ukraine amounted to 184 million euro (137 million euro net), of which 45 million euro (book value nil in net terms) related to the subsidiary Pravex Bank. These were accompanied by exposures to banks of 70 million euro (69 million euro net) and in securities totalling 47 million euro (45 million euro net). The majority of the exposures to Russian²² and Ukrainian counterparties essentially consist of loans to customers subject to measurement in accordance with IFRS 9 "Financial Instruments".

During the first nine months of 2024, the gross on-balance sheet exposure to the total counterparties resident in Russia and Ukraine decreased by 348 million euro (-18% from the end of the previous year). That decrease mainly involved cross-border exposures to customers resident in Russia for 206 million euro, primarily as a result of repayments on various exposures, 54 million euro for exposures to customers of the investee Banca Intesa Russia, and 91 million euro for exposures to banks and debt securities of Banca Intesa Russia. The overall net exposure (customers, banks, and securities) as at 30 September 2024 to counterparties resident in Russia and Ukraine, amounting to 1,326 million euro, decreased by 254 million euro (-16%) from 1,580 million euro on 31 December 2023.

As at 30 September 2024, the Group companies other than those operating in the countries involved in the conflict had a total of 8 million euro of gross on-balance sheet non-performing loans to counterparties resident in Russia. The non-performing loans of the Russian investee amounted to 38 million euro (40 million euro as at 31 December 2023), while the classification

²² For these purposes, the small exposures to Belarusian counterparties have for simplicity been treated and disclosed together with the exposures to the Russian Federation.

of the entire portfolio of the Ukrainian subsidiary to bad loan status led to the recognition of 45 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 exposures²³, as well as, in line with the treatment set out for capturing the critical issues of another recent emergency situation (COVID-19²⁴), 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 September 2024 were the same as those already adopted in 2022 and maintained throughout 2023. Specifically, the following were confirmed: classification to Stage 2 of counterparties in scope guided by the emergence of “via transfer” risk, namely the risk that counterparties will not honour their debt payment commitments as a result of restrictions in their countries of residence and not due to aspects directly pertaining to their business; the choice to use the through-the-cycle PD associated to the assigned rating to calculate the ECL, without applying forward-looking conditioning and the application of a prudential buffer to the LGD that ensures equivalence with the use of an estimated loss rate according to an approach based on the transfer of the risk of the country of residence under Pillar 2 modelling (unconditional LGD set by the transfer risk model of 55%). 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 International Banks 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 choice adopted starting with the 2022 Financial Statements to classify 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, in line with the actions taken starting in 2022, these exposures were maintained in Stage 2 with a valuation that comprises prudential factors determined centrally, considering the geopolitical context. As a result of the provisions made, the total coverage of performing loans of the Russian subsidiary amounted to around 32.4% 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 gross residual value as at 30 September 2024 of 117 million euro.

The choices regarding the valuation of the real estate assets of the two investees were confirmed: the value of investment assets, branches and owner-occupied properties of Pravex were fully written down, with the sole exception of the headquarters in Kyiv, for which it was decided to keep the value unchanged and confirm the book values of the real estate assets of Banca Intesa Russia.

The securities portfolio of the investee Banca Intesa Russia, amounting to 1 million euro (11 million euro as at 31 December 2023), consisted of one Russian government security. The securities portfolio of the subsidiary Pravex, amounting to 42 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 September 2024, gross of tax effects, totalling net charges of 159 million euro. Those charges mainly refer to 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 nine months of 2024 due to the investees’ positive operating performance, with a total allowance of around 308 million euro as at 30 September 2024.

²³ 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.

²⁴ “IFRS 9 and COVID-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID-19 pandemic.”

CREDIT RISK

The Intesa Sanpaolo Group 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 internally calculated ratings are then made comparable with those awarded by rating agencies, by means of a consistent scale of reference.

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

Credit quality

	30.09.2024			31.12.2023			(millions of euro) Change	
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure	
Bad loans	3,661	-2,552	1,109	3,400	-2,460	940	169	
Unlikely to pay	5,321	-2,134	3,187	5,889	-2,314	3,575	-388	
Past due loans	639	-198	441	649	-184	465	-24	
Non-Performing Loans	9,621	-4,884	4,737	9,938	-4,958	4,980	-243	
<i>Non-performing loans in Stage 3 (subject to impairment)</i>	9,555	-4,851	4,704	9,860	-4,928	4,932	-228	
<i>Non-performing loans measured at fair value through profit or loss</i>	66	-33	33	78	-30	48	-15	
Performing loans	412,128	-2,208	409,920	422,020	-2,452	419,568	-9,648	
<i>Stage 2</i>	34,402	-1,569	32,833	38,021	-1,746	36,275	-3,442	
<i>Stage 1</i>	376,935	-639	376,296	383,310	-706	382,604	-6,308	
<i>Performing loans measured at fair value through profit or loss</i>	791	-	791	689	-	689	102	
Performing loans represented by securities	7,231	-16	7,215	5,875	-25	5,850	1,365	
<i>Stage 2</i>	238	-10	228	358	-19	339	-111	
<i>Stage 1</i>	6,993	-6	6,987	5,517	-6	5,511	1,476	
Loans held for trading	74	-	74	95	-	95	-21	
Total loans to customers	429,054	-7,108	421,946	437,928	-7,435	430,493	-8,547	
<i>of which forbore performing</i>	4,756	-317	4,439	5,134	-337	4,797	-358	
<i>of which forbore non-performing</i>	3,064	-1,448	1,616	3,230	-1,424	1,806	-190	
Loans to customers classified as non-current assets held for sale	469	-82	387	181	-42	139	248	

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

As at 30 September 2024, the Group's gross non-performing loans amounted to 9.6 billion euro, down by 0.3 billion euro (-3.2%) compared to December 2023. The NPL ratio was 2.2% gross and 1.1% net (1.9% and 0.9%, respectively, gross and net according to the EBA methodology). This result was also attributable to the ongoing de-risking initiatives, and also reflect an amount of non-performing loans classified as assets held for sale, having met the conditions for applicability based on IFRS 5, with a gross book value of around 0.5 billion euro at the end of September 2024. The process of NPL deleveraging also continued to benefit from modest new inflows from performing loans due to the performance of the prevention initiatives. During the first nine months, gross inflows came to 2.3 billion euro (0.7 billion euro in the first quarter, 0.8 billion euro in the second and 0.8 billion euro in the third quarter), in line with the figure recorded in the nine months of 2023. In net terms, that is, net of outflows to performing loans, inflows came to 1.8 billion euro (0.6 billion euro in the first three months, 0.7 billion euro in the second quarter, and 0.5 billion euro in the third quarter), compared to 1.6 billion euro in the first nine months of 2023. The table shows that the decrease from the end of 2023 in gross non-performing loans was due to unlikely-to-pay loans (-9.6%, or -568 million euro) and past-due loans (-1.5%, or -10 million euro), against an increase in bad loans of 261 million euro (+7.7%).

