

1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

A. 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 most recent applicable regulatory provisions.

The provisions on liquidity - introduced in the European Union in June 2013 with the publication of Regulation (EU) 575/2013 and Directive 2013/36/EU - were updated in early 2015 with the publication in the Official Journal of the European Union of Delegated Regulation 2015/61 with regard to liquidity coverage requirements (Liquidity Coverage Ratio - LCR), supplementing and partially amending previous regulations. Under Delegated Regulation (EU) 2015/61, as supplemented and amended, from 1 October 2015 banks are required to comply with the short-term indicator provided for in Article 38 (level of 100% from 1 January 2018). The entry into force of the net stable funding ratio (100%%) is, instead, planned for June 2021, following final approval and subsequent publication in the Official Journal in May 2019 of the package of banking reforms containing the new EU Directive 2019/878 (CRD V) and the new Regulation 219/876 (CRR2).

Since March 2015, the Intesa Sanpaolo Group Liquidity Risk Management Guidelines, which already referred to Bank of Italy Circulars 263 and 285, and Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), have reflected all of the latest regulations step-by-step, adjusting the composition of the liquid assets eligible for liquidity reserves and the definition of the 30-day liquidity flows valid for the calculation of the LCR. With respect to structural liquidity, the most recent regulatory provisions of the Basel Committee concerning the Net Stable Funding Ratio (NSFR) have been adopted, in view of the upcoming entry into force of said new European regulations.

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 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 composing of early warning thresholds used to activate emergency plans.

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

The corporate functions of the Parent Company responsible for ensuring the correct application of the Guidelines and the sufficiency of the Group's liquidity position are the Group Treasury and Finance Head Office Department, the Planning and Control Department, responsible, within the Chief Financial Officer (CFO) Area, for liquidity management, and the Financial and Market Risks 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 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 Financial and Market Risks 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 to 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 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 two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Liquidity Coverage Ratio - LCR), in addition to a system of early warning indicators for maturities from 3 months to one year.

The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. 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 a 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 the Regulations.

The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions - the Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. In addition, the Group's 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 envisage the time extension of the stress scenario for the LCR indicator, provided by the new regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. The internal management guidelines also envisage an alert threshold (Stressed soft ratio) for the LCR indicator up to 3 months, 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. Within this framework, the Treasury and Finance 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 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 the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, also indicating the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Financial and Market Risks Department.

The Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained largely within the risk limits set out in the current Group Liquidity Policy for 2019: both regulatory indicators, LCR and NSFR, were well above 100%. In 2019, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average of 160.6%.

At the end of December 2019, the value of unencumbered HQLA reserves was more than 23% comprised of cash and deposits held with Central Banks. Including the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, the Group's unencumbered liquidity reserves amounted to a total of 118 billion euro.

	(millions of euro)	
	Unencumbered (net of haircut)	
	31.12.2019	31.12.2018
HQLA Liquidity Reserves	95,762	84,346
Cash and Deposits held with Central Banks (HQLA)	22,326	40,156
Highly liquid securities (HQLA)	73,436	44,190
Other eligible and/or marketable reserves	22,594	4,251
Total Group's Liquidity Buffer	118,356	88,597

In view of the high stock of available liquidity reserves (liquid or eligible), the period of independence from wholesale funding, measured by the cumulative projected wholesale imbalances indicator, identifies a financial independence in situations of freeze of the money market ("survival period") for more than 12 months. Also 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) short-term funding on wholesale markets, largely consisting of repurchase agreements and CD/CP funding, and (iii) medium/long-term funding, mainly composed of own issues (covered bonds/ABS and other senior debt securities in the euro and US markets, in addition to subordinated securities) and refinancing operations with the Eurosystem (TLTRO II and III). 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).

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 position is reported in the ILAAP (Internal Liquidity Adequacy Assessment Process), which also includes the Group's Funding Plan. Within the annual approval process for this report by the Governing Bodies of Intesa Sanpaolo, the Liquidity Adequacy Statement (LAS) of the Members of 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.

