1.1. CREDIT RISK

QUALITATIVE INFORMATION

1. GENERAL ASPECTS

The Group's strategies, Risk Appetite Framework, and Powers and Rules for credit granting and management are aimed at:
- achieving sustainable growth of lending operations consistent with the risk appetite and value creation;
- diversifying the portfolio, limiting the concentration of exposures on single counterparties/groups, single economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency;
- privileging lending business aimed at supporting the real economy and production system;
- constantly monitoring relationships, through the use of both IT procedures and systematic surveillance of positions, with the aim of detecting any symptoms of imbalance and promoting corrective measures geared towards preventing possible deterioration of the relationship in a timely manner.

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.
It is important to note that the 2018-2021 Business Plan includes – among other things – the ambition to excel in asset quality in which the effective management of non-performing loans is one of the first priorities. The operations carried out during the year to reduce the Group's NPLs, also in light of the integration with UBI which began in August 2020, include several extraordinary de-risking operations. NPLs at year-end 2020 did not include portfolios classified as ready to be sold, accounted under non-current assets held for sale and discontinued operations. Excluding the contribution of UBI Banca, these were equal to around 3.2 billion euro gross and 0.5 billion euro net; including the contribution, to around 5.4 billion euro gross post PPA (of which 1.5 billion euro related to the going concern to be sold to BPER Banca) and 2.1 billion euro net (of which 0.9 billion euro related to the going concern to be sold to BPER Banca).

The main contents of these strategies and the results for the year are described in the "2018-2021 Business Plan" section of the Report on operations.

1.1. Impacts from the COVID-19 pandemic

Since the beginning of the pandemic all the Bank's functions have been involved in an extensive and complex set of actions aimed at supporting the various types of Group customers. This was provided through both the offer of government support related initiatives and through initiatives implemented autonomously by the Group.
The pandemic caused a significant threat to the resilience of the companies in the Group's loan portfolio. On the other hand, a series of unprecedented government measures were implemented to support the economy, which must be considered in assessing risk. The speed of change in the economic and social context has increased the level of uncertainty of economic forecasts used as the basis for the estimates of risk appetite. This phase thus requires a greater capacity to adapt and attention to the various challenges laid down by the current credit risk assessment models. Thus, it was decided to recalibrate the risk appetite, to avoid pro-cyclical conduct while supporting the economy, maintaining a solid financial and equity position.
With specific reference to the Credit Risk Appetite (CRA) framework, approved by the Board of Directors' meeting of 4 February 2020, the risk and resilience drivers on the scope of Domestic Corporate and Large Corporate (Italy component) were revised and a vulnerability indicator was introduced. The risk and resilience drivers on the scope of Domestic Corporate and Large Corporate (Italy component) were revised to consider the particular effect of the lockdown on specific micro-sectors and the recovery expected in 2021. The vulnerability indicator is based on the company's liquidity profile and its resulting ability to service existing debt and contracted debt in relation to the COVID-19 emergency. The assessment of sustainability falls within the framework of a generic year of return to normal conditions following the crisis. The methodological decision to consider a post-crisis time horizon was due to the need to sterilise the transitional effects of the crisis, such as the exceptional institutional measures (e.g. moratoria, grace period for new secured transactions) and the volatility of net working capital, as well as to assess the medium/long-term sustainability in order to reduce the pro-cyclical effects. Thus, this indicator can contribute to providing an initial - though partial - response to the expectation of reducing to the minimum any cliff-edge effects at the time that the moratoria expire.
For Retail SME, it was decided to replace the risk and resilience drivers with a single resilience factor, adopted at micro-sector level. In particular, this action was aimed at defining greater granularity in highly populated macro-sectors in order to differentiate the treatment of counterparties that suffered greater consequences of the pandemic from customers in micro-sectors that are more resilient to the current economic context. Using micro-sector-based scenarios, it was possible to identify the companies that suffered a greater impact from the lockdown and estimate, in advance, their new funding requirements, thereby identifying, assessing and implementing solutions that can best support these companies. Due to the introduction of exceptional institutional measures, many counterparties contracted additional debt to attempt to survive the crisis phase.
In addition to the methodologies and processes developed by the Chief Lending Officer (CLO) Area and the Chief Risk Officer (CRO) Area, the Internal Validation and Controls Head Office Department (within CRO Area) created a model using machine learning techniques, for the purpose of assigning to positions in the Corporate Performing perimeter a risk score in terms of probability of being classified in greater risk classes in the next six months. That model was refined during the year in order to make it more reactive to capturing signs of crisis/recovery specific to the COVID period. The main objective of the model is to support the II Level controls on credit (so called single name), specifically as regards selecting the positions to be controlled.

In line with the roll-out plan updated by the Intesa Sanpaolo Group and adopted following the measures set out by the Supervisory Authorities as a result of the emergency COVID-19 crisis, the re-estimation continued of all Corporate and Large Corporate PD models (submission of application Q1 2021), Banking LGD/EAD (Q1 2021), Leasing/Factoring LGD/EAD (Q4 2021), Structured Finance (Q4 2021), Retail (Q1 2021) and Retail SME (Q4 2021)), and the related remediation plans were closed[43].
With reference to determining the Expected Credit Loss (ECL), as illustrated in greater detail in Paragraph 2.3 "Methods for measuring expected losses" in this Section the macroeconomic context that marked 2020 made it necessary to intervene in the methods for determining the ECL to best capture the specific factors connected to the pandemic. The measurements of performing loans saw a significant increase in 2020.
Even in March 2020, the Group followed the instructions provided by various authorities to supplement the ordinary measurement process with management overlay actions, in order to produce an initial estimate of the possible effects on the measurement of loans linked to the COVID-19 pandemic. The profit or loss effects of these measures, recognised in the financial statements under provisions for risks and charges (and in the provisions for liabilities), were determined:

- considering the full effect on the entire performing portfolio of the alternative worst-case scenario identified in December 2019, which envisaged an even greater economic slowdown than the scenario envisaged by the ECB;
- estimating the impact of the denotching of the riskiest part of the performing portfolio – identified using a top-down approach solely for valuation purposes – by identifying the economic sectors most at risk.