As at 30 September 2024, the net non-performing loans of the Group amounted to 4,737 million euro, lower than the figure recorded as at 31 December 2023 (4,980 million euro), and representing a new all-time low, continuing the virtuous trend already recorded in the previous quarters. The ratio of non-performing loans to total net loans to customers came to 1.1% (0.9% according to the EBA definition) with the coverage ratio for non-performing loans increasing to 50.8% from 49.9% at the end of 2023. In further detail, in September 2024 bad loans amounted to 1,109 million euro (+18% from 31 December 2023), net of adjustments, representing 0.3% of total net loans with a coverage ratio of 69.7%. Loans included in the unlikely-to-pay

category amounted to 3.2 billion euro, down by 10.9%, accounting for 0.7% of total net loans to customers, with a coverage ratio of 40.1%. Past due loans amounted to 441 million euro (-5.2% from the end of 2023), with a coverage ratio of 31.0%. Within the non-performing loan category, forbore exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 1.6 billion euro, with a coverage ratio of 47.3%. Forborne exposures in the performing loan category amounted to 4.4 billion euro. At the end of September 2024, net performing loans amounted to 409.9 billion euro, down by 9.6 billion euro (-2.3%) on the end of 2023, with an overall coverage ratio of 0.54% of which 4.56% (from 4.59% at the end of 2023) for Stage 2 loans and 0.17% (0.18% at the end of December 2023) for Stage 1 loans. In terms of stock, net loans in Stage 1 decreased by 1.6% to 376.3 billion euro and those in Stage 2 fell by 9.5%, amounting to 32.8 billion euro.

Macroeconomic scenario for forward-looking conditioning

For the purposes of forward-looking conditioning of the ECL estimation parameters, Intesa Sanpaolo's policy envisages the use of the macroeconomic scenario produced and updated by the CFO Area Research Department on at least a half-yearly basis (June/December). In September 2024, the CFO Research Department updated the macroeconomic scenario - substantially in line with June - and set up alternative scenarios in addition to the base scenario.

Note that, in compliance with the Group Impairment Policy, on an ordinary basis, and in the absence of significant changes in the macroeconomic scenario, the conditioning of the calculation parameters on a half-yearly basis (June-December) were revised.

With regard to the Eurozone, the projections of growth of 0.7% in 2024 were substantially confirmed, and those for 2025 were revised slightly downwards to 1.2%. The beginning of 2024 was better than expected, but the lack of signs of acceleration in the second half meant that the annual average growth in the Eurozone was revised by just 0.1% and that that revision was offset by a reduction in the 2025 projections.

With regard to Italy, GDP growth estimates are confirmed at 0.7% in 2024 and 1.2% in 2025. In 2024, contained growth is expected in line with the Eurozone, still driven by services. The moderate recovery expected for 2025 is entirely driven by domestic demand, especially for consumer spending (services) and investments in machinery (expected to start again thanks to adherence to the new tax incentives). Construction will be crucial: while residential buildings will be slowed by the elimination of the support offered by tax incentives (Superbonus), the non-residential component will accelerate, supported by the infrastructure works included in the NRRP.

Inflation is expected to fall below the ECB target from the second half of 2025. More specifically, the inflation forecasts for the Eurozone, compared to June, have been revised slightly upwards for both 2024 (from 2.3% to 2.5%) and 2025 (from 1.7% to 2%). The additional contribution to disinflation from energy, food and non-energy goods could almost lose all its steam. It follows that the fate of inflation will depend increasingly on the services component, which has so far shown the greatest viscosity.

With regard to expectations regarding monetary policy decisions, the start of the interest rate reduction phase took place on schedule. As inflation is no longer perceived as a threat, while employment growth is slowing, the reduction in official interest rates might be faster in the coming months than expected in June. The central scenario incorporates the assumption that the reduction in the deposit rate will continue in 2025, to 2.0-2.5%, with a gradual reduction of 25 basis points per quarter and with a possible final acceleration once it is certain that inflation will return to 2%.

That forecast has been drawn up in a context where the main uncertainties of the scenario are linked to geopolitical risk: the conflicts in Ukraine and the Middle East, presidential elections in the United States, tensions between China and Taiwan and structural fiscal plans in the Eurozone.

The CFO Research Department produced alternative scenarios (best case and worst case), created according to the standard methodology set out in the Impairment Policy. With regard to the favourable scenario, the assumptions adopted yield similar results for all the variables, compared to the June scenarios. In relation to the methodology set out, in addition to the shock on internal demand, the adverse scenario assumes two temporary adverse shocks linked to the escalation of the conflict in the Middle East and the tensions on the supply chains that impact the trends in production prices and manufacturing, with slightly recessive impacts on the GDPs in the Eurozone and Italy.

Managerial adjustments to the results of the models

As at 30 September 2024, there were no changes to the approaches introduced in the 2023 Financial Statements, which were applied in the same way also in the Half-Yearly Report 2024. The planned reassessment of the assumptions (such as emerging risks identified and associated sector-specific vulnerabilities) were carried out, and did not result in substantial changes. The estimates were revised, along with the evidence updated to 30 September.

Note that, starting with the 2023 Financial Statements, approaches based on two complementary elements were introduced:

- 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.

Given the above, adjustment allowances for performing exposures as at 30 September 2024 included prudential elements of 0.9 billion euro relating to both on-balance and off-balance sheet exposures, substantially unchanged from June 2024 and December 2023.