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

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
(millions of euro)										
A. Cash assets	58,035	18,442	7,821	17,502	22,504	23,648	30,553	150,427	152,922	12,916
A.1 Government bonds	34	9	110	1,593	1,356	5,059	6,460	19,599	31,857	-
A.2 Other debt securities	105	572	647	4,608	106	232	384	7,626	14,242	-
A.3 Quotas of UCI	2,785	-	-	-	-	-	-	-	-	7
A.4 Loans	55,111	17,861	7,064	11,301	21,042	18,357	23,709	123,202	106,823	12,909
- Banks	12,881	2,467	541	217	3,302	965	976	1,983	195	12,849
- Customers	42,230	15,394	6,523	11,084	17,740	17,392	22,733	121,219	106,628	60
B. Cash liabilities	299,895	23,496	4,934	5,393	11,810	27,766	10,983	70,198	23,876	-
B.1 Deposits and current accounts	284,219	596	829	1,289	2,393	2,261	3,581	5,060	1,060	-
- Banks	2,583	195	31	107	43	870	119	451	436	-
- Customers	281,636	401	798	1,182	2,350	1,391	3,462	4,609	624	-
B.2 Debt securities	3	425	1,908	1,000	6,007	6,840	5,363	32,086	18,686	-
B.3 Other liabilities	15,673	22,475	2,197	3,104	3,410	18,665	2,039	33,052	4,130	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	3,519	12,667	6,393	13,837	22,201	9,632	10,028	23,527	9,363	-
- Short positions	2,957	14,252	4,097	9,788	19,087	8,667	8,603	21,259	10,414	-
C.2 Financial derivatives without exchange of capital										
- Long positions	22,798	1	1	13	53	57	171	421	143	-
- Short positions	31,584	2	1	11	59	62	154	421	143	-
C.3 Deposits and loans to be settled										
- Long positions	46,645	-	-	-	-	-	-	-	-	-
- Short positions	214	46,327	-	-	-	104	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	361	9,458	7	59	437	358	1,461	14,720	3,183	-
- Short positions	29,429	47	6	37	24	44	67	58	-	-
C.5 Financial guarantees given	398	1	10	29	128	89	121	255	88	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	50	17	-	234	1,556	-
- Short positions	-	-	-	-	50	17	-	234	1,556	-
C.8 Credit derivatives without exchange of capital										
- Long positions	364	-	-	-	-	-	-	-	-	-
- Short positions	392	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

Type/Residual maturity	(millions of euro)									Unspecified 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	
A. Cash assets	5,183	3,476	2,032	3,891	5,036	4,884	7,285	20,896	11,880	1,583
A.1 Government bonds	6	69	180	389	1,227	753	925	6,360	5,115	-
A.2 Other debt securities	22	153	36	150	83	232	308	1,703	1,977	-
A.3 Quotas of UCI	199	-	-	-	-	-	-	-	-	2
A.4 Loans	4,956	3,254	1,816	3,352	3,726	3,899	6,052	12,833	4,788	1,581
- Banks	1,627	1,433	719	1,027	1,215	1,132	2,342	148	47	1,552
- Customers	3,329	1,821	1,097	2,325	2,511	2,767	3,710	12,685	4,741	29
B. Cash liabilities	18,031	3,046	2,687	3,771	4,598	2,242	2,583	12,792	5,689	15
B.1 Deposits and current accounts	17,106	1,216	1,146	1,609	1,513	951	926	1,703	245	-
- Banks	1,823	400	476	536	239	70	71	522	117	-
- Customers	15,283	816	670	1,073	1,274	881	855	1,181	128	-
B.2 Debt securities	53	256	313	481	1,008	428	1,500	10,534	4,320	-
B.3 Other liabilities	872	1,574	1,228	1,681	2,077	863	157	555	1,124	15
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	1,678	19,794	6,376	15,652	16,219	10,866	11,916	20,743	11,971	-
- Short positions	1,520	19,910	8,760	18,102	20,734	11,494	13,591	23,814	10,258	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,355	2	1	31	24	38	51	137	4	-
- Short positions	1,521	-	2	15	17	41	73	137	5	-
C.3 Deposits and loans to be settled										
- Long positions	58	-	-	-	-	-	-	-	-	-
- Short positions	18	2	5	24	1	9	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	532	3	150	145	278	337	1,458	12,101	1,768	-
- Short positions	14,833	289	-	-	-	2	44	58	-	-
C.5 Financial guarantees given	484	23	4	20	68	132	277	241	37	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	134	45	-	9	-	-
- Short positions	-	-	-	-	134	45	-	9	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	522	-	-	-	-	-	-	-	-	-
- Short positions	549	-	-	-	-	-	-	-	-	-

2. Self-securitisations

The Intesa Sanpaolo Group has carried out securitisations in which all the liabilities issued by the vehicle companies involved were subscribed by Group companies.

