1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

General aspects, liquidity risk management processes and measurement methods

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).
The arrangement of a suitable control and management system for that specific risk has a fundamental role in maintaining stability, not only at the level of each individual bank, but also of the market as a whole, given that imbalances within a single financial institution may have systemic repercussions. Such a system must be integrated into the overall risk management system and provide for incisive controls consistent with developments in the context of reference.

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.

The provisions on liquidity introduced by the European Union in June 2013 and subsequently updated establish that banks must comply with: (i) the short-term liquidity coverage ratio (LCR > 100%) and (ii) the net stable funding ratio (NSFR >100%), as set out in Directive 2019/878/EU, Regulation (EU) No 575/2013, Regulation (EU) No 2019/876 and Delegated Regulation (EU) No 2015/61, as supplemented and amended. The regulatory framework is completed by the Implementing Technical Standards developed by the EBA and ECB Guidelines designed to increase regulatory harmonisation of the Union within the framework of the Single Supervisory Mechanism (SSM), which in the area of liquidity also establishes an Internal Liquidity Adequacy Assessment Process (ILAAP), to be conducted with annual frequency for the purposes of the Supervisory Review and Evaluation Process (SREP).

The "Group Liquidity Risk Management Guidelines" of the Intesa Sanpaolo Group – in addition to referring to the Bank of Italy's indications regarding liquidity risk contained in the "Supervisory regulations for banks" – have gradually incorporated all the above regulatory provisions, in implementation of the applicable regulatory provisions.
In this framework, the Group Liquidity Risk Management Guidelines approved by Intesa Sanpaolo's Corporate Bodies 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.

The key principles guiding the internal control and management system for liquidity risk defined by those Guidelines are as follows:
- the existence of a liquidity management policy approved by senior management and clearly disseminated throughout the Bank;
- the existence of an operating structure that works within set limits and attention thresholds and of a control structure that is independent from the operating structure;
- the constant availability of adequate liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions;
- liquidity management in crisis situations that takes into account the guidelines on the governance of crisis management processes within the Recovery Plan and the Resolution Plan.

The Group Liquidity Risk Management Guidelines set out the task assigned to the Corporate Bodies and allocate several important responsibilities to senior management, including approving measurement indicators, defining the main assumptions underlying the stress scenarios and composing the 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. In order to maximise the coordination and integrated control of liquidity risk, the Group Liquidity Risk Management Guidelines identify the following scopes of companies: (i) the "Eurozone sub-consolidation scope", which comprises the Parent Company with its international branches and all the other Italian and international banks of the Group in the Eurozone for which the transfer of liquidity is not blocked or limited by regulatory constraints and which therefore contribute to the stability of the integrated management in the Eurozone, for which the Central Treasury function is directly responsible, subject to compliance with the limits set for each individual legal entity; and (ii) the "Other Banks/Group Companies" scope, which includes the Group's international subsidiaries, whose liquidity management is carried out by the Treasury/ALM functions of each subsidiary, under the guidance and monitoring of the competent structures of the Parent Company.

The corporate functions of the Parent Company responsible for ensuring the correct application of the Guidelines and the adequacy of the Group's liquidity position are the Group Treasury and Finance Head Office Department and the Planning and Control Head Office Department, 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 Group's liquidity is managed by the aforesaid structures of the CFO area through thorough monitoring of cash flows and continuous liaison with the Business Units, within the framework of the relevant business plans drawn up in accordance with the following guidelines:
- constant attention to the level of customer loyalty, aimed at maintaining a high stock of stable deposits;
- monitoring of the deposit-lending gap of the Business Units, with respect to plan and budget targets;
- balanced use of the institutional market, with particular attention to diversification of segments and instruments;
- selective use of refinancing operations by Central Banks.

The Market and Financial Risk Management Head Office Department is directly responsible for level two controls and, as an active member of the Managerial Committees, it performs a primary role in the management and dissemination of information on liquidity risk, helping improve the Group's overall awareness of the existing position. In particular, it ensures the measurement of the Group's current and future exposure to liquidity risks under normal and stressed conditions, verifying compliance with the limits and, if those limits are exceeded, implementing the reporting to the competent Corporate Bodies and monitoring the agreed correction actions in the event of any excesses.