MARKET RISKS

TRADING BOOK

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

Daily managerial VaR of the trading book

In the third quarter of 2024, as shown in the table below, compared to the averages for the second quarter of 2024, there was a decrease in trading managerial risks, which declined from 30.9 million euro (average value in the second quarter of 2024) to 24.0 million euro (average value in the third quarter of 2024). That decrease is mainly attributable to the management of exposure to interest rate risk of the trading book of the IMI C&IB Division.

(millions of euro)

	2024				2023				
	average 3 rd quarter	minimum 3 rd quarter	maximum 3 rd quarter	average 2 nd quarter	average 1 st quarter	average 4 th quarter	average 3 rd quarter	average 2 nd quarter	average 1 st quarter
Total Group Trading Book ^(a)	24.0	19.4	30.8	30.9	31.9	26.4	33.7	35.5	27.9
<i>of which: Group Treasury & Capital Management</i>	12.1	11.0	13.0	13.1	6.2	3.8	3.7	4.4	5.1
<i>of which: IMI C&IB Division</i>	14.7	11.0	19.6	20.3	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 below, the average VaR for the first nine months of 2024 came to 28.9 million euro, down slightly on the 32.3 million euro recorded in the first nine months of 2023. That change is mainly due to the lower volatility recorded on the credit spread in 2024 as well as the decreased exposure to interest rate risk of the IMI C&IB Division's book.

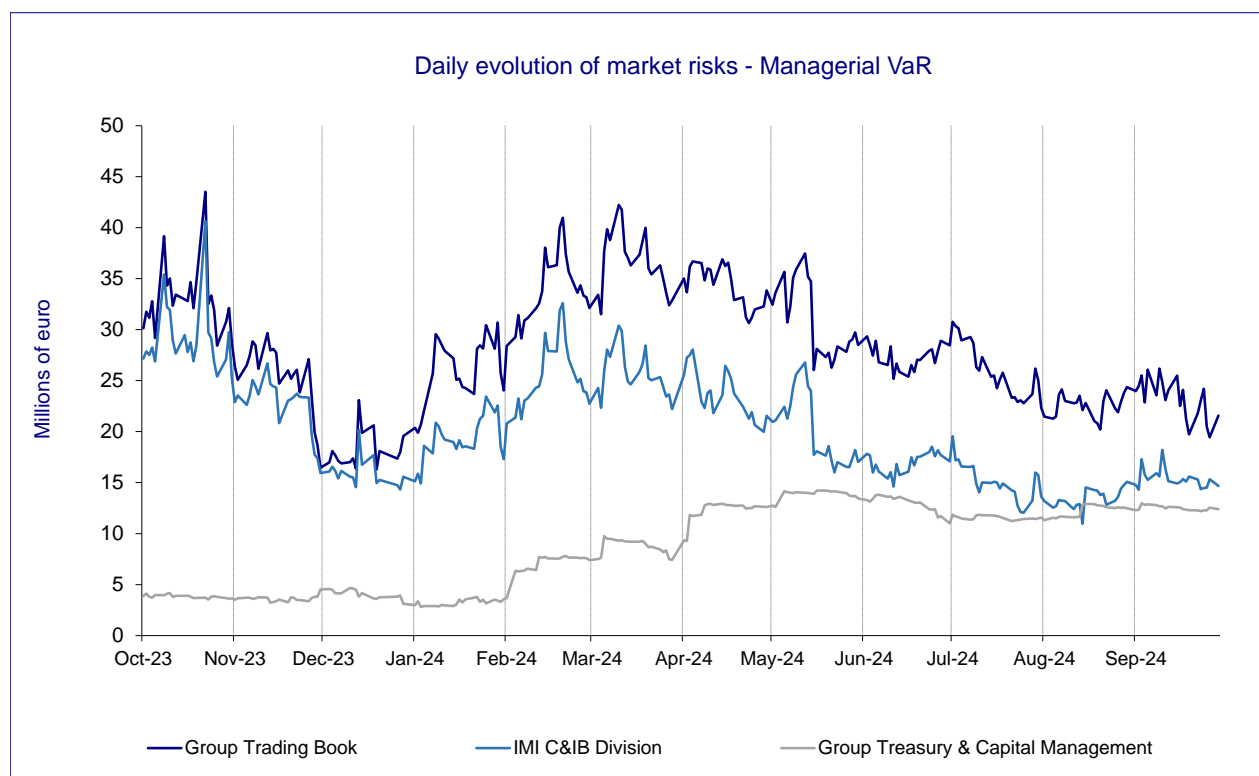
(millions of euro)

	2024			2023		
	average 30.09	minimum 30.09	maximum 30.09	average 30.09	minimum 30.09	maximum 30.09
Total Group Trading Book (a)	28.9	19.4	42.2	32.3	21.5	45.9
<i>of which: Group Treasury & Capital Management</i>	10.5	2.8	14.2	4.4	3.1	6.3
<i>of which: IMI C&IB Division</i>	19.3	11.0	32.6	30.0	19.5	43.7

The table shows the historical variability of the daily managerial VaR calculated on the time series for the first nine months of the year for 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.

In addition, as shown in the graph below, the main contribution to the movements in the Trading VaR continues to be the trading conducted by the IMI C&IB Division.



The breakdown of the Group’s risk profile in the trading book in the third quarter of 2024 shows a prevalence of interest rate risk and credit spread risk, accounting for 46% and 31% 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 (85% and 11%, respectively) and of interest rate risk and credit spread risk for the IMI C&IB Division (26% and 46%, respectively).

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

3rd quarter 2024	Shares	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Group Treasury & Capital Management	3%	85%	1%	11%	0%	0%
IMI C&IB Division	12%	26%	46%	6%	4%	6%
Group Total	8%	46%	31%	8%	3%	4%

(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 third 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).

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

	EQUITY		INTEREST RATES				FOREIGN EXCHANGE RATES		COMMODITIES		(millions of euro) INFLATION	
	Crash	Bullish	+40bps	lower rate	-25bps	+25bps	-5%	+5%	Crash	Bullish	Up	Down
Total Trading Book	54	69	-42	26	19	0	23	-14	-12	11	2	4

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 42 million euro in the event of a 40 basis point rise in interest rates;
- for positions in credit spreads, there would be no losses, whether the credit spreads expanded or narrowed;
- for positions in exchange rates, there would be potential losses of 14 million euro in the event of a 5% appreciation of the Euro against the other currencies;
- for positions in commodities, there would be a loss of 12 million euro in the event of a fall 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.