In June 2020, it was possible to adopt a more structured measurement process. The construction of the most-likely and alternative scenarios incorporated the macroeconomic projections of the European Central Bank issued on 4 June and of the Bank of Italy, also considering the impacts of the government guarantees and moratoria in estimating the forward-looking ECL. Lastly, a specific aggravating factor was introduced for some micro-sectors of economic activity particularly hard hit by the COVID-19 crisis, to increase the granularity of the inclusion of impacts of the macroeconomic context on the micro-sectors; a methodological change was made to the forward-looking models (satellite models), modifying the macroeconomic cycle indicators (provided at system level by the Bank of Italy) from the decay rates (transition to bad loan status) to the default rates[44], and, as a result, the thresholds for significant increases in credit risk (SICR) were updated.
At September 2020, no significant changes were made to the approach described.
Lastly, at December 2020, the macroeconomic scenario was updated, implementing the instructions provided by the ECB and the Bank of Italy, the thresholds for significant increases in credit risk (SICR) were updated and the micro-sector-based correction was remodulated, using a more analytical and targeted criterion.
With regard to the ECL of non-performing loans, the macroeconomic projections of the European Central Bank and the Bank of Italy on June and December 2020 were implemented to estimate the conditioning of the forward-looking scenarios. In line with the previous years, an upside scenario was ruled out, remaining anchored to the downside scenario.
In order to support customers impacted by the pandemic, the credit risk governance was accompanied by initiatives coordinated by the Divisions and the Chief Lending Officer Area, which guaranteed a timely response both from a commercial and credit perspective.
All the initiatives have been planned in accordance with the principles of sound and prudent management and based on the Group's credit risk appetite. In some cases, the initiatives were carried out by anticipating certain legislative measures and guiding the practices of the Italian banking system.
The main support initiatives launched during 2020 included the following:

- suspension of payments for outstanding mortgage loans and loans for households and businesses (legislative and non-legislative moratoria);
- activation of concrete measures to support Italian Businesses, such as credit ceiling and instruments to support liquidity and investments, which may be combined with guarantees issued by the Guarantee Fund for SMEs pursuant to Italian Law 662/96 and SACE, as well as innovative solutions to guarantee business continuity;
- suspension of the revocation of short-term credit facilities, implementing the legal measures set out in the "Cura Italia" Decree and the subsequent "Agosto" Decree.

With specific reference to credit portfolio management, in addition to the standard early warning indicators and proactive credit management processes, a further operative assessment layer was introduced, which joins sector-based forecasts with additional risk indicators.
As part of the ordinary credit initiatives, the Group launched numerous initiatives to manage any cliff-edge effects caused by expiring legislative and non-legislative moratoria granted to manage the impacts deriving from the pandemic. In particular, priority perimeters were identified based on the following risk indicators:

- medium/high risk sectors;
- rating;
- vulnerability indicators jointly defined by the CLO Area and the CRO Area (based on the counterparty's liquidity profiles and to its ability to honour the debt service deriving from the COVID-19 emergency).

The Group is managing the delicate phase of handling the expiry dates of the moratoria portfolio through the following actions:

- targeted communications to customers to provide them with advance notice of the expiry of the support measures;
- analysis of initiatives of extending moratoria/ refinancing/ products dedicated to supporting customers impacted by COVID-19.

[43] The support measures set out by the ECB for the current health emergency – communicated via the FAQs published on 20 March 2020 and a letter addressed to the Group dated 30 March 2020 – postponed the following by six months, while maintaining the validity of the decisions and measures already taken:

- the deadlines for the remedial actions imposed in the context of inspections (ordinary, linked to the TRIM project and on internal risk models);
- the issuance of TRIM Decisions, follow-up letters relating to ordinary inspections and internal model decisions, unless the Group explicitly asks for a decision because it is seen as beneficial to the Group.

[44] Under ordinary conditions, the trend in decay rates and default rates is generally comparable, however, in the event of rapid and extensive changes in the macroeconomic environment, there is a misalignment between the behaviour of the two indicators, making the use of deterioration rates less appropriate for determining the portfolio's point-in-time parameters.

The CLO Area routinely defines and launches initiatives dedicated to specific risk areas that it deems require additional investigation.
Based on the business segmentation, the management teams involved in the initiative assess the counterparties' risk and provide feedback to the head office departments based on a predefined set of outcomes. A structured analysis of the relationship manager contributes to the choice of such outcomes (forward-looking analysis where possible, assessment of the expected counterparty risk in the following month or over the next 12 months).
With reference to the proactive management process of the Corporate segment and in addition to the initiatives involving Intesa Sanpaolo's network, the internal dialogue with relationship managers and product desks was also intensified, with a specific focus on the sectors with greater exposure to the pandemic emergency, in order to promptly detect signs of potential financial tension. Using a bottom-up approach, the Corporate customers and big tickets selected were steered to a phase of assessment of the sustainability of the debt and identification of the most appropriate support measures.
The analysis was based on both internal and external sources. In many cases, Intesa Sanpaolo requested that counterparties revise their business plans and provide post-COVID-19 scenarios, supported by independent analyses conducted by external consultants (usually the Big Four or international business consultants). The standard scope of independent assessments conducted by external consultants includes: i) sector analyses (demand, competition, trend, impact of COVID-19); ii) data on past and current trade; iii) assumptions underlying the business plans (top line, variable and fixed costs, working capital, cash flow generation, etc.) and iv) sensitivity analyses (downside case).
A specific re-rating initiative has been launched for the Corporate customers, in order for the Group to correctly consider the impacts of the current economic situation with a forward-looking approach, so that a more stable creditworthiness assessment may be achieved through greater consideration to the medium/long-term effects. Specific guidelines have been provided to the network to ensure the adoption of a common approach by the Bank's analysts. The guidelines require the rating to be updated in the case where the customer's financial projections or that of the underlying sector's outlook show the risk of a potential inability of the counterparty to handle the adverse phases of the economic cycle (so called "through the cycle" approach)
The re-rating initiative, which complements the standard annual rating review plan, was launched on a perimeter that includes the Banca dei Territori Division and the IMI Corporate & Investment Banking Division. The main rationale underlying the initiative include the following aspects:
- assigning priority to updating the risk profile of customers operating in the sectors that are more vulnerable to the economic effects of the ongoing pandemic crisis (High and Medium Risk);
- in-depth analysis through business models of the most hard hit sectors;
- the rating assessment should factor in the customer's risk profile expected for the end of 2021, without, however, ignoring the effect of the crisis on financial sustainability;
- the estimate of the recovery time of the company's economic-financial performance;
- the rating assessment should conservatively consider the impact of the crisis, whenever the recovery occurs over a time horizon greater than 24 months;
- the use of legislative or non-legislative moratoria should not, *per se,* be a factor that triggers a downgrade, as it is aimed at preserving business continuity.

The initiative was focused on approximately 15,600 customers with total exposure of 11 billion euro. As of 31 December 2020, 51% of the exposure (around 5.5 billion euro) was updated, with the following results:
- 50% (out of the total 5.5 billion euro already subject to re-rating) resulted in an unchanged rating;
- 30% reported a downgrading of the rating;
- 20% reported an upgrading of the rating;
- 60% of the perimeter of the Investment Grade portfolio was unchanged, while 32% of the perimeter recorded a downgrading;
- counterparties with an "R" rating, corresponding to the worst risk class, which represent only 6% of the total perimeter, had their ratings downgraded in 37% of the cases analysed.