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 aforementioned 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 Intesa Sanpaolo Group's structural Liquidity Policy has adopted 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 of the Bank to meet its 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 (CLP) 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. The early warning indices, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Market and Financial Risk Management Head Office Department. Within this framework, the Group Treasury and Finance Head Office Department 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 CLP is part of the more general plan of Crisis Management (i.e. it is the first step of the escalation process envisaged in the management of liquidity emergencies) and the instruments envisaged in it represent a selection of recovery actions that are considered to be implementable in the short term and before other more radical measures, which are more extraordinary in nature or extent. To this end, intervention strategies and tools are defined according to the type, duration and intensity of the liquidity emergency, as well as the context in which the emergency is expected to occur.

Group liquidity position

The Group's liquidity position - 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 all of 2023.
Both regulatory indicators, LCR and NSFR, were above the regulatory requirements. In 2023, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average[107] of 168.1% (181.9% in 2022). The NSFR was also significantly higher than 100%, supported by a solid base of stable deposits from customers, in addition to adequate wholesale medium/long-term securities funding. The remaining component of TLTRO funding no longer contributes to the support of the indicator, as it is now almost entirely maturing by 28 June 2024. As at 31 December 2023, the Intesa Sanpaolo Group's NSFR, measured in accordance with regulatory instructions, was 121.1% (126% at the end of 2022).

The surpluses of both regulatory indicators, LCR and NSFR, are mainly originated within the Eurozone sub-consolidation scope. For the purposes of the LCR indicator, individual surpluses recorded at some international subsidiaries are also sterilised on consolidation due to constraints on the circulation of liquidity at those subsidiaries.
At the end of December 2023, the value of the total unencumbered HQLA reserves, at the various Treasury Departments of the Group, amounted to 160.3 billion euro (172.5 billion euro at the end of 2022). These reserves consisted of around 54% cash as a result of the temporary excess liquidity payments in the form of unrestricted deposits held at central banks. Adding the other marketable reserves and/or eligible reserves for Central Banks, including retained self-securitisations, the Group's total unencumbered liquidity reserves amounted to 202.2 billion euro (177.7 billion euro at the end of 2022), of which 85% held at the Parent Company's Central Treasury and 15% at decentralised treasuries, based on the local needs of the Group's various subsidiaries.
The Group's total reserves increased in relation to the ECB's return of the collateral underlying the TLTROs repaid during the year, a change only partially offset by the decrease in available cash among HQLAs, thanks to the new medium and long-term (MLT) funding volumes in the financial markets and liquidity surplus resulting from the commercial operations of the Networks.

(millions of euro)

	Unencumbered (net of haircut)	
	31.12.2023	**31.12.2022**
HQLA Liquidity Reserves	**160,309**	**172,528**
Cash and Deposits held with Central Banks (HQLA)	80,461	109,792
Highly liquid securities (HQLA)	68,522	55,931
Other HQLA securities not included in LCR	11,326	6,805
Other eligible and/or marketable reserves	41,877	5,222
Total Group's Liquidity Buffer	**202,186**	**177,750**

Regular stress tests are carried out to assess the impact of negative events on the company liquidity position and on the adequacy of liquidity reserves, in relation to the current and prospective situation of the Group, the Bank and the market, to enable the Corporate Bodies to promptly recognise any unexpected vulnerability and to direct the activation of consequent corrective measures.

Considering the high amounts of unencumbered liquidity reserves (liquid or eligible), the stress tests, in a combined scenario of market and specific crises (with significant loss in customer deposits), 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.

Intesa Sanpaolo's funding strategy is based on maintaining diversity in terms of customers, products, maturities and currencies. Intesa Sanpaolo's main sources of funding consist of: (i) deposits from the domestic Retail and Corporate market, which represent the stable portion of funding, (ii) medium/long-term funding, mainly composed of own issues (senior debt securities in the euro and US markets, in addition to subordinated securities and covered bonds/ABSs), (iii) short-term funding on wholesale markets, largely consisting of repurchase agreements and CD/CP funding; and (iv) repurchase agreements on eligible retained assets. The Eurosystem refinancing operations (TLTROs) mature within the year.
The Group Liquidity Risk Management Guidelines require the regular monitoring of the concentration analyses for the funding (by counterparty/product) and for the liquidity reserves (by issuer/counterparty).

[107] The figure shown refers to the simple average of the last 12 months of monthly observations, as per Regulation (EU) 2021/637.

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 risk factors. This report includes an assessment of the liquidity risk exposure, also determined based on the adverse scenarios. The Board of Directors of Intesa Sanpaolo is regularly involved in defining the strategy for maintaining an adequate liquidity position at the level of the entire Group.