With regard to the use of the overall limit relating to trading and the hold to collect and sell (HTCS) business model, there was a reduction in market managerial VaR in the third quarter of 2024 from 139.6 million euro (average managerial VaR second quarter of 2024) to 136.8 million euro (average managerial VaR third quarter of 2024).

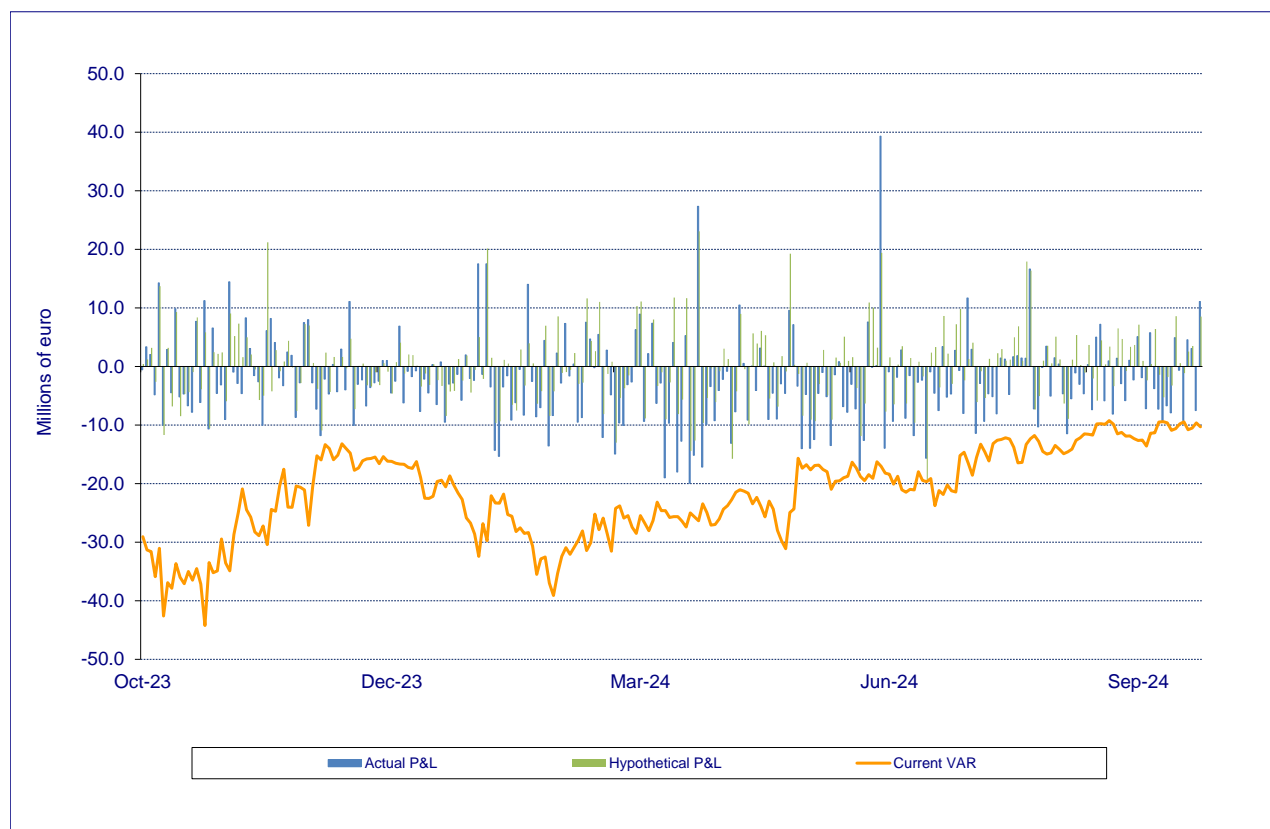
Backtesting

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

At the end of September 2024, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of the economic value, amounted to -2,269 million euro.

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 130 million euro, -149 million euro and 189 million euro, respectively, at the end of September 2024.

Interest rate risk, measured in terms of VaR, recorded a value of 595 million euro at the end of September 2024.

The table below shows the changes in the main risk measures during the third quarter of 2024, with regard to the Group's banking book.

	3rd quarter 2024			30.09.2024	(millions of euro) 30.06.2024
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	-2,391	-2,269	-2,466	-2,269	-2,312
Shift Sensitivity of Net Interest Income -50bp	-110	-55	-149	-149	-73
Shift Sensitivity of Net Interest Income +50bp	95	65	130	130	149
Shift Sensitivity of Net Interest Income +100bp	139	83	189	189	241
Value at Risk - Interest Rate	623	595	647	595	657

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on shareholders' equity of a price shock of $\pm 10\%$ for the minority interests, mainly held under the HTCS business model. That risk amounted to ± 75 million euro at the end of September 2024.

Price risk: impact on Shareholders' Equity

		(millions of euro)			
		Impact on shareholders' equity at 30.09.2024	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%	75	70	57	52
Price shock	-10%	-75	-70	-57	-52

LIQUIDITY RISK

The Group's liquidity position, supported by suitable high-quality liquid assets (HQLA) and the significant contribution from stable customer deposits, remained within the risk limits set out in the current Group Liquidity Policy in the third quarter of 2024.

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

Over the last 12 months, the Liquidity Coverage Ratio of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, has amounted to an average of 161.5% (168.1% in December 2023).

At the end of September 2024, the value of the total 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). Adding the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, the Group's total unencumbered liquidity reserves amounted to 209.5 billion euro (202.2 billion euro at the end of 2023).

The total unencumbered reserves of the Group increased mainly due to the higher liquidity surplus from operations of the Group's Commercial Network.

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

	(millions of euro)	
	Unencumbered (net of haircut)	
	30.09.2024	31.12.2023
HQLA Liquidity Reserves	130,932	160,309
Cash and Deposits held with Central Banks (HQLA)	48,606	80,461
Highly liquid securities (HQLA)	71,276	68,522
Other HQLA securities not included in LCR	11,050	11,326
Other eligible and/or marketable reserves	78,525	41,877
Total Group's Liquidity Buffer	209,457	202,186

The NSFR was higher than the minimum regulatory requirement of 100%, supported by a solid base of stable deposits from customers, in addition to adequate wholesale medium/long-term securitised funding. As at 30 September 2024, the Intesa Sanpaolo Group's NSFR, measured in accordance with regulatory instructions, was 122.3% (121.1% at the end of 2023).