With regard to sectorial outlook, the perimeter in scope of the re-rating initiative showed the following results:
- a large percentage (72%) of counterparties belonging to sectors with a "Low" sectorial impact outlook due to COVID-19 (around 42% of the perimeter) showed no changes in their ratings;
- The sectors with a "Medium" sectorial impact outlook (around 44% of the perimeter) showed an upgrading of the rating in 29% of cases;
- for the counterparties belonging to sectors with a "High" sectorial impact outlook due to COVID-19 (around 13% of the scope) the percentage of ratings downgraded rose to 54%.

The re-rating of the counterparties covered by the initiative, whose rating had not yet been updated as of 31 December 2020, is continuing in the first quarter of 2021 and is being constantly monitored by the functions of the Chief Lending Officer Area.

As part of the initiatives to support customers impacted by the pandemic crisis, Intesa Sanpaolo provided its international subsidiaries with an organic, homogeneous framework for treating legislative and non-legislative moratoria, in line with that implemented by the Parent Company and with the "*EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*". In particular, indications were provided in correspondence with the key moments:

a) in Q1/Q2, at the time that the EBA defined the "general payment moratoria", outlining the access criteria and the approaches in terms of decision making and classification as forborne;
b) in Q2/Q3, at the time of communicating the expiry of the "general payment moratoria" of 30 September and the resulting phase out starting from 1 October 2020;
c) in Q4, at the time of re-activating the "general payment moratoria", introducing the limit of 9 months of overall suspension and the moratoria activation date by 31 March 2021.

With reference to counterparty risk, the pandemic crisis entailed an initial increase in exposures, mainly due to the decline in Euro Area interest rates and the general, significant increase in the volatility of the main risk factors. However, no critical issues were encountered in the margining process with market counterparties, despite the sharp increase in collateral calls,

by both number and volume, during the weeks of greatest stress on the markets. Margin processes with central counterparties also did not generate any operating issues. The situation on the financial markets gradually stabilised, although interest rates remain at record lows, resulting in high levels of exposure to customers. With regard to the customers of the Banca dei Territori Division, the Bank implemented the "Cura Italia" Decree pursuant to Italian Law Decree 18 of 17 March 2020 (an ad hoc Italian governmental measure) for derivatives as well: in particular, customers in the SME segments in good standing that submitted moratorium applications for their loans may also apply for a moratorium on any hedging derivatives until the end of January 2021. At the end of December, 175 applications for suspension of OTC derivative payments had been received, relating to an outstanding amount of 340 million euro and payments suspended until 30 June 2021 of around 4.8 million euro. The most significant transaction had an outstanding amount of 22 million euro and suspended payments of 285 thousand euro;

Lastly, with reference to credit risk issues, note that the Group publishes the disclosure set out in the “Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis”, published by the EBA (EBA/GL/2020/07) in the “Pillar 3” public disclosure.

2. CREDIT RISK MANAGEMENT POLICIES

2.1. Organisation

Within the Intesa Sanpaolo Group, a fundamental role in managing and controlling credit risk is played by the corporate bodies, which, to the extent of their respective competences, ensure adequate coverage of credit risk by setting strategic guidelines and risk management policies, verifying that they remain constantly efficient and effective and assigning tasks and responsibilities to the company functions and units involved in the processes.
The coverage and governance of credit ensured by the corporate bodies is reflected in the current organisational structure, which identifies areas of central responsibility attributable to:

- Chief Lending Officer Governance Area;
- Chief Risk Officer Governance Area;
- Chief Financial Officer Governance Area;

They ensure that risk control activities are managed and implemented, with an appropriate level of segregation, in addition to the establishment of the supporting processes and applications.

The Chief Lending Officer Governance Area, with the aid of its structures (BdT Underwriting Head Office Department, CIB Underwriting Head Office Department, ISB Credit Head Office Department, Credit Governance Head Office Department, Credit Value Preservation Head Office Department and NPE Head Office Department):

- makes material credit decisions, directly or submitting them to the relevant bodies, in relation to the assumption and management of the Group’s credit risks, authorising them directly if falling within its prerogatives, including by way of advisory opinions;
- ensures, for its area of responsibility, the proactive management of credit and guarantees the management and the monitoring of the Group’s non-performing and bad loans kept within the Group’s internal management;
- designs and manages transactions for the sale of individual NPE positions or portfolios, credit exposures and other assets within scope, with the collaboration of other competent functions;
- performs monitoring and control on outsourced activities, including the monitoring of the performance KPIs of outsourcers, directly making decisions, or submitting them to the Competent Bodies, regarding proposals exceeding the powers delegated to the Outsourcers;
- contributes to the process of formulating the proposal of the Credit Strategies in the analysis of the impacts on the granting of loans and to their definition in relation to the relevant credit management variables, without prejudice to the Chief Financial Officer Governance Area’s ultimate responsibility for their finalisation;
- coordinates the implementation of Credit Management Guidance by the relevant Group business units, also in the various corporate contexts;
- analyses the evolution of the cost of credit within the Group, also taking into account the application of the aforesaid Credit Strategies;
- assigns and validates the ratings to the relevant positions, also providing support in the definition of the rating assignment processes and tools;
- defines the relevant regulations on credit matters, the requirements for the development of credit tools and contributes to the formulation of the proposals for the assignment of credit granting and management powers, without prejudice to the Chief Risk Officer Governance Area’s ultimate responsibility for their finalisation;
- promotes initiatives aimed at disseminating and developing a credit culture;
- ensures, consistently with the guidelines of the Chief Risk Officer Governance Area and in compliance with the Credit Management Guidance, the first level systematic supervision of the relevant loan portfolio, identifying phenomena referring to specific credit aggregates characterised by high levels of anomalies for which to activate the appropriate risk mitigation measures.

The Chief Risk Officer Governance Area is responsible for adapting the Risk Appetite Framework for the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures. Specifically, the Chief Risk Officer Governance Area:

- establishes the metrics for the measurement of credit risk - also with regard to the collective measurement of performing loans and the measurement of non-performing loans on a statistical basis;
- provides risk-adjusted pricing models and guidance on Expected Loss, Economic Capital (ECAP) and RWAs;
- monitors the absorption of capital relating to credit risk, supporting the Chief Financial Officer Governance Area in the active management of capital;

- makes proposals for the assignment of the Credit Granting and Management Powers;
- validates internal risk measurement systems;
- oversees model risk;
- performs level 2 controls for credit risk.

The activities are performed directly by the Chief Risk Officer Governance Area for both the Parent Company and the main subsidiaries, according to a service contract.