The corporate assessment on the adequacy of Intesa Sanpaolo's liquidity position is reported in the ILAAP, which also includes the Group's Funding Plan. Within the annual approval process for this report by the Corporate Bodies of Intesa Sanpaolo, the Liquidity Adequacy Statement (LAS) approved by the Board of Directors, which also presents the main findings from the self-assessment of the adequacy of the liquidity position, taking into account the results and values shown by the main indicators, confirms that the management of the liquidity position is considered to be adequate and deeply rooted in the Group's culture and business processes. It also notes, including from a prospective standpoint, that the current system of rules and procedures appears adequate to ensure a prompt and effective reaction should the risks and challenges actually materialise in severe and adverse stress scenarios.

Impacts of the Russia-Ukraine conflict

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

QUANTITATIVE INFORMATION

1. Breakdown by contractual residual maturity of financial assets and liabilities

The breakdown by maturity of financial assets and liabilities is shown in the tables below according to the rules set forth in the financial statement regulations (Bank of Italy Circular 262 and related clarifications issued by the Supervisory Authority), using accounting information organised by contractual residual maturity. Therefore, no operational data was used that would require, for example, the modelling of core deposits and the representation of on-balance sheet items according to their level of liquidity.

Currency of denomination: Euro

(millions of euro)

Type/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**123,904**	**17,541**	**7,378**	**15,921**	**21,424**	**24,471**	**34,842**	**164,248**	**207,027**	**5,124**
A.1 Government bonds	29	-	192	437	370	1,250	2,127	14,053	50,694	-
A.2 Other debt securities	452	1,082	957	4,942	238	855	861	12,740	25,192	-
A.3 Quotas of UCI	3,126	-	-	-	-	-	-	-	9	-
A.4 Loans	120,297	16,459	6,229	10,542	20,816	22,366	31,854	137,455	131,132	5,124
- Banks	77,424	7,659	179	960	1,450	1,401	984	3,394	193	5,066
- Customers	42,873	8,800	6,050	9,582	19,366	20,965	30,870	134,061	130,939	58
B. Cash liabilities	**384,911**	**14,967**	**7,347**	**5,746**	**52,732**	**25,546**	**17,085**	**69,635**	**29,887**	**-**
B.1 Deposits and current accounts	354,581	2,834	4,534	4,001	7,273	9,412	5,000	2,666	728	-
- Banks	2,685	511	182	136	389	197	149	585	275	-
- Customers	351,896	2,323	4,352	3,865	6,884	9,215	4,851	2,081	453	-
B.2 Debt securities	25	170	1,776	1,612	6,875	5,964	10,592	60,391	23,324	-
B.3 Other liabilities	30,305	11,963	1,037	133	38,584	10,170	1,493	6,578	5,835	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	425	8,868	4,640	7,325	19,872	6,816	5,512	14,932	10,574	-
- Short positions	1,217	8,695	3,630	5,395	10,846	4,279	5,279	12,697	16,747	-
C.2 Financial derivatives without exchange of capital										
- Long positions	19,523	168	3	414	486	1,735	2,045	211	9	-
- Short positions	22,245	43	20	191	398	772	1,145	211	9	-
C.3 Deposits and loans to be settled										
- Long positions	58,469	-	-	-	-	-	-	-	-	-
- Short positions	2	56,321	1,390	545	2	2	29	33	144	-
C.4 Irrevocable commitments to lend funds										
- Long positions	3,695	9,215	8	120	543	1,419	2,045	20,681	3,028	-
- Short positions	37,824	3	7	45	33	64	105	74	7	-
C.5 Financial guarantees given	1,135	4	9	27	132	152	306	477	149	-
C.6 Financial guarantees received	139	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	19	-	524	679	-
- Short positions	-	-	-	-	-	19	-	524	679	-
C.8 Credit derivatives without exchange of capital										
- Long positions	963	-	-	-	-	-	-	-	-	-
- Short positions	772	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

(millions of euro)