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

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

INFORMATION ON FINANCIAL PRODUCTS

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

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

Assets / liabilities at fair value	30.09.2024			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	112,648	28,450	9,293	107,488	27,918	9,188
a) Financial assets held for trading	14,646	26,616	168	11,546	26,487	130
of which: Equities	3,481	-	28	1,892	-	23
of which: quotas of UCI	776	-	5	444	-	6
b) Financial assets designated at fair value	-	2	4	-	1	-
c) Other financial assets mandatorily measured at fair value	98,002	1,832	9,121	95,942	1,430	9,058
of which: Equities	6,176	272	99	5,578	205	210
of which: quotas of UCI	84,159	202	7,948	83,672	192	7,501
2. Financial assets measured at fair value through other comprehensive income	143,595	9,755	436	130,591	9,489	673
of which: Equities	577	497	236	458	497	344
3. Hedging derivatives	-	6,779	-	-	7,006	-
4. Property and equipment	-	-	6,609	-	-	7,222
5. Intangible assets	-	-	-	-	-	-
Total	256,243	44,984	16,338	238,079	44,413	17,083
1. Financial liabilities held for trading	8,578	35,810	152	7,829	35,614	50
2. Financial liabilities designated at fair value	4,810	69,806	157	91	72,660	31
3. Hedging derivatives	-	5,251	-	-	5,188	-
Total	13,388	110,867	309	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 5.1% 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 228 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 40.5% of the balance sheet assets at level 3 fair value.

A total of 80.7% 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 89% of the liabilities at fair value are attributable to Level 2, primarily to Financial liabilities designated at fair value.

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

Assets / liabilities at fair value	30.09.2024			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	14,830	27,521	4,216	11,703	27,257	3,940
a) Financial assets held for trading	14,618	26,616	168	11,521	26,485	130
of which: Equities	3,481	-	28	1,892	-	23
of which: quotas of UCI	776	-	5	444	-	6
b) Financial assets designated at fair value	-	2	4	-	1	-
c) Other financial assets mandatorily measured at fair value	212	903	4,044	182	771	3,810
of which: Equities	163	272	11	137	205	128
of which: quotas of UCI	49	202	3,477	45	192	3,130
2. Financial assets measured at fair value through other comprehensive income	73,386	7,251	352	61,003	7,135	480
of which: Equities	577	490	236	458	490	344
3. Hedging derivatives	-	6,731	-	-	6,982	-
4. Property and equipment	-	-	6,602	-	-	7,214
5. Intangible assets	-	-	-	-	-	-
Total	88,216	41,503	11,170	72,706	41,374	11,634
1. Financial liabilities held for trading	8,574	35,802	152	7,825	35,611	50
2. Financial liabilities designated at fair value	4,810	19,121	157	91	21,222	31
3. Hedging derivatives	-	5,199	-	-	5,105	-
Total	13,384	60,122	309	7,916	61,938	81

With regard to the assets of the Banking Group and Other companies, level 3 instruments, which allow for more discretion in fair value measurement, account for a small portion of the portfolio, with an impact of 7.9% on total assets (9.3% as at 31 December 2023).

A total of 62.6% 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 59.1% of the balance sheet assets at level 3 fair value.

A total of 81.5% of liabilities are classified in level 2 and 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 12 billion euro as at 30 September 2024, of which 3.8 billion euro held under the Hold to Collect and Sell business model and 8.2 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").

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

Assets / liabilities at fair value	30.09.2024			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	97,818	929	5,077	95,785	661	5,248
a) Financial assets held for trading	28	-	-	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	97,790	929	5,077	95,760	659	5,248
of which: Equities	6,013	-	88	5,441	-	82
of which: quotas of UCI	84,110	-	4,471	83,627	-	4,371
2. Financial assets measured at fair value through other comprehensive income	70,209	2,504	84	69,588	2,354	193
of which: Equities	-	7	-	-	7	-
3. Hedging derivatives	-	48	-	-	24	-
4. Property and equipment	-	-	7	-	-	8
5. Intangible assets	-	-	-	-	-	-
Total	168,027	3,481	5,168	165,373	3,039	5,449
1. Financial liabilities held for trading	4	8	-	4	3	-
2. Financial liabilities designated at fair value	-	50,685	-	-	51,438	-
3. Hedging derivatives	-	52	-	-	83	-
Total	4	50,745	-	4	51,524	-

With regard to the assets of the Insurance Companies, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the portfolio, with an impact of 2.9% on total assets (3.1% as at 31 December 2023).

95.1% 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 were almost entirely measured using level 2 inputs and attributable to Financial liabilities designated at fair value.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products came to 6,213 million euro as at 30 September 2024, a net increase of 1,745 million euro compared to the stock of 4,468 million euro as at 31 December 2023. The exposure includes investments in CLOs (Collateralised Loan Obligations) of 2,971 million euro, in ABSs (Asset-Backed Securities) of 3,173 million euro and in CDOs (Collateralised Debt Obligations) of 69 million euro, which continued to be a marginal activity also in the first nine months 2024.

Accounting categories	30.09.2024			31.12.2023		(millions of euro) changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	411	676	-	1,087	775	312	40.3
Financial assets mandatorily measured at fair value	-	3	-	3	3	-	-
Financial assets measured at fair value through other comprehensive income	1,572	694	-	2,266	2,106	160	7.6
Financial assets measured at amortised cost	988	1,800	69	2,857	1,584	1,273	80.4
Total	2,971	3,173	69	6,213	4,468	1,745	39.1

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 customers²⁵.

The performance of the portfolio in the first nine months of 2024 shows higher overall investments than disposals and redemptions, with a total increase of 1,745 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 by 472 million euro, from 2,884 million euro in December 2023 to 3,356 million euro in September 2024. The increase was attributable to higher investments totalling 1,622 million euro, of which 877 million euro relating to financial assets held for trading and 745 million euro to financial assets measured at fair value through other comprehensive income, offset by redemptions and disposals totalling 1,150 million euro, of which 565 million euro relating to the first component and 585 million euro to the second component.