A brief description of the existing transactions as at 31 December 2019 is provided below.

Adriano Lease SEC S.r.l.

This is a securitisation that was carried out in December 2017, which took the form of the sale by Mediocredito Italiano S.p.A. of a loan portfolio selected on the basis of pre-defined criteria and arising from performing property, equipment and car lease contracts to Adriano Lease Sec S.r.l. for a total amount of approximately 4.2 billion euro. The purpose of the transaction is to expand the liquidity reserve that can be used by the bank for refinancing operations on the Eurosystem.

The vehicle Adriano Lease Sec S.r.l. originally issued two series of notes:

- a senior tranche (Class A), with a nominal amount of 2.9 billion euro, listed and assigned an A1 rating by Moody's and an A rating by DBRS Morningstar;
- a junior tranche (Class B), with a nominal amount of 1.4 billion euro, unlisted and unrated.

Following the merger by incorporation of Mediocredito Italiano into the Parent Company, the securities originally purchased by Mediocredito Italiano were transferred to Intesa Sanpaolo. As at 31 December 2019, the senior securities amounted to 1.6 billion euro and the junior securities to 1.4 billion euro. The senior securities are eligible for use in the Eurosystem.

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 Banca dei Territori banks 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 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. 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 DBRS Morningstar) as required by the European Central Bank criteria for eligibility;
- 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; as a result, the loans were not derecognised. Each selling bank therefore subscribed both classes of securities pro rata in proportion to the individual sale price. The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.

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 a corporate entity outside the Group (Dutch-registered foundation known as a Stichting). Intesa Sanpaolo take cares 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 7.1 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 billion euro. The securities, which are listed with an Aa3 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and have been subscribed by Intesa Sanpaolo. Following the merger by incorporation of Cassa di Risparmio in Bologna into Intesa Sanpaolo on 25 February 2019, the loans sold were transferred to the Intesa Sanpaolo portfolio.

As at 31 December 2019, the value of the outstanding subscribed securities was 4,772 million euro for senior securities and 1,067 million euro for junior securities.

Brera Sec S.r.l. (SME)

In October 2018, an additional self-securitisation was structured, implemented through the sale of three loan portfolios to the vehicle company Brera Sec S.r.l. and originated by the Parent Company and three of the Group Banks subsequently incorporated by Intesa Sanpaolo (Banco di Napoli, incorporated in the second half of 2018 and Cassa di Risparmio in Bologna and Cassa di Risparmio di Firenze, incorporated in the first half of 2019). The underlying is made up of mortgage loans and other loans to small and medium enterprises and corporates (the latter only if the group turnover is less than 100 million euro).

This transaction is the Group's second Multi-Originator 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 DBRS Morningstar) as required by the European Central Bank criteria for eligibility;
- 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; as a result, the loans were not derecognised. The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.

Following the merger by incorporation of Cassa di Risparmio in Bologna and Cassa di Risparmio di Firenze into Intesa Sanpaolo on 25 February 2019, the respective loans sold were transferred to the Intesa Sanpaolo portfolio.

On origination, the total sale consideration was 5.3 billion euro. The sale price was settled through the issuance of securities on 14 December 2018 for a total of 5.3 billion euro.

The securities, which are listed with an A1 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and were subscribed by Intesa Sanpaolo.

As at 31 December 2019, the value of the outstanding securities subscribed by Intesa Sanpaolo was 1,890 million euro for senior securities and 1,530 million euro for junior securities.

Brera Sec S.r.l. (SEC 2)

In September 2019, a new 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 on 27 November 2019:

- a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility;
- and an unlisted junior tranche without rating.