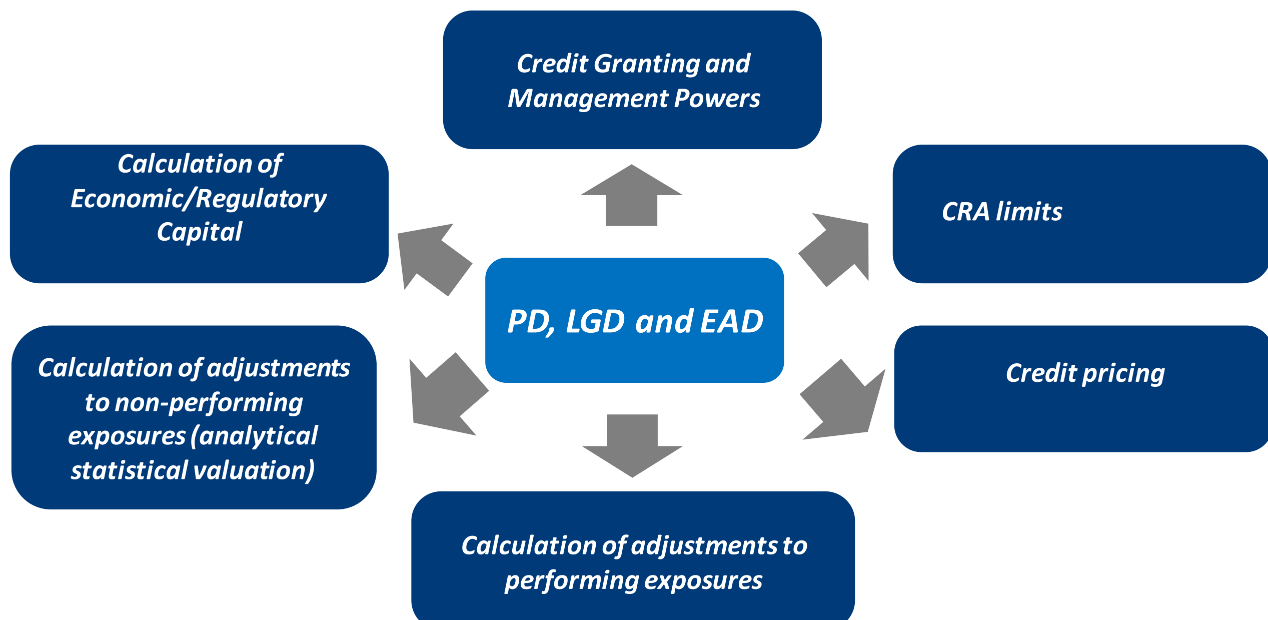
With regard to the credit management policies, the Chief Financial Officer Governance Area:
- assists the Corporate Bodies in defining, in accordance with the Group corporate strategies and objectives, the guidelines and policies on administration, planning and management control, studies and research, active management of the loan portfolio, relations with investors and rating agencies, and social and environmental responsibility;
- oversees Credit Portfolio Management at Group level, supporting the Divisions in the active management of credit risk, with the aim of improving the risk-return profile of the loan portfolio in order to create value for shareholders, through targeted credit strategies (including a specific incentive and disincentive mechanism) and participation in market operations on performing loans (including those being purchased) and non-performing loan portfolios;
- oversees the coordination of the "Group NPL Plan Control Room", a managerial body with consulting, monitoring and guidance functions, established to ensure that the strategic objectives of the Group's NPL Plan, approved annually by the Parent Company's Board of Directors, are achieved while in compliance with the performance targets, solidity of the capital ratios and creation of value for the Group.

The Chief IT, Digital and Innovation Officer establishes the model and oversees the Group's Data Governance and Data Quality system, ensuring its dissemination and implementation and coordinating the activities of the parties involved.

Lastly, as is the case for all the risk areas and above all for credit risk, the Chief Audit Officer performs internal audits aimed at identifying breaches of the procedures and regulations and periodically assessing the completeness, adequacy, functioning (in terms of efficiency and effectiveness) and reliability of the internal control system and the ICT system (ICT audit), at preset intervals according to the nature and extent of the risks.

2.2. Management, measurement and control systems

Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentration of exposures, limit potential losses in adverse scenarios, and maintain credit quality in line with the objectives of capital and financial stability.
Expected Loss and Risk Weighted Assets are fundamental elements for the management, measurement and control of credit risk. These measures incorporate the effects of the exposure size (Exposure at Default - EAD), the relative riskiness of the customer (Probability of Default - PD), the loss estimate where insolvency conditions exist - taking into account the guarantees that mitigate the assumption of risk related to the loan (Loss Given Default - LGD) - and the duration of the exposure (maturity), as detailed in paragraph 2.3.
The components that contribute to the determination of the Risk Weighted Assets are the key elements for the determination of the levels of the Credit Granting Powers, the limits of the Credit Risk Appetite (CRA), the credit pricing, the calculation of the adjustments on performing exposures and the analytical-statistical adjustments on non-performing exposures, as well as the calculation of the economic and regulatory capital.



The Credit Risk Appetite is aimed at optimising the risk/return profile of the assets. The “Rules on Credit Risk Appetite” define the methods for applying the CRA and the methods for calculating the CRA colour class, with associated exposure limits, in order to pursue a growth in lending consistent with the risk appetite defined for the Group. Following the acquisition of the UBI Banca Group, in order to ensure homogeneous treatment of customers, guarantee current operations and consistent oversight of Group risks, it was necessary to extend to the scope of UBI Banca and IW Bank the Credit Risk Appetite (CRA) framework of Intesa Sanpaolo. Thus, specific limits were defined, dedicated to the operations of UBI Banca and IW Bank, as well as the governance for managing breaches of the limits in line with that established at Intesa Sanpaolo.
The objective of the calculation of the pricing of transactions is to define the suitability of the economic conditions based on the value generation with respect to the expressed riskiness and all the components that contribute to the calculation of the value, also including the costs allocated to the structures.
The capital at risk is defined as the maximum “unexpected” loss that the Group may incur with particular confidence levels. The calculation is made with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast macroeconomic scenario and on stress scenarios. Risk capital is a fundamental element in the assessment of the Group’s capital adequacy and is calculated within the ICAAP process both with regard to the regulatory parameters and from a management perspective.
The levels of Powers set on terms of RWA delimit the decision-making power in the granting phase, specifying the authorised professional profiles and the decision-making procedures for the loans for the individual counterparties. In particular, where the granting of loans by the Group’s subsidiaries exceeds certain thresholds, a request for a “Compliance Opinion” is made to the competent bodies of the Parent Company.
The credit granting phase is also regulated by metrics that are complementary to the RWAs, which define coordination mechanisms and support tools for the ongoing exercise of guidance, coordination and control responsibilities, in implementation of the corporate governance provisions. In particular, the company rules include the Granting Rules, which specify the methods for taking on credit risk with customers, and the Rules on Credit Strategies, which are designed to direct the development and composition of the loan portfolio towards a risk/return profile that is recognised as optimal over the medium/long-term.
With reference to the integration of UBI, at the end of November 2020 transitional regulations were issued regarding the management of credit risk, to be implemented in the transitional period.
Those operating instructions mainly envisage:

- common rules for managing customers shared by ISP and UBI, setting out the aggregation of risks for shared customers and a mechanism for coordination between the managers of shared positions;
- the need to request an advisory opinion from the competent decision-making bodies of Intesa Sanpaolo for credit granting proposals and management proposals (classification, impairment adjustments and write-off) for non-performing loans exceeding the thresholds set by the competent ISP functions;
- standardised management of governance on Most Significant Transactions, Related Parties, Associated Entities, Board Members and General Managers and other relevant persons pursuant to Art. 136 of the Consolidated Law on Banking of UBI Banca and Intesa Sanpaolo.

The credit risk management processes also envisage the periodic review of all the credit positions by the relevant centralised or decentralised structures and the assessment of customers not only at origination, but also on a continuous basis, by means of a monthly monitoring process that interacts with credit management and control processes and procedures to ensure timely assessment of any signs of impairment, with an impact on the level of risk of the exposures. An Early Warning System is in place for the Corporate, Retail SME, Retail and Institutions portfolios, with adaptations introduced alongside the updates to the internal rating models. The system was developed on the basis of the indicators identified in the Asset Quality Review and consists of a statistical component and a qualitative component, plus manual triggers by event. The indicators are updated on a daily basis and, when they confirm a potential anomaly in the management of the relationship the related positions are detected and reported in the Proactive Management Process.
The valuation of the adjustments to the performing and non-performing exposures[45] is based on methods consistent with IFRS 9, described in detail in Part A - Section “A. 2 - Main financial statement captions” and in particular in the paragraph “Impairment of assets”.

Country risk is an additional component of an individual borrower’s insolvency risk, measured by credit risk control systems. This component is linked to losses potentially resulting from international lending operations caused by events in a country that are partly or entirely within the control of the government concerned, but not that of the individual residents of the country in question. Country risk therefore takes the form of both transfer risk for non-sovereign counterparties, due to the freezing of international payments, and sovereign risk, which is measured through an assessment of the sovereign states’ creditworthiness. This definition includes all forms of cross-border lending to entities residing in a given country, whether they are the government, a bank, a private enterprise or an individual.
The country risk component is used in the granting of credit to non-resident entities in order to obtain a preliminary evaluation of the absorption of country risk limits set on an ex-ante basis. These limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, set on an annual basis in the Group Risk Appetite Framework.

Counterparty risk is a particular kind of credit risk arising from derivatives and securities lending transactions and refers to the possibility that a counterparty may default before the contract expires. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, in the case of default of the counterparty, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
With regard to counterparty risk, the Banking Group has an internal model for measuring this risk both for regulatory (only for

[45] The analytical statistical measurement of the non-performing exposures applies to non-performing past-due due exposures and bad loan and unlikely-to-pay positions equal to or less than 2 million euro for the Parent Company. For Group companies, the threshold value for analytical-statistical measurement is set by the competent bodies of the individual companies, in coordination with the structures of Intesa Sanpaolo, at a level that is not, in any event, higher than that set by the Parent Company.

the Parent Company) and managerial purposes.
Potential Future Exposure (mean effective PFE 95%) has been adopted by the entire Banking Group for the measurement of the utilization rate of credit limits for derivatives and SFTs exposures. The Financial and Market Risks Head Office Department produces daily estimates for the counterparty risk measurements, for the measurement of the utilization rate of credit lines for OTC derivatives and SFTs for the Parent Company and Fideuram. The other Banks of the Group use the PFE method in a simplified form, through internally estimated Add-ons.
In addition, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:
– definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
– definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
– definition and monitoring of management limits;
– contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives and SFTs with margining agreements (CSA, GMRA and similar);
– periodic reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk;
– definition and periodic calculation of back-testing analyses to monitor the predictive performance over time of the model with respect to the movements of the risk factors underlying the transactions in the portfolio.

The concentration risk arises from the exposure to counterparties, groups of related counterparties and counterparties in the same business segment or that engage in the same business or operate in the same geographical region. In the annual update of the Risk Appetite Framework, such counterparties are subject to stress tests aimed at identifying and assessing threats for the Group and the most appropriate mitigating actions:
– aimed at defining exposure limits for specific geographical areas and sets of counterparties (e.g.: the top 20);
– aimed at ex ante limitation of exposures with significant concentration effects, in particular with reference to "large exposures" and to credit lines subject to country risk;
– aimed at ex post correction of the profile, through the secondary loan market, through specific judgement metrics based on the maximisation of overall portfolio value.

The acquisition of UBI did not significantly alter the Group's overall position, both regarding positions in securities and regarding credit exposures. At the acquisition date, the UBI Group held a small position in securities and a loan portfolio featuring a limited percentage of corporates and a significant prevalence of small and medium-sized counterparties and individuals, with resulting benefits in terms of the diversification and division of the overall loan portfolio of the Group.

Through specific control, guidance and coordination activities, the Internal Validation and Controls Head Office Department within the Chief Risk Officer Governance Area oversees the credit granting and management processes for the performing loans portfolio at the Group level, and through controls on individual positions, assesses that loans are properly classified. It also assesses the compliance of the internal risk measurement and management systems over time as regards determination of the capital requirements with the regulatory provisions, company needs and changes in the relative market.
The Group's lending activity is focused on Italian customers (80% of the total, in line with the 2019 value) and is primarily aimed at households and small and medium enterprises.
The exchange of basic information flows between different Group entities is assured by the Group's Central Credit Register (exposure monitoring and control system) and by the "Posizione Complessiva di Rischio" (global risk position), which highlight and analyse credit risks for each counterparty/economic group both towards the Group as a whole and towards individual Group companies.
From the September 2018 monthly report – following the preparation of the input and generation architecture for the Anacredit reporting, aimed at supporting the "collection of granular credit and credit risk data" as defined by EU Regulation 2016/867 of 18 May 2016 – a new reporting system has been in place in compliance with the regulatory provisions established by the ECB and implemented by the related Central National Banks.