Exposures classified among assets measured at amortised cost (CLO, ABS and CDO debt securities) amounted to 2,857 million euro in September 2024, compared with a balance of 1,584 million euro in December 2023, a net increase of 1,273 million euro, generated by higher investments of 1,509 million euro, only partially offset by disposals and reimbursements of 236 million euro.

From the perspective of the income statement, the overall profit of +13 million euro as at 30 September 2024 compares with a profit of +3 million euro as at 30 September 2023.

The performance of assets held for trading in the first nine months of the year, caption 80 of the income statement, amounted to +9 million euro and related to the CLO and ABS exposures (+8 million euro from realisation impacts and +1 million euro from valuation effects), whereas as at 30 September 2023 it amounted to +4 million euro, relating to exposures in CLO and ABS (+7 million euro from realisation impacts and -3 million euro from valuation effects).

The profits (losses) from financial assets mandatorily measured at fair value as at 30 September 2024 were essentially nil, the same as the situation as at 30 September 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 +20 million euro in the first nine months of 2024 through a shareholders' equity reserve (from a reserve of -30 million euro in December 2023 to -10 million euro in September 2024), in addition to impacts from sales from the portfolio of +4 million euro (which were not present as at 30 September 2023).

For the debt securities classified as assets measured at amortised cost, the zero figure as at 30 September 2024 compares with the figure of -1 million euro as at 30 September 2023 attributable to losses on disposals.

²⁵ This is implemented by the Group through its subsidiary Duomo Funding Plc.

Income statement results broken down by accounting category	30.09.2024			30.09.2023		(millions of euro) changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	5	4	-	9	4	5	
Financial assets mandatorily measured at fair value	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	4	-	-	4	-	4	-
Financial assets measured at amortised cost	-	-	-	-	-1	-1	
Total	9	4	-	13	3	10	

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 issue programme under the covered bond issue programme guaranteed by UBI Finance, in the third quarter the 24th series matured in July for an amount of 750 million euro.

Within the covered bond programme guaranteed by ISP OBG, the 21st retained series matured in August, for an amount of 1,250 million euro.

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 September 2024, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions as per the ECB Guidance amounted to 27.9 billion euro, relating to 2,032 credit lines. The geographical distribution shows that more than half of the transactions, in terms of volume, were with domestic counterparties (59%). 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 September 2024 amounted to 244 million euro for the trading book and 197 million euro for the banking book for a total of 441 million euro, compared to 163 million euro and 184 million euro, respectively, for a total of 347 million euro as at 31 December 2023.

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 nine months of 2024, there was an increase of 94 million euro on the end of the previous year, including investments of 79 million euro, increases in fair value of 23 million euro and impacts from repayments of -8 million euro.

Specifically, the investments were mainly made in the trading book (69 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 11 million euro for the banking book and 12 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 September 2024 there was an overall profit of +23 million euro, attributable to the valuation effects of funds in the portfolio, including financial assets mandatorily measured at fair value (+11 million euro) and financial assets held for trading (+12 million euro). As at 30 September 2023, the result in the income statement totalled +12 million euro, entirely attributable to valuation effects of funds held among financial assets mandatorily measured at fair value (+12 million euro) and among financial assets held for trading (-1 million euro), in addition to realisation impacts on the trading segment (+1 million euro).

In the Intesa Sanpaolo Group, as at 30 September 2024 Eurizon Capital SGR held hedge funds for a total of 13 million euro (substantially stable compared to June 2024 and December 2023), with an impact from valuation on the income statement of -0.2 million euro (as at 30 September 2023 the impact was +2 million euro, also from valuation, for exposures amounting to 52 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 September 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 2,807 million euro (2,830 million euro as at 31 December 2023). The notional value of these derivatives totalled 46,867 million euro (40,555 million euro as at 31 December 2023).

The positive fair value of contracts outstanding with the 10 customers with the highest exposures was 1,587 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 2,286 million euro as at 30 September 2024 (3,545 million euro as at 31 December 2023). The notional value of these derivatives totalled 50,293 million euro (60,349 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 September 2024, this led to a negative impact of -14 million euro under "Profits (Losses) on trading" in the income statement (positive impact of 10 million euro as at 30 September 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.

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

OPERATIONAL RISKS

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events²⁶.

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

To determine its capital requirements, the Group uses a combination of the methods allowed under applicable regulations (advanced measurement approach partially used along with the standardised approach and basic indicator approach). The capital absorption resulting from this process amounted to 2,364 million euro as at 30 September 2024, corresponding to the figure as at 30 June 2024.

Legal risks

Legal risks are thoroughly analysed by the Parent Company and Group companies. Provisions are made to the allowances for risks and charges in the event of disputes for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated. For the main pending disputes, the significant developments in the quarter are described below. For the main pending disputes, the significant developments in the quarter are described below. For broader information regarding the disputes below and the pending significant ones, see the Notes to the 2023 Annual Report and the 2024 Half-yearly Report of the Intesa Sanpaolo Group.

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 18 local authorities, with possible or likely risk, for total claims of 85 million euro, and disputes with 4 Companies controlled by public entities, with total claims of 37 million euro. Disputes with individuals, assessed as having possible or likely risk, total 164, and of these, 43 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 137 million euro.

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

Following the incorporation of UBI Banca, Intesa Sanpaolo took over the management of the “Good Banks dispute”, namely all the 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.

Within the disputes regarding the mis-selling of shares and subordinated bonds of the banks undergoing resolution, by favourable ruling no. 22115 of 5 August 2024 in the Fox Petrol case, the First Division of the Court of Cassation held that Intesa Sanpaolo lacked the capacity to be sued, confirming that the claims made relate to liabilities not transferred to the Bridge Institutions (the Good Banks), but remained with the banks under resolution (the Old Banks).

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 business 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, requesting the annulment of the administrative fine.

On 2 August 2024, ISP RBM submitted the plan to the AGCM for complying with the ban on continuing the prohibited conduct.

On 22 October 2024, the Authority informed ISP RBM that it had acknowledged the documentation submitted regarding the measures adopted as compliance.