Type/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**11,472**	**4,278**	**4,048**	**5,496**	**4,973**	**3,811**	**3,846**	**23,709**	**21,492**	**2,660**
A.1 Government bonds	7	145	72	422	1,146	498	653	5,471	15,224	-
A.2 Other debt securities	216	53	792	218	220	364	171	4,889	2,048	-
A.3 Quotas of UCI	681	-	-	-	-	-	-	-	-	-
A.4 Loans	10,568	4,080	3,184	4,856	3,607	2,949	3,022	13,349	4,220	2,660
- Banks	8,218	1,956	1,941	908	551	214	401	599	43	2,635
- Customers	2,350	2,124	1,243	3,948	3,056	2,735	2,621	12,750	4,177	25
B. Cash liabilities	**20,269**	**5,725**	**5,282**	**5,465**	**5,010**	**3,448**	**3,085**	**8,004**	**15,862**	**-**
B.1 Deposits and current accounts	18,668	1,633	1,933	1,457	1,859	877	1,097	1,592	129	-
- Banks	1,675	641	331	306	231	93	78	679	61	-
- Customers	16,993	992	1,602	1,151	1,628	784	1,019	913	68	-
B.2 Debt securities	68	317	725	418	855	2,465	1,870	5,445	12,908	-
B.3 Other liabilities	1,533	3,775	2,624	3,590	2,296	106	118	967	2,825	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	70	15,470	5,756	8,987	11,261	7,072	8,327	17,922	10,369	-
- Short positions	126	15,909	5,979	10,755	20,004	9,488	8,391	19,715	5,374	-
C.2 Financial derivatives without exchange of capital										
- Long positions	2,631	4	-	-	6	9	-	17	29	-
- Short positions	6,618	-	-	2	3	-	-	19	29	-
C.3 Deposits and loans to be settled										
- Long positions	800	-	-	-	-	-	-	-	-	-
- Short positions	5	6	3	-	2	-	1	370	411	-
C.4 Irrevocable commitments to lend funds										
- Long positions	929	42	19	44	1,288	475	1,284	12,369	1,883	-
- Short positions	17,812	38	-	281	1	1	4	27	50	-
C.5 Financial guarantees given	844	16	7	23	61	78	169	268	48	-
C.6 Financial guarantees received	75	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	36	9	-	-
- Short positions	-	-	-	-	-	-	36	9	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	322	-	-	-	-	-	-	-	-	-
- Short positions	344	-	-	-	-	-	-	-	-	-

2. Self-securitisations

A brief illustration of the securitisations originated by Intesa Sanpaolo outstanding as at 31 December 2023 is shown below, in which the Bank subscribed all the securities issued by the related vehicle (self-securitisations), and which need not be shown in the tables of Part E, section C “Securitisations” of the Notes to the financial statements.

Brera Sec S.r.l.

In October 2017, a self-securitisation was structured, carried out through the sale of five loan portfolios to the vehicle company Brera Sec S.r.l. and originated by the Parent Company and by four banks of the Group subsequently incorporated into Intesa Sanpaolo (Banco di Napoli, Cassa di Risparmio di Forlì e della Romagna and Cassa di Risparmio del Friuli Venezia Giulia, incorporated in the second half of 2018 and Cassa di Risparmio in Bologna, incorporated in the first half of 2019). The underlying consisted of residential mortgage loans held by households and/or family businesses. This transaction was the Group’s first Multi-Originator Residential Mortgage Backed Security (“RMBS”) securitisation.
Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, purchased on the market, and control (95%) is held by a corporate entity outside the Group (Dutch-registered foundation known as a Stichting).
Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody’s and Morningstar DBRS) and an unlisted junior tranche without rating.
Both the senior and junior securities were subscribed pro rata by each individual selling bank based on the sale price of each portfolio, and therefore today they have been fully subscribed by Intesa Sanpaolo.

The senior security issued through the transaction, with a Moody's Aa3 and a Morningstar DBRS A (High) rating, was used as collateral for refinancing operations in the Eurosystem.
The total sale consideration was 7.1 billion euro. The sale price of each portfolio sold was settled through the issuance of securities on 11 December 2017 for a total of 7.1 billion euro.
A buyback of non-performing loans of 40.6 million euro was finalised in April 2023.
As at 31 December 2023, the value of the outstanding subscribed securities was 2,378 million euro for the senior securities and 1,067 million euro for the junior securities.

Brera Sec S.r.l. (SEC 2)
In September 2019, a self-securitisation was structured, implemented through the sale of a loan portfolio originated by Intesa Sanpaolo to the vehicle company Brera Sec S.r.l. This transaction is the Group's second Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and Morningstar DBRS) and an unlisted junior tranche without rating.
Both the senior and junior securities were subscribed by Intesa Sanpaolo.
The senior security issued through the transaction, with a Moody's Aa3 and a Morningstar DBRS A (High) rating, was used as collateral for refinancing operations in the Eurosystem.
Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
The total sale consideration was 7.5 billion euro. The sale price of the portfolio was settled through the issuance of securities on 27 November 2019 for a total of 7.5 billion euro.
As at 31 December 2023, the value of the outstanding securities was 4,069 million euro for the senior securities and 860 million euro for the junior securities.