2.3. Methods for measuring expected losses

The expected loss is the product of exposure at default, probability of default and Loss Given Default.
In Intesa Sanpaolo, probability of default is measured by means of different rating models according to borrower segment (Corporate, Retail SME, Retail, Sovereigns, Public Sector Entities and Banks). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a consistent scale of reference.
A number of rating models are used for the Corporate segment, which use all available information sources and incorporate the opinions of credit analysts and relationship managers. In particular:
– models differentiated according to the market (domestic or international) and size bracket of the company are applied to most businesses;
– specific models are in use for specialised lending, one for real-estate initiatives, one for project-finance transactions and one for Leveraged Buy-Out/acquisition-finance and asset-finance transactions.

The Corporate model is also used to calculate the resulting RWAs for the Equity portfolio of the Banking Book.
The models applied to the Retail portfolio are as follows:
– for the Retail SME segment, a highly-decentralised rating model by counterparty is used, in which the quantitative-objective elements are supplemented by qualitative subjective elements;
– for the Retail segment, a counterparty rating model consisting of the Retail Mortgages segment and the Other Retail segment has been in use since September 2018.

With regard to the Institutions portfolio:
- the models for banks (banks in mature economies and banks in emerging countries) are composed of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component relating to systemic risk, and a component relating to specific country risk, for banks most closely correlated with country risk;
- the models used for Municipalities and Provinces are default models, whereas shadow rating models based on agency ratings are used for the Regions. An approach to extend the rating of the regulatory Entity (e.g.: Region) has been adopted for local healthcare authorities and other sector entities, with possible changes on the basis of the assessment financial statement data (notching).

For the Sovereign portfolio, the structure of the rating model includes a quantitative module that takes into account the structural rating assigned by the main international agencies, the implicit risk in the market prices of sovereign debt, the macroeconomic assessment estimated with an econometric model of regression, and a qualitative opinion component, which supplements the qualitative opinion with elements drawn from the broader scope of publicly available information concerning the political and economic structure of the individual sovereign countries. The Sovereign rating model is used solely for management purposes.

For the international subsidiary banks of the Group, PD models are used, which may be:
- developed by the international subsidiary banks in order to capture the specific features of the risk of the local counterparties;
- extended by the Parent Company;
- borrowed from the Parent Company and adapted to local situations.

Some of these models are used for reporting purposes and others only for management purposes, as set out in the table below.

The Loss Given Default (LGD) models are based on the concept of "Economic LGD", namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group, and consists, in brief, of the following elements:
- estimate of a Bad Loan LGD Model: starting from the LGD observed on the portfolio, namely "Workout LGD", determined on the basis of the recoveries and costs, a regression econometric model of the LGD is estimated on variables considered to be significant for the determination of the loss associated to the Default event;
- application of the Danger Rate, a multiplying correction factor, used to recalibrate the Bad Loan LGD with the information available on the other default statuses, in order to calculate an LGD representative of all the possible default statuses and their evolution;
- application of an additional correction factor, known as "Final Settlement Component": this component is used as an add-on to the estimate recalibrated for the Danger Rate in order to consider the loss rates associated with positions not evolved to the Bad Loan status (Unlikely to pay or Past Due positions).

LGD is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail, Factoring, Leasing, Public Entities and Banks). As in the case of the PD, the models that have been adopted for the LGD of the International Subsidiary Banks of the Group were developed by the banks themselves, extended by the Parent Company, using local parameters where necessary or changed by the Parent Company, with adaptations to each international subsidiary bank.

For the banks, the LGD calculation model partly diverges from the models developed for the other segments as the estimation model used is based on the market price of debt instruments observed 30 days after the official date of default and relating to a sample of defaulted banks from all over the world, acquired from an external provider. The model is completed by an econometric estimate aimed at determining the most significant drivers, in accordance with the practice in use for the other models.

The Sovereign LGD is estimated by analysing the historical recovery rates on sovereign defaults, differentiated into five categories according to the risk factors of each country. The country risk component associated with exposures to non-sovereign counterparties allocates different LGDs to the countries based on their geographical area. These LGDs are estimated based on an analysis of changes in the exchange rate of the local currency against the US dollar and any support received from the International Monetary Fund's Rainy Day Fund.

The LGD Sovereign and transfer models are used solely for management purposes.

The calculation of the Exposure at Default (EAD) uses regulatory parameters (Retail SME, Factoring, Leasing, Public Entities and Banks) and models differentiated and specialised by operating segment (Corporate and Retail). Specifically, the methodology is based on data from the 12 months prior to the default event and differs according to whether or not there is a margin available at the observation date. In any case, corrective factors are applied in compliance with the regulatory requirements and in order to introduce a margin of conservatism on the estimates.

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

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

Following the acquisition of the UBI Banca Group, in order to ensure homogeneous treatment of customers, guarantee current operations and consistent oversight of Group risks, in September 2020 the strategic plan for the recovery of regulatory compliance in relation to Pillar I risks and the request to temporarily use the related internal models for credit and operational risk for the purpose of consolidated supervisory reports were sent to the Supervisory Authorities. With specific reference to credit risk, the preparatory activities were begun for sending the requests to the ECB to apply for the extension of Intesa Sanpaolo's internal models to the acquired UBI portfolios.
In particular, the UBI Group was authorised by the Bank of Italy to use Advanced Internal Rating Based systems (AIRB) to calculate capital requirements for credit risk relating to the regulatory Retail segment, sub-classes "Exposures secured by residential property" and "Other retail exposures (Retail SME)" and the regulatory Corporate segment. This authorises the use of internal estimates of the parameters of Probability of Default (PD) and Loss Given Default (LGD) for the RRE – Residential Real Estate (Individuals and Retail Companies), Other Retail (Retail Companies) and Corporate portfolios. Moreover, the Bank was authorised to apply the new models (extension of internal models for determining capital absorption of the Corporate and Retail portfolios deriving from the New Banks, as well as gradual extension of the IRB scope to the Other Retail - Individuals and Qualifying Revolving segment) with resulting benefits in terms of lower capital absorption.
To date, the scope of application of the AIRB approaches authorised, in terms of the scope of companies, comprises IW Bank and UBI Banca.
For the Group companies included in the roll out plan, the internal rating models (PD) and the EAD and LGD components are subject to independent validation by the Validation function and a level three control by the Internal Audit Department. At the end of these activities, a report is produced for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also verifies the actual deviation between the ex-ante forecast estimates and the actual ex-post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the compliance to the regulatory requirements.