Both the senior and junior securities were subscribed by Intesa Sanpaolo; as a result, the loans were not derecognised. The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.

The total sale consideration was 7.519 billion euro. The sale price of the portfolio was settled through the issuance of securities on 27 November 2019 for a total of 7.510 billion euro.

The securities, which are listed with an A1 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and have been fully subscribed by Intesa Sanpaolo.

As at 31 December 2019, the value of the outstanding securities subscribed by Intesa Sanpaolo was unchanged: 6,650 million euro for senior securities and 860 million euro for junior securities.

Berica ABS 5 S.r.l.

This is a self-securitisation with an underlying of mortgages. The nominal amounts of the ABS securities issued through this transaction are detailed below:

- senior tranche of 507 million euro (of which 413 million euro subscribed by Intesa Sanpaolo) with an external rating assigned by Fitch ("AA") and Moody's ("Aa3") and yield indexed to the 3-month Euribor plus 40 bps. As at 31 December 2019, securities totalling 325 million euro were still to be repaid;
- mezzanine tranche of 39 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Fitch ("A+") and Moody's ("Aa3") and yield indexed to the 3-month Euribor plus 50 bps;
- mezzanine tranche of 21 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Fitch ("A+") and Moody's ("A2") and yield indexed to the 3-month Euribor plus 60 bps;
- junior tranche of 52 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), unrated and indexed to the 3-month Euribor.

Claris RMBS 2016 S.r.l.

In November 2016, Veneto Banca arranged a securitisation of mortgage loans, together with Banca Apulia, for a total of 1,162 million euro (921 million euro and 241 million euro, respectively), which were sold at a price equal to the value of the principal amount of the remaining debt outstanding at the time of the sale.

With respect to the portfolio sold, in November 2016, "Claris RMBS 2016 S.r.l.", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 1,189 million euro, broken down as follows:

- class A tranche of 929 million euro, which had a residual amount of 522 million euro as at 31 December 2019 and external ratings assigned by Fitch ("AA") and by DBRS Morningstar ("AAA");
- class B tranche of 116 million euro, which had a residual amount of 116 million euro as at 31 December 2019 and external ratings assigned by Fitch ("A+") and by DBRS Morningstar ("A High");
- class J1 tranche of 114 million euro, to be fully redeemed as at 31 December 2019, unrated;
- class J2 tranche of 30 million euro, to be fully redeemed as at 31 December 2019, unrated.

The class A and B securities are denominated in euro and provide for the payment of a quarterly floating rate coupon and a sequential redemption plan, linked to receipts on the underlying portfolio. These securities, which are listed on the Irish Stock Exchange, were fully subscribed by Intesa Sanpaolo following the mergers by incorporation of Veneto Banca and Banca Apulia. The class A securities can therefore be used for refinancing operations with the European Central Bank.

The J1 and J2 securities, also denominated in euro, were subscribed by Intesa Sanpaolo. Their yield is based on a quarterly floating-rate coupon, subject to the full redemption of higher-class securities.

As at 31 December 2019, the book value of the remaining loans was 770 million euro.

Claris RMBS 2014 S.r.l.

In February 2014, Veneto Banca, together with Banca Apulia, (now both incorporated into Intesa Sanpaolo), arranged a securitisation of mortgage loans which were sold at a price equal to the value of the principal amount of the remaining debt outstanding at the time of the sale.

With respect to the portfolio sold, in April 2014, Claris RMBS 2014 S.r.l., the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 881 million euro, broken down as follows:

- class A1 tranche of 550 million euro, fully redeemed;
- class A2 tranche of 155 million euro, which had a residual amount of 135 million euro as at 31 December 2019 and external ratings assigned by Fitch ("AA") and by DBRS Morningstar ("AAA");
- class J1 tranche of 48 million euro, to be fully redeemed as at 31 December 2019, unrated;
- class J2 tranche of 128 million euro, to be fully redeemed as at 31 December 2019, unrated.

The class A1 and A2 securities are denominated in euro and provide for the payment of a quarterly floating rate coupon linked to receipts on the underlying portfolio. These securities, which are listed on the Irish Stock Exchange, were subscribed by Intesa Sanpaolo, also following the mergers by incorporation of the portfolios of Veneto Banca and Banca Apulia. The class A2 tranche can therefore be used for refinancing operations with the European Central Bank.