Brera Sec S.r.l. (SEC 3)
In October 2021, an additional self-securitisation was structured, implemented through the sale of a loan portfolio originated by Intesa Sanpaolo to the vehicle company Brera Sec S.r.l. This transaction is the Group's third Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and Morningstar DBRS) and an unlisted junior tranche without rating.
Both the senior and junior securities were subscribed by Intesa Sanpaolo.
The senior security issued through the transaction, with a Moody's Aa3 and a Morningstar DBRS A (High) rating, was used as collateral for refinancing operations in the Eurosystem.
Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
The total sale consideration was 7.7 billion euro. The sale price of the portfolio was settled through the issuance of securities on 1 December 2021 for a total of 7.7 billion euro.
As at 31 December 2023, the value of the outstanding securities was 6,139 million euro for the senior securities and 725 million euro for the junior securities.

Clara Sec S.r.l.
In 2020, a self-securitisation was structured involving receivables arising from performing personal loans within the consumer credit area and disbursed to consumer households.
The securitisation is a revolving transaction and Intesa Sanpaolo has the option to sell the vehicle further loan portfolios with similar characteristics and quality, which the Vehicle will purchase by drawing on the receipts generated by the portfolio segregated over time.
The transaction took place with the sale of the portfolio of loans originated by Intesa Sanpaolo to the vehicle company Clara Sec S.r.l.
Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with an entity from outside the Group (Dutch-registered foundation known as a Stichting).
Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
The transaction involved the issuance by the vehicle company of two tranches of securities: a listed senior tranche, with a rating assigned by two rating agencies (Moody's and Morningstar DBRS) and an unlisted junior tranche without rating.
Both the senior and junior securities were subscribed by Intesa Sanpaolo.
The senior security issued through the transaction, with a Moody's A1 and a Morningstar DBRS AA (Low) rating, was used as collateral for refinancing operations in the Eurosystem.
The total sale consideration was 7.6 billion euro. The sale price of the portfolio was settled through the issuance of securities on 23 June 2020 for a total of 7.2 billion euro.
A buyback of non-performing loans of 32 million euro was finalised in February 2023, and a sale of 984 million euro was finalised in July.
As at 31 December 2023, the value of the outstanding securities was 6,350 million euro for the senior securities and 824 million euro for the junior securities.

Giada Sec S.r.l.

In November 2020, a self-securitisation was structured, implemented through the sale of a portfolio of loans, disbursed to companies belonging to the small business, SME and Corporate segment and originated by Intesa Sanpaolo, to the vehicle company Giada Sec S.r.l.

The securitisation is a revolving transaction and Intesa Sanpaolo has the option to sell the vehicle further loan portfolios with similar characteristics and quality, which the Vehicle will purchase by drawing on the receipts generated by the portfolio segregated over time.

Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, purchased on the market, and control (95%) is held by a corporate entity outside the Group (Dutch-registered foundation known as a Stichting).

Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.

The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and Morningstar DBRS) and an unlisted junior tranche without rating.

Both the senior and junior securities were subscribed by Intesa Sanpaolo.

The senior security issued through the transaction, with a Moody's A1 and a Morningstar DBRS A (High) rating, was used as collateral for refinancing operations in the Eurosystem.

The total sale consideration was 10.1 billion euro. The sale price of the portfolio was settled through the issuance of securities on 21 December 2020 for the same amount.

A sale of 2.1 billion euro was finalised in March 2023. A buyback of non-performing loans of 95.6 million euro and a retrocession of 5.3 million euro were finalised in April, and a sale of 1.4 billion euro was finalised in November.

As at 31 December 2023, the value of the outstanding securities was 6,610 million euro for the senior securities and 3,485 million euro for the junior securities.

Giada Sec S.r.l. (GIADA BIS)

In October 2022, a new self-securitisation was structured, implemented through the sale of a loan portfolio originated by Intesa Sanpaolo, disbursed to small and medium enterprises ("SMEs"), including sole proprietorships and loans granted to corporate customers not belonging to the large corporate segment, to the special purpose vehicle Giada Sec S.r.l.