Nuova Casar

This involves a legal action brought in 2002 against the Bank to obtain payment of around 7.2 million euro plus interest by Nuova Casar, in its capacity as the transferee of the credit from a mortgage loan of 11.3 million euro from 1991 provided by Sanpaolo di Torino to Fineditristica (which became insolvent in 1997), with the credit secured by a mortgage and an independent guarantee issued by Banco di Napoli (now Intesa Sanpaolo) and two other banks, each covering up to 25%.

At first instance, the case ended in 2013 with the Naples Court rejecting Nuova Casar’s claim, on the grounds that the guarantee issued by Banco di Napoli was null and void due to the invalidity of the loan granted by Sanpaolo di Torino.

²⁶ 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.

The decision was appealed by the counterparty before the Naples Court of Appeal, which in 2023 referred the case back for a technical accounting appraisal, following which negotiations for a settlement commenced and were concluded in the first ten days of October 2024.

Armonia SPV S.r.l.

At the end of May 2024, Armonia SPV S.r.l. issued a formal notice claiming damages of around 98 million euro, plus arrears interest, additional damages and costs, alleging the non-existence of certain receivables purchased from UBI Factor (now Intesa Sanpaolo), which were subject to legal proceedings at the time of the 2019 sale.

The Bank responded to the notice by sending a communication rejecting the claims in full, and to date, no responses have been received.

Municipality of Turin

In July 2024, the Municipality of Turin filed a civil action before the Court of Turin to challenge the derivative contract entered into in 2007 (2007 swap) governed by an ISDA agreement of 2004, subject to English jurisdiction and law. The contract was signed to renegotiate previous transactions carried out in 2003 and 2006, as part of the Entity's debt restructuring, an initiative in which other banks have also participated over the years.

The Municipality has made:

- as the main claim demand, for compensation for damages due to contractual breach related to an advisory agreement for the management of the Entity's debt of December 2003 and for pre-contractual liability concerning the preliminary phase leading to the signing of the derivatives agreements;
- in the alternative, demand the nullity of the 2007 swap, on the one hand, due to the lack of indication in the MtM contracts of its calculation formula and the probability scenarios and, on the other, due to the failure to comply with the requirements established by the specific applicable regulations regarding the use of these financial instruments by Public Entities.

The main claim is quantified at around 27 million euro.

The first hearing, initially scheduled for 16 October, was postponed to 18 December 2024 by request made by the Bank, which the Municipality agreed to.

IMI/SIR

In the review proceedings pending before the Court of Appeal of Rome, Giovanni Acampora's defence counsel submitted the death certificate for his client on 11 September 2024, resulting in the interruption of the proceedings pursuant to Article 300 of the Italian Code of Civil Procedure. The Court pronounced the interruption of the proceedings at the hearing on 1 October. The Bank will resume the proceedings within three months by summoning Acampora's heirs.

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

In the criminal proceedings pursuant to Legislative Decree 231/01 pending before the Court of Milan, in order to avoid a lengthy dispute and without admitting any liability for the circumstances alleged, at the hearing of 3 July 2024 the bank filed a petition to apply a financial penalty (plea bargain), which was accepted by the Public Prosecutor.

At the preliminary hearing on 24 September 2024, the Judge postponed the hearing to 24 October 2024 to allow the other parties involved (Banca Cramer and the Bosia brothers) additional time to reach an agreement with the Prosecutor to settle the case. With the other parties having failed to reach an agreement with the Prosecutor, at the hearing on 24 October 2024 the Public Prosecutor requested the issuance of an indictment order against the Bosia brothers and Banca Cramer. The Judge then deferred the decision to the hearing on 4 February 2025 regarding both Reyl's plea bargain request and the position of the other parties involved.

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 against the ruling of the Court of First Instance (on the admissibility test), which was rejected by the Court of Appeal. No further appeals were lodged during the third quarter and the ruling has therefore become final.

Labour litigation

With regard to labour litigation, as was the case as at 31 December 2023 and 30 June 2024, there were no significant pending disputes in terms of importance or number as at 30 September 2024. In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

Tax litigation

The tax litigation risks of the Group (considering the subsidiaries subject to line-by-line consolidation) are covered by adequate provisions for risks and charges.

With regard to **Intesa Sanpaolo** (ISP), as at 30 September 2024 the claims increased by 1.3 million euro, while the provisions decreased by 0.4 million euro. There are 444 pending litigation proceedings (448 as at 30 June 2024) for a total amount claimed (taxes, penalties and interest) of 108.3 million euro (107 million euro as at 30 June 2024), considering both administrative and judicial proceedings at various instances.

In relation to these proceedings, the actual risks were quantified at 40.7 million euro as at 30 September 2024 (41.1 million euro as at 30 June 2024).

Compared to 30 June 2024, for the Parent Company, the main events that gave rise to significant movements in the amount claimed (1.3 million euro) consisted of:

- an increase (2.8 million euro), due to: i) new disputes for 0.1 million euro for municipal property tax (IMU) disputes on terminated lease contracts; ii) new disputes for 2.4 million euro for registration tax, of which 2.2 million euro for registration on judicial documents relating to the former Banca Apulia position discussed below; iii) new disputes for 0.1 million euro for mortgage and land registry taxes; and iv) accrued interest expenses of 0.2 million euro;
- a decrease (1.5 million euro), due to: i) settlements of disputes regarding registration tax for 1.1 million euro concerning the former Banca Apulia position; and ii) settlements of disputes on municipal property tax (IMU) on properties from both terminated and current leasing contracts for 0.4 million euro.

Also compared to 30 June 2024, for the Parent Company, the main changes in provisions (-0.4 million euro) consisted of:

- an increase (0.2 million euro), due to: i) new municipal property tax (IMU) disputes on terminated lease contracts amounting to 0.1 million euro; and ii) legal fees and interest accrued on outstanding disputes amounting to 0.1 million euro;
- a decrease (0.6 million euro) attributable to: i) uses (0.2 million euro) for legal fees; and ii) releases to the income statement (0.4 million euro) almost entirely attributable to the closure of municipal property tax (IMU) disputes on terminated lease contracts.

For details of the main outstanding disputes, see the Half-yearly Report as at 30 June 2024, except for the following.