The methodology for the estimation of the Expected Credit Loss (ECL), adopted for the determination of the impairment on loans in accordance with IFRS 9, is implemented at individual transaction or securities tranche level, based on the IRB modelling of the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate adjustments are made to ensure compliance with the requirements of the standard. A detailed description of the methods adopted by the Group is provided in Part A - Section "A. 2 - Main financial statement captions" and in particular in the paragraph "*Impairment of assets*", to which reference is made, as well as in that indicated in detail in the section "The Intesa Sanpaolo Group's approach to the preparation of the Financial Statements as at 31 December 2020" of the Report on Operations, and in Part A – Section 5 – Other Aspects – Risks, Uncertainties and Impacts of the COVID-19 Epidemic.
More specifically, the measurement of the financial assets reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the "risk" of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the

determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the "Most likely scenario+Add-on" approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely", in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes.
As indicated in the section "Changes due to COVID-19" below, the macroeconomic scenarios were determined by the Bank's Research Department using forecast models, taking into account the forecasts of the main national and international bodies and institutions.

With reference to UBI, to estimate the collective performing loan portfolio, the same macroeconomic scenario adopted by the Parent Company was used, and several changes were made to the methodologies adopted, to guarantee a gradual convergence toward Intesa's approaches, in view of the planned integration in 2021. In particular, the satellite models of the Parent Company were used, including guarantee and moratoria overlays, and additional prudential factors connected with the COVID-19 situation were incorporated (micro-sector corrections), in line with the Parent Company.
Lastly the activities were begun in preparation for the fully loaded application of the statistical models of Intesa Sanpaolo, in view of the integration activities in 2021.

The effectiveness of the IFRS 9 models is also monitored by the Validation function at least once a year on the risk parameters (staging criteria and PD, LGD and haircut models), both through model performance tests and in terms of model design, data treatment and code review. The results are presented, in the same way as over mentioned, in the annual report on internal models used for managerial purposes. The analyses carried out in 2020 did not identify any critical issues and provided an opinion of general adequacy with respect to the areas analysed.

Changes due to COVID-19

As highlighted in the introduction to this Section, COVID-19 had a particular impact on the issues of classification of credit exposures, specifically the aspects linked to payment moratoria, as well as on the measurement of the significant increase in credit risk (SICR) and the measurement of expected losses for the purpose of determining the Expected Credit Losses (ECL) pursuant to IFRS 9.

The classification of credit exposures subject to the COVID-19 moratoria was the subject of a regulation in the dedicated EBA "Guidelines on legislative and non-legislative moratorium on loan repayments applied in the light of the COVID-19 crisis". According to the EBA, in order to be considered in line with its indications, the moratoria must meet several specific requirements. In brief, they must:

- be offered without distinction by the bank to a large group of (performing) borrowers or following legislative provisions;
- not provide a waiver of contractual interest or principal but solely a deferral/extension of payments.

Following the activation of EBA compliant moratoria, the count of the past due for the purposes of identifying the default (with classification as non-performing past due) is stopped. In addition, as the Bank has not waived the repayment of the principal or the accrual of contractual interest, the calculation of the diminished obligation for the purposes of distressed restructuring and the resulting classification as Unlikely-to-Pay is substantially irrelevant. The moratorium is not automatically considered as a forbearance measure and therefore does not also constitute a trigger for a significant increase in credit risk with consequent transition to Stage 2 (for Stage 1 positions) pursuant to IFRS 9. In addition, for positions with companies at higher risk (identified through their rating) for which the Bank had decided to grant a moratorium, up to 30 September our Group carried out specific assessments in any event, to determine whether or not to consider the renegotiation as a forbearance measure.
Subsequently, in light of the scenario of cautious optimism at the end of the summer, the EBA decided not to extend that exceptional measure. The Authority had thus decided to return to the practice whereby any renegotiation of loans has to follow a case-by-case approach according to the usual prudential rules, i.e. with an analysis of whether the single measure is to be considered a forbearance and/or a default event. As a result, from 1 October that test was applied to all new measures towards companies and individuals (regardless of rating and type of moratorium).
Following the second wave of COVID-19 which hit Europe in mid-October, the EBA reconsidered the issue, and with its communication of 2 December ("Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis"):

- re-opened the option to grant moratoria according to the existing guidelines, until 31 March 2021;
- introduced a nine-month cap for new moratoria or the extension of an existing moratorium. The cap shall also apply to the granting of non-consecutive periods of suspension (in this case, the durations of the various periods are added together). The nine-month cap does not apply retroactively to moratoria granted up to 30 September.

In December, the Group thus aligned with that set out in the amendment issued by the EBA on 2 December, restoring the framework in force as at 30 September, described above, while introducing a case-by-case assessment of classification as forborne for newly granted moratoria or those extended, at the time the duration of the suspension exceeds nine months, as envisaged by the EBA.
Acknowledging that, with the reopening of the moratoria, one of the main instruments for monitoring credit quality - i.e. the regularity of payments - no longer applied, the EBA also specified that banks shall notify to the relevant competent authority a plan that outlines the process, the sources of information and responsibilities in the context of the assessment of the unlikeness to pay of borrowers subject to (legislative or non-legislative) payment moratoria. That matter – which our Group was well aware of even before the due solicitation by the authorities – is being gradually reinforced, also for the purpose of assessing positions as illustrated in greater detail below, through the process of revising and updating the ratings if individual counterparties, in addition to a specific analysis on the individual counterparties that benefited from the moratoria aimed at capturing the vulnerabilities of the position in the specific COVID-19 context.

As regards the assessment of loans, the Group prudently defined specific adjustments to both the SICR measurement process and the measurement models for expected losses, to take account of the specific characteristics of the impacts of COVID-19 on the economy. The approach was gradually rendered more sophisticated and consistent by defining management overlays, which were gradually enriched following the improved perception of the evolution of the crisis, defining new frameworks to assess expected vulnerabilities (e.g. updating the CRA framework, introducing micro-sector vulnerabilities), as well as the results of the operational responses adopted by the Group (e.g. re-rating campaigns, campaigns to revitalise and restructure the revitalisation and restructuring the Businesses segment, priority analysis of the portfolio of moratoria).

In particular, the approach adopted, strengthened in the 2020 Financial Statements due to several actions described below, is also extremely consistent with the indications in the ECB Letter of 4 December 2020. This letter states that significant institutions should identify a significant increase in credit risk as early as possible and, given the level of uncertainty caused by the pandemic crisis, use integrations in applying IFRS 9, by including subjective parameters from expert judgements or overlays, with specific attention to the consistency that those parameters must have with the observable macroeconomic variables and forecasts.

Thus, in substance, considering the continuing validity of the underlying rationale, the choices made at the time of the Half-yearly Report were confirmed. In summary:

- one-off treatments to provide more granularity through extraordinary staging triggers of the impacts of the current scenario on counterparties in the micro-sectors most penalised by the crisis, also in light of the specific analyses on counterparties and the presence of moratoria measures;
- adoption of corrective factors on default rates to include the expected benefits of major economic support initiatives such as government guarantees not captured by satellite models, on the one hand, and to incorporate in the models the worsening effects of the moratoria during the period of their validity in postponing the transition to default status to future years.