The securitisation is a revolving transaction and Intesa Sanpaolo has the option to sell the vehicle further loan portfolios with similar characteristics and quality, which the Vehicle will purchase by drawing on the receipts generated by the portfolio segregated over time.

The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and Morningstar DBRS) and an unlisted junior tranche without rating.

Both the senior and junior securities were subscribed by Intesa Sanpaolo.

The senior security issued through the transaction, with a Moody's A1 and a Morningstar DBRS A (High) rating, was used as collateral for refinancing operations in the Eurosystem.

Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.

The total sale consideration was 15.2 billion euro. The sale price of the portfolio was settled through the issuance of securities on 5 December 2022 for a total of 15.2 billion euro.

A sale of 1.8 billion euro was finalised in July 2023.

As at 31 December 2023, the value of the outstanding securities was 10,250 million euro for the senior securities and 4,940 million euro for the junior securities.

(millions of euro)

Vehicle		Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2023
BRERA SEC S.r.l.					
of which issued in euro					**3,445**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa3 / Morningstar DBRS AH	2,378
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	1,067
BRERA SEC S.r.l. (SEC 2)					
of which issued in euro					**4,929**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa3 / Morningstar DBRS AH	4,069
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	860
BRERA SEC S.r.l (SEC 3)					
of which issued in euro					**6,864**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa3 / Morningstar DBRS AH	6,139
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	725
CLARA SEC S.r.l.					
of which issued in euro					**7,174**
	Class A Asset Backed F/R Notes	Senior	Personal loans	Moody's A1 / Morningstar DBRS AAL	6,350
	Class B Asset Backed F/R Notes	Junior	Personal loans	no rating	824
GIADA SEC S.r.l.					
of which issued in euro					**10,095**
	Class A Asset Backed F/R Notes	Senior	Receivables from Small business, SME and corporate customers	Moody's A1 / Morningstar DBRS AH	6,610
	Class B Asset Backed F/R Notes	Junior	Receivables from Small business, SME and corporate customers	no rating	3,485
GIADA SEC S.r.l. (GIADA BIS)					
of which issued in euro					**15,190**
	Class A Asset Backed F/R Notes	Senior	Receivables from Small business, SME and corporate customers	Moody's A1 / Morningstar DBRS AH	10,250
	Class B Asset Backed F/R Notes	Junior	Receivables from Small business, SME and corporate customers	no rating	4,940
TOTAL					**47,697**

OTHER INFORMATION ON FINANCIAL RISKS

SOVEREIGN RISK EXPOSURE BY COUNTRY OF RESIDENCE OF THE COUNTERPARTY

The following table illustrates the details of the net exposures of the Intesa Sanpaolo Group to sovereign risk in banking business, based on management data. Financial assets measured at fair value through profit or loss are posted net of short positions on debt securities (on-balance sheet payables included in financial liabilities held for trading).

(millions of euro)

	DEBT SECURITIES				LOANS
	BANKING GROUP			TOTAL (1)	
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss		
EU Countries	**35,748**	**31,896**	**-2,279**	**65,365**	**10,716**
Austria	616	834	9	1,459	-
Belgium	3,225	3,284	87	6,596	391
Bulgaria	-	-	-	-	-
Croatia	170	545	51	766	1,419
Cyprus	-	-	-	-	-
Czech Republic	-	-	-	-	-
Denmark	-	-	-	-	-
Estonia	-	-	-	-	-
Finland	254	190	-	444	-
France	6,656	3,145	-577	9,224	2
Germany	49	1,250	388	1,687	-
Greece	-	-	-	-	-
Hungary	384	1,443	39	1,866	216
Ireland	335	48	20	403	-
Italy	16,241	9,068	-2,809	22,500	8,170
Latvia	-	-	-	-	16
Lithuania	-	-	-	-	-
Luxembourg	312	540	30	882	-
Malta	-	-	-	-	-
The Netherlands	828	79	68	975	-
Poland	26	65	6	97	-
Portugal	386	361	-29	718	74
Romania	64	353	-	417	3
Slovakia	107	747	11	865	171
Slovenia	1	187	-	188	180
Spain	6,094	9,757	427	16,278	74
Sweden	-	-	-	-	-
Non-EU Countries					
Albania	69	657	1	727	-
Egypt	138	1,087	-	1,225	711
Japan	-	1,783	-	1,783	-
Russia	-	10	-	10	-
Serbia	7	515	-	522	347
United Kingdom	-	230	-2	228	-
U.S.A.	3,332	8,185	330	11,847	-

Management accounts

(1) Debt securities from insurance business (excluding securities in which gathered amounts are invested from insurance policies where the total risk is borne by the policyholders) relating to Italy amounted to 48,756 million euro.