Former Banca Apulia – Registration tax on ruling of the Civil Court of Bari

On 15 July 2024, the Italian Revenue Agency – Provincial Directorate of Bari issued a notice of assessment for registration tax of 1.1 million euro related to a 2023 ruling by the Court of Bari. This ruling ordered Intesa Sanpaolo, as the successor of Banca Apulia, to pay the Municipality of Bari 18 million euro, including 1 million euro in interest (based on a guarantee provided by the bank in favour of the consortium that carried out the contract for the construction of the San Nicola Stadium in Bari), and also ordered the consortium to indemnify Intesa Sanpaolo with respect to the ruling. This notice was annulled by way of internal review and replaced by a new notice, with amended grounds, served on 8 August 2024 for an almost identical amount (difference of a few thousand euro). Substantively, the claim is considered illegitimate: a) regarding the order for Intesa Sanpaolo to pay the Municipality the amount of 18 million euro, based on the guarantee provided, because this involves the application of a proportional registration tax (542 thousand euro), whereas it involves a reimbursement of an amount paid by the Municipality to the Consortium under the contract, subject to VAT of around 50% and, therefore, to a fixed registration tax on the basis of the VAT-registration tax alternativity principle; and b) regarding the order for the Consortium to indemnify Intesa Sanpaolo up to the amount of 18 million euro, because again this involves the application of a proportional registration tax (542 thousand euro) on an amount that also falls within the scope of the contract, for which the Municipality obtained the right to restitution from the Consortium by means of a favourable civil ruling, and therefore the grounds set out in point a) also apply. Intesa Sanpaolo will appeal against this latest notice within the legal time limits.

Intesa Sanpaolo (and subsidiaries) – IRES tax contributions for charges for integration of the Venetian banks from ISP to the subsidiaries

As reported in the Consolidated Financial Statements as at 31 December 2023, as well as the previous interim reports of 2024 (to which reference is made for more details), from the end of 2023 to the start of 2024, 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 numerous meetings initially held with the Collaborative Compliance Office and subsequently with each Directorate, we set out the reasons why the alleged disputes should be considered entirely unfounded.

Lastly, it has been agreed with the Italian Revenue Agency that the contributions due from ISP to the companies concerned a) are covered by Article 88, paragraph 3 of the Income Tax Code, and are therefore only taxable on a cash basis (in other words only if and to the extent they have been actually paid/received, excluding instances where contributions were not made due to the subsequent merger of the subsidiary into ISP); and b) are, in any event, only taxable outside the ISP tax consolidation scheme (because within the consolidation, the taxation on the subsidiary is matched by a deduction for the consolidating parent company).

Specifically, it was agreed that:

1. as ISP did not pay any income to the subsidiaries during 2017, no voluntary correction will be made for that year;
2. for subsidiaries merged before the contribution was received, the dispute should be permanently abandoned for both the subsidiaries and, correspondingly, for the absorbing company ISP;
3. regarding the subsidiaries that received the contribution during the tax periods from 2018 to 2022, the intention is to ensure that they include the contribution in the calculation of their taxable income in the year it is received, and, in the same year, ISP will deduct the corresponding cost for IRES (Corporate Income Tax) and the related surcharge. Operationally, this adjustment will be carried out by voluntary correction in accordance with Article 13, Legislative Decree 18 December 1997, no. 472, with supplementary tax returns “unfavourable” to the subsidiaries and “favourable” to ISP. The regularization for the tax years 2018-2022 would be completed by 31 December 2024, through responses from the companies concerned to specific requests/questionnaires that the Agency’s Directorates are expected to start sending shortly.

The total cost for net taxes, penalties, and interest to settle the position for all the years for the companies concerned (including those not part of the ISP Group, namely SEC Servizi and Intrum, whose charge will be borne by ISP) is essentially nil at Group level. This is because the costs incurred are offset by the benefit to ISP from the ability to deduct for tax purposes not only (i) the additional contributions to be paid now to compensate the companies for the tax charge due from them to settle the position but also (ii) the contributions paid in the period 2018-2022, for which no DTAs were recognised.

Banco Sudameris Brasil - Direct taxes year 1995 (PDD1 dispute)

With regard to the dispute with the Brazilian tax authorities (value of around 41.6 million euro), concerning taxes on income and social security contributions for the year 1995 for the company Banco Sudameris Brasil (now Banco Santander Brasil) - better known as the “PDD1 dispute” – the proceedings are pending in second instance. The hearing initially scheduled for 18 September has been postponed twice by the court and is expected to be rescheduled by the end of the year. The law firm representing the bank has submitted a brief memorandum for the hearing. For a detailed analysis of the case, see the consolidated financial statements as at 31 December 2021 and 31 December 2022.

With regard to Intesa Sanpaolo’s international branches, details are provided in the Half-yearly Report as at 30 June 2024. The only new development has been the commencement in August 2024 of a tax audit for the 2021-2023 tax periods on the Shanghai branch. No issues have been raised for the time being.

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 September 2024, the investment portfolios, recorded at book value, amounted to 179,766 million euro. Of these, a part amounting to 92,772 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 86,994 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 78,191 million euro, were bonds, whereas assets subject to equity risk represented around 2% of the total and amounted to 2,161 million euro. The remainder (12,408 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (around 14%).

The carrying value of derivatives came to around 12 million euro, of which around 16 million euro relating to effective management derivatives, and the remaining portion (around -4 million euro) is attributable to hedging derivatives.

At the end of the first nine months of 2024, investments made with the shareholders' fund of Intesa Sanpaolo Vita and Fideuram Vita amounted to around 1,611 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of around 19 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 -4,561 million euro.

The distribution of the portfolio by rating class was as follows: AAA/AA bonds represented around 4.7% of total investments and A bonds around 12.3%; low investment grade securities (BBB) represented around 80.2% of the total and the portion of speculative grade or unrated was minimal (2.8%); 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 71.2% of the total investments, while financial companies (mostly banks) contributed around 19.3% of exposure and industrial securities made up around 9.5%.

With regard to the third quarter of 2024, the fair value sensitivity of bonds to a change in issuer credit rating, intended as a market credit spread shock of +100 basis points, was -4,829 million euro, with -3,976 million euro due to government issuers and -853 million euro to corporate issuers (financial institutions and industrial companies).