The J1 and J2 securities, also denominated in euro, were subscribed by Intesa Sanpaolo. Their yield is based on a quarterly floating-rate coupon, subject to the full redemption of higher-class securities.

As at 31 December 2019, the book value of the remaining loans was 333 million euro.

The table below shows the characteristics of the securities issued by the vehicles and subscribed by the Group companies.

Vehicle	Type of security issued	Type of asset securitised	External rating	(millions of euro)	
					Principal as at 31.12.2019
Adriano Lease SEC S.r.l.					
<i>of which issued in euro</i>					
	Class A	Senior	Receivables from lease payments	Moody's A1 / DBRS A	1,550
	Class B	Junior	Receivables from lease payments	no rating	1,351
BRERA SEC S.r.l.					
<i>of which issued in euro</i>					
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa3 / DBRS AH	4,772
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	1,067
BRERA SEC S.r.l. (SME)					
<i>of which issued in euro</i>					
	Class A RMBS F/R Notes	Senior	Receivables from SME and large corporate	Moody's A1 / DBRS AH	1,890
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Receivables from SME and large corporate customers	no rating	1,530
BRERA SEC SRL (SEC 2)					
<i>of which issued in euro</i>					
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's A1 / DBRS AH	6,650
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	860
Berica ABS 5 S.r.l.					
<i>of which issued in euro</i>					
	Class A	Senior	Mortgages	Fitch AA / Moodys Aa3	325
	Class B	Mezzanine	Mortgages	Fitch A+ / Moodys Aa3	39
	Class C	Mezzanine	Mortgages	Fitch A+ / Moodys A2	21
	Class J	Junior	Mortgages	no rating	52
CLARIS RMBS 2016 S.r.l.					
<i>of which issued in euro</i>					
	Class A	Senior	Mortgages	Fitch AA+; DBRS AAA	522
	Class B	Mezzanine	Mortgages	Fitch A+; DBRS AH	116
	Class J	Junior	Mortgages	no rating	144
CLARIS RMBS 2014 SRL					
<i>of which issued in euro</i>					
	Class A	Senior	Mortgages	Fitch AA / DBRS AAA	135
	Class J	Junior	Mortgages	no rating	176
TOTAL					21,200

During 2019, the self-securitisations of Intesa Sanpaolo SEC S.A., CLARIS FINANCE 2008 S.r.l. and CLARIS SME 2015 S.r.l. were terminated.

OTHER INFORMATION ON FINANCIAL RISKS

SOVEREIGN RISK EXPOSURE BY COUNTRY OF RESIDENCE OF THE COUNTERPARTY

The following table illustrates the value of the main exposures of the Intesa Sanpaolo Group to sovereign risk, based on management data.

(millions of euro)

	DEBT SECURITIES			INSURANCE COMPANIES	TOTAL	LOANS
	Financial assets measured at amortised cost	BANKING GROUP Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss			
EU Countries	12,257	46,629	5,419	56,577	120,882	12,412
Austria	-	5	39	2	46	-
Belgium	547	856	1	4	1,408	-
Bulgaria	-	-	-	63	63	-
Croatia	-	1,157	192	97	1,446	1,015
Cyprus	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	-
Denmark	-	9	13	-	22	-
Estonia	-	-	-	-	-	-
Finland	-	30	21	3	54	-
France	779	2,760	24	1,944	5,507	4
Germany	259	1,600	1,916	545	4,320	-
Greece	-	-	32	-	32	-
Hungary	-	1,031	21	10	1,062	123
Ireland	540	296	-3	111	944	-
Italy	8,370	23,021	2,727	51,708	85,826	10,818
Latvia	-	8	-	-	8	36
Lithuania	-	5	-	-	5	-
Luxembourg	-	-	-	-	-	-
Malta	-	-	-	-	-	-
The Netherlands	262	302	228	120	912	-
Poland	40	34	-5	18	87	-
Portugal	376	416	-5	-	787	-
Romania	56	321	-	209	586	8
Slovakia	-	525	2	-	527	134
Slovenia	-	212	-	-	212	207
Spain	1,028	14,022	155	1,637	16,842	67
Sweden	-	-	150	-	150	-
United Kingdom	-	19	-89	106	36	-
Non-EU Countries						
Albania	517	6	1	-	524	1
Egypt	-	1,318	-5	53	1,366	-
Japan	-	1,556	688	-	2,244	-
Russia	-	172	3	-	175	-
Serbia	-	930	1	-	931	94
U.S.A.	14	4,826	38	9	4,887	-