As illustrated in the table, the Banking Group's exposure to securities issued by Italian central and local governments at the end of 2023 totalled 22.5 billion euro (27 billion euro at 31 December 2022), in addition to around 8 billion euro represented by loans (8 billion euro at the end of 2022).

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products came to 4,468 million euro as at 31 December 2023, a net increase of 1,165 million euro compared to the stock of 3,303 million euro as at 31 December 2022. The exposure includes investments in CLOs (Collateralised Loan Obligations) of 2,448 million euro, in ABSs (Asset-Backed Securities) of 1,949 million euro and in CDOs (Collateralised Debt Obligations) of 71 million euro, which continued to be a marginal activity also in 2023.

(millions of euro)

Accounting categories	**31.12.2023**				**31.12.2022**	**Changes**	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	**Total**		**absolute**	**%**
Financial assets held for sale	329	446	-	**775**	**817**	-42	-5.1
Financial assets mandatorily measured at fair value	-	3	-	**3**	**3**	-	-
Financial assets measured at fair value through other comprehensive income	1,392	714	-	**2,106**	**1,545**	561	36.3
Financial assets measured at amortised cost	727	786	71	**1,584**	**938**	646	68.9
Total	**2,448**	**1,949**	**71**	**4,468**	**3,303**	**1,165**	**35.3**

In this disclosure, structured credit products include debt securities held by the Group divided into tranches upon issue consisting of various degrees of subordination and not issued within the framework of transactions originated by entities of the Intesa Sanpaolo Group or by public entities, in addition to transactions whereby the Group finances its corporate and financial institution customers (operations implemented by the Group through the subsidiary Duomo Funding Plc).
The trend in the portfolio in 2023, in a scenario of market recovery on the segment, showed greater investments overall compared to sales and reimbursements, for a total change of 1,165 million euro.
Exposures measured at fair value (ABS and CLO debt securities) increased by 519 million euro, from 2,365 million euro in December 2022 to 2,884 million euro in December 2023, attributable to higher investments for a total of 1,300 million euro, attributable to financial assets measured at fair value through other comprehensive income of 800 million euro and to financial assets held for trading of 500 million euro, offset by redemptions and disposals totalling 781 million euro, substantially made up of 238 million euro for the first segment and 543 million euro for the second segment.
Exposures classified among assets measured at amortised cost (CLO, ABS and CDO debt securities) amounted to 1,584 million euro in December 2023, compared with a balance of 938 million euro in December 2022, a net increase of 646 million euro, due to higher investments of 804 million euro, only partially offset by sales and reimbursements of 158 million euro.
From the perspective of the income statement, the overall profit of +5 million euro as at 31 December 2023 compares with a loss of -49 million euro in 2022.
The performance of assets held for trading, caption 80 of the income statement, amounted to +5 million euro and related to the CLO and ABS exposures, +8 million euro from realisation impacts and -3 million euro from valuation effects, whereas as at 31 December 2022 it amounted to -49 million euro (regarding exposures in CLO and ABS, -27 million euro from valuations and -22 million euro on disposals).
The profit from financial assets mandatorily measured at fair value was +1 million euro, as at 31 December 2023, compared to nil in the previous year.
The exposures to debt securities classified as assets measured at fair value through other comprehensive income recorded an increase in fair value as at 31 December 2023 of +14 million euro through a shareholders' equity reserve (from a reserve of -44 million euro in December 2022 to -30 million euro in December 2023). During the year, there have been no impacts from sales on the portfolio (-3 million euro in December 2022).
On the debt securities classified as assets measured at amortised cost, the result as at 31 December 2023 of -1 million euro was substantially attributable to losses on disposals, compared with the impact of +3 million in 2022 (+1 million euro from valuation components and +2 million euro from disposals).