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As illustrated in the table, the exposure to Italian government securities at the end of 2019 totalled approximately 86 billion euro (76 billion euro at the end of 2018), in addition to around 11 billion euro represented by loans (12 billion euro at the end of 2018).

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products, which amounted to 2,018 million euro as at 31 December 2018, came to 3,794 million euro as at 31 December 2019, showing a net increase of 1,776 million euro. The exposure includes investments in ABSs (asset-backed securities) of 2,339 million euro, in CLOs (collateralised loan obligations) of 1,379 million euro and, to a residual extent, in CDOs (collateralised debt obligations) of 76 million euro, subject to constant, gradual disposals, without any plans for additional transactions.

Accounting categories	Exposure as at 31.12.2019			Total	31.12.2018	(millions of euro) changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations			absolute	%
Financial assets held for sale	445	1,069	-	1,514	1,031	483	46.8
Financial assets mandatorily measured at fair value	-	20	-	20	63	-43	-68.3
Financial assets measured at fair value through other comprehensive income	542	943	-	1,485	726	759	
Financial assets measured at amortised cost	392	307	76	775	198	577	
Total	1,379	2,339	76	3,794	2,018	1,776	88.0

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

The strategy for transactions in structured credit products involved investments aimed at exploiting market opportunities, on the one hand, and continuous disposals of the portfolio, mainly referring to positions which at the time were affected by the financial crisis, on the other hand.

The exposure in ABSs/CLOs measured at fair value rose from 1,820 million euro in December 2018 to 3,019 million euro in December 2019, a net increase of 1,199 million euro attributable to Banca IMI and, only to a marginal extent, to the Parent Company due to the higher level of investments made compared to the disposals in the portfolio of assets measured at fair value through other comprehensive income and of financial assets held for trading. The portfolio mandatorily measured at fair value was subject to sales and redemptions.

The exposure in securities classified as assets measured at amortised cost rose from 198 million euro in December 2018 to 775 million euro in December 2019, also due to the higher level of investments made in the period by Banca IMI.

The investments made by Banca IMI consisted of a higher amount of ABSs with underlying residential mortgages and a lower amount of CLOs with mainly AAA ratings.

From the perspective of the income statement, a profit of +27 million euro was posted for 2019, against +16 million euro in 2018.

The profits (losses) on trading - caption 80 of the income statement - for the exposures in ABSs/CLOs amounted to +15 million euro, distributed equally to valuation and sale impacts (-10 million euro in 2018).

The profits (losses) from financial assets mandatorily measured at fair value amounted to +10 million euro (+19 million euro in 2018), of which +16 million euro related to sales of funded and unfunded ABS positions in the Parent Company's loan portfolio, which were reclassified in 2018 into the new accounting category upon First-Time Adoption (FTA) of IFRS 9, and -6 million euro related to valuation components.

The exposures to ABSs/CLOs in securities classified as assets measured at fair value through other comprehensive income primarily refer to the subsidiary Banca IMI and recorded a net increase in fair value of +2 million euro in 2019 through a shareholders' equity reserve (from a nil reserve in December 2018 to a reserve of +2 million euro in December 2019); there was also an impact of +1 million euro from sales made in 2019 (similar result to that seen in 2018).

Valuation impacts of +1 million euro were recognised on the securities classified as assets measured at amortised cost in 2019, compared with the result of +6 million euro in 2018.

With regard to the monoline and non-monoline packages, as in 2018, there were no positions held in 2019.