(millions of euro)

Income statement results broken down by accounting category	**31.12.2023**				**31.12.2022**	**Changes**	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	**Total**		**absolute**	**%**
Financial assets held for sale	4	1	-	**5**	**-49**	54	
Financial assets mandatorily measured at fair value	-	1	-	**1**	**-**	1	-
Financial assets measured at fair value through other comprehensive income	-	-	-	**-**	**-3**	-3	
Financial assets measured at amortised cost	-	-1	-	**-1**	**3**	-4	
Total	**4**	**1**	**-**	**5**	**-49**	**54**	

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 31 December 2023, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions as per the ECB Guidance amounted to around 25.4 billion euro, relating to 1,780 credit lines. The stock was down compared to the end of the previous year (26.2 billion euro as at 31 December 2022). That trend, mainly due to the Parent Company, was influenced by incoming and outgoing turnover - with flows substantially offsetting each other - and by a decrease of around 1 billion euro mainly due to the reduction in balances on positions remaining in scope. The geographical distribution and breakdown by sector was substantially stable, mainly concentrated on Italy (around 60% as at 31 December 2023) and on manufacturing, services and financial sectors. In the last quarter, stock increased by 0.2 billion euro, mainly attributable to the inflows into the scope of the ISB Division and, to a lesser extent, to the Luxembourg subsidiary.
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 on new transaction flows were submitted for approval to the Board of Directors, in line with the Bank’s risk appetite on these types of operations.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Parent Company’s hedge fund portfolio as at 31 December 2023 amounted to 163 million euro for the trading book and 184 million euro for the banking book for a total of 347 million euro, compared to 173 million euro and 184 million euro, respectively, as at 31 December 2022, for a total of 357 million euro.
The investments in the banking book are recognised under financial assets mandatorily measured at fair value and pertain to funds that adopt medium/long-term investment strategies and average redemption times that are longer than those of UCITS (Undertakings for Collective Investment Schemes in Transferable Securities) funds.
In 2023, there was a decrease of 10 million euro on the end of the previous year, including disposals of 82 million euro, partially offset by investments of 52 million euro and increases in fair value of 20 million euro.
Specifically, the disposals undertaken during the year referred to the banking book for 17 million euro and the trading book for 65 million euro. The investments made exclusively on the hedge fund UCITS trading book, which better meet the capital absorption requirements, follow from the action implemented in 2022 and are consistent with the CRR2, which entered into force on 30 June 2021, while the increases in fair value related to the banking book for 17 million euro and the trading book for 3 million euro.
In terms of effects on the income statement, as at 31 December 2023 overall profit amounted to +21 million euro, attributable to the valuation effects of funds in the portfolio, including financial assets mandatorily measured at fair value (+17 million euro) and financial assets held for trading (+3 million euro), in addition to realisation impacts of +2 million euro on the first sub-fund and -1 million euro on the second, respectively. As at 31 December 2022, the loss came to -9 million euro, fully regarding the valuation effects of funds in the portfolio, including financial assets mandatorily measured at fair value (-7 million euro) and financial assets held for trading (-2 million euro).
At the Intesa Sanpaolo Group, as at 31 December 2023 the portfolio of Eurizon Capital SGR held hedge funds for 14 million euro, which compare to the amount of 50 million euro as at 31 December 2022, decreased due to disposals and partial reimbursements during 2023. During the year +2 million euro was recognised in the income statement from realisations (-3 million euro as at 31 December 2022, from the valuation components). Hedge funds are held according to a seeding approach that involves setting up a service portfolio consisting of shares of mutual funds for which marketing has begun in support of the funds.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 31 December 2023, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 2,830 million euro (3,049 million euro as at 31 December 2022). The notional value of these derivatives totalled 40,555 million euro (29,872 million euro as at 31 December 2022).
In particular, the notional value of plain vanilla contracts was 37,575 million euro (26,826 million euro as at 31 December 2022), while that of structured contracts was 2,980 million euro (3,046 million euro as at 31 December 2022).
The positive fair value of contracts outstanding with the 10 customers with the highest exposures was 1,628 million euro (1,726 million euro as at 31 December 2022).
Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 3,545 million euro as at 31 December 2023 (6,149 million euro as at 31 December 2022). The notional value of these derivatives totalled 60,349 million euro (74,174 million euro as at 31 December 2022).
In particular, the notional value of plain vanilla contracts was 56,166 million euro (69,140 million euro as at 31 December 2022), while that of structured contracts was 4,183 million euro (5,034 million euro as at 31 December 2022).
The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 31 December 2023, this led to a negative impact of 18 million euro under Profits (Losses) on trading in the income statement (positive impact of 102 million euro as at 31 December 2022).

As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs in the Notes to the financial statements - Part A – Accounting policies.
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.