Income statement results broken down by accounting category	31.12.2019			Total	31.12.2018	(millions of euro) changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations			absolute	%
Financial assets held for sale	-	15	-	15	-10	25	
Financial assets mandatorily measured at fair value	-	10	-	10	19	-9	-47.4
Financial assets measured at fair value through other comprehensive income	-	1	-	1	1	-	-
Financial assets measured at amortised cost	-	-	1	1	6	-5	-83.3
Total	-	26	1	27	16	11	68.8

INFORMATION ON LEVERAGED FINANCE TRANSACTIONS

In 2017, the ECB published specific Guidance on Leveraged Transactions, which applies to all significant entities subject to direct supervision by the ECB. The declared purpose of the regulations is to strengthen company controls over “leveraged” transactions, where such transactions increase globally and in the context of a highly competitive market, marked by a long period of low interest rates and the resulting search for yields.

The scope identified in the ECB Guidance includes exposures in which the borrower’s level of leverage, measured as the ratio of total financial debt to EBITDA, is greater than 4, in addition to exposures to parties whose majority of capital is held by one or more financial sponsors. Moreover, counterparties with Investment Grade ratings, individuals, credit institutions, 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 if not owned by financial sponsors, are explicitly excluded from the scope of Leveraged Transactions. Specialised lending transactions (project finance, real estate, object financing and commodities financing) and certain other types of credit, such as trade finance operations, are also excluded.

As at 31 December 2019, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions in the ECB Guidance amounted to 20.8 billion euro, relating to approximately 1,900 credit lines (as at 31 December 2018 the amount was 22.4 billion euro, relating to around 2,900 credit lines).

In accordance with the requirements of the ECB Guidance, a specific limit for the outstanding stock of leveraged transactions was submitted for approval to the Board of Directors, within the framework of the 2019 Credit Risk Appetite.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Hedge Fund portfolio as at 31 December 2019 amounted to 115 million euro in the trading book and 194 million euro in the banking book, compared to 146 million euro and 88 million euro respectively in December 2018.

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

During 2019, the reduction of the trading book continued through distributions and redemptions, with a consequent reduction in the risk level of the total exposure. In particular, the reduction amounted to 33 million euro.

In the banking book, higher investments in new positions for 75 million euro and increases in positions already held by the Bank for 46 million euro were added, partially offsetting them, to the disposals during the year totalling 20 million euro.

In terms of effects on the income statement, profits (losses) on trading – caption 80 of the income statement – showed a positive contribution of 2 million euro in 2019, compared to a loss of -16 million euro in 2018, while the net profit (loss) on financial assets mandatorily measured at fair value – caption 110 of the income statement – recorded a positive contribution of 5 million euro, compared to a loss of -5 million euro in 2018.

Both positive effects were mainly due to a general improvement in the valuations of the funds in the portfolio. Specifically, systematic long/short equity funds showed good performance and discretionary long/short equity funds showed excellent results, against slighter improvement in US credit/distressed and global macro strategy funds.

Overall, the strategy for the portfolio remained substantially prudent.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 31 December 2019, 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 7,694 million euro (6,602 million euro as at 31 December 2018). The notional value of these derivatives totalled 62,528 million euro (57,047 million euro as at 31 December 2018). In particular, the notional value of plain vanilla contracts was 58,403 million euro (53,501 million euro as at 31 December 2018), while that of structured contracts was 4,125 million euro (3,546 million euro as at 31 December 2018).

Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures came to 5,269 million euro (4,452 million euro as at 31 December 2018), of which 476 million euro (311 million euro as at 31 December 2018) referred to structured contracts.

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 1,410 million euro as at 31 December 2019 (1,412 million euro as at 31 December 2018). The notional value of these derivatives totalled 20,334 million euro (24,649 million euro as at 31 December 2018). In particular, the notional value of plain vanilla contracts was 17,392 million euro (21,822 million euro as at 31 December 2018), while that of structured contracts was 2,942 million euro (2,827 million euro as at 31 December 2018).

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 2019, this led to a negative effect of 23 million euro being recorded under “Profits (Losses) on trading” in the income statement.

As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs of the section on accounting policies in the Notes to the consolidated financial statements. Please note that contracts made up of combinations of more elementary derivative instruments have been considered “structured” and that the aforesaid figures do not include fair value of derivatives embedded in structured bond issues as well as the relative hedges agreed by the Group.