In relation to the decisions made in the Half-yearly Report, the solutions set out in the 2020 Financial Statements have obviously been refined somewhat and are more sophisticated, in light of the larger time frame available and the increased wealth of information that can be used. The treatments listed below were also applied to the UBI portfolio (net of the positions disposed of and reclassified under discontinued operations) in a substantially equivalent manner, in light of the information available.

The international subsidiary banks also adopted local management overlay actions using a prudent approach.

Thus, a description of the measures adopted for the purposes of the 2020 Financial Statements is provided below, briefly listing, where appropriate, the updates on that applied in the Half-yearly Report.

Effects of the government guarantees acquired

This overlay incorporates the mitigating effects on future risk deriving from the acquisition of government guarantees, such as those deriving from the “Cura Italia” and “Liquidità” Decrees, as they were not included in the satellite models. Those guarantees enabled banks to provide support to the liquidity of counterparties which otherwise could not have received support, allowing at least some of them to survive the ongoing crisis.

As for the Half-yearly Report, this aspect was subject to quantitative analysis, based on the detailed analyses conducted in relation to evidence deriving from the Credit Risk Appetite (CRA). In particular, on a subset deemed as adequately representing Intesa Sanpaolo customers, using the prospective financial statements approach, customers “with liquidity requirements” were identified and those which, out of this subset, would have difficulty repaying the debt following the grace period (“vulnerable customers”). Thus, two measures of average probability of default were defined:

- average probability of default A: in a hypothetical scenario without government guarantees, presuming that the customers “with liquidity requirements” in the CRA classes with the highest risk (Red CRA) have their rating downgraded or default;
- average probability of default B: in a scenario with government guarantees, the customers with “liquidity requirements” and a Red CRA that are not vulnerable are assumed not to have a rating downgrade, while the vulnerable customers would have the same downgrading assumed above.

The ratio of the probabilities of default in these two scenarios provides a mitigation factor to be used to discount the default rate envisaged by the model over 24 months.

The analysis of the impact of government guarantees highlights an important factor to contain the increase in system-wide default rates resulting from the worsening of the scenario, as it increases the base of customers that can access credit and, thus, increases the liquidity in circulation, assisting companies undergoing temporary difficulties. The estimated effect is deemed prudent, as it did not consider additional benefits (e.g. the guarantee scheme reduces the interest rates applied by banks, thereby reducing debt service for companies and introducing grace periods of 24 months).

Effects of the moratoria granted: transfer of default flows

This overlay was incorporated in the results of the forward-looking assessments in the satellite models, as it is aimed at “correcting” the estimated expected default flows (based on the application of the “COVID” macroeconomic scenarios described above) to incorporate the effect that the moratoria have on transfers to default during their period of validity. In substance, it reduces the forecast of default flows during the period of validity of the moratoria and transfers it (in addition to those estimated by the satellite model) to subsequent periods, when the moratoria pursuant to law will expire.

The overlay is applied to counterparties in the Corporate, Corporate SME, Retail SME and Mortgages segments.

In the Half-yearly Report, the simulations conducted on the effects of the moratoria (confirmed by the final analysis) allowed for transferring to the next year (2021) a portion of the defaults of Domestic Corporate and Retail SME customers estimated at the time by the satellite models for the second half of 2020.

In the 2020 Parent Company’s Financial Statements, instead, the mitigating effect was recognised directly in the fewer defaults for the year, while the expected cliff-edge effect due to the passage of time was maintained, which entails additional

flows for 2021 compared to those estimated by the satellite models. Moreover, in order to consider the updated scenario - which entails more severe conditions in terms of growth in economic activity (goods and services) in 2021 - the survival rate of defaults not realised in 2020, transferred to 2021 was revised downwards. This was brought down from 30% to 15% in the baseline scenario. As a result, the percentages in the upside scenario (30%) and downside scenario (reducing survival to zero) were also recalibrated.
The effects of that overlay, along with the macroeconomic scenario adopted, act through the SICR logics of the PD Change, thus increasing the transfers to Stage 2 and ECLs. Moreover, for the purposes of the 2020 Financial Statements, additional assessments were conducted of the vulnerability criteria of loans under moratoria which resulted in the transfer of portfolios to Stage 2 through the triggers described below.

Micro-sector vulnerabilities and moratoria to identify extraordinary triggers for sliding into Stage 2
As known, IFRS 9 requires that where a significant increase in credit risk (SICR, which results in the need to include the exposures in Stage 2) is detected, the expected losses must be measured over the entire residual life of the credit exposure. In the other cases (no significant increase in credit risk), the expected loss shall be calculated with reference to a time horizon of 12 months (exposure included in Stage 1).
In the approach adopted by the Intesa Sanpaolo Group, the parameter that measures the change in credit risk and, thus, any “significant” increase in the risk, is default risk, expressed by the changes in the Probability of Default over the entire residual life of the financial asset (hereinafter, “Lifetime PD Change”), calculated considering the effects of the expected macroeconomic scenarios.
In addition to the Lifetime PD, in identifying an SICR, Intesa Sanpaolo considers two other elements: (i) the number of days past due as an indicator of the deterioration of credit quality of the counterparty, which shall be presumed to become “significant” when the days past due exceed 30; and (ii) the granting of forbearance measures.
That being said, as regards the staging allocation deriving from the “Lifetime PD Change” component - which is the main case for determining exposures in Stage 2 - the forward-looking assessment based on scenarios like those caused by the pandemic crisis, only partially limited by the mitigating effects described above, is already an important element that explains the migration from Stage 1 to Stage 2 of the performing portfolio recognised during 2020.
In that context, an impact was also made by the initiatives launched to re-rate counterparties in 2020 (both in Banca dei Territori and in IMI C&IB). These were assisted by specific guidelines and analysis tools to support the measurement to correctly identify the aspects of deterioration of credit quality also deriving from elements that are not directly connected to or intensified by the pandemic crisis, in relation to more contingent elements deriving from the crisis and considering, according to a more forward-looking view in assessing the rating, the capacity and speed of recovery of the most affected counterparties and the differentiated effects on their sectors of operation.
Instead, as regards the triggers “30 days past due” and “forbearance”, which, also in ordinary conditions, are a marginal share of the reasons for classification in Stage 2 (usually the downgrading of the rating ensures early interception of the worsening of credit quality of the counterparty), the various initiatives of payment moratoria described above resulted in a weakening of their significance for the purposes of staging allocation, which was subject to the ordinary triggers for transfer to Stage 2 established by the Group.
An additional factor to consider derives from the vulnerability factors originated by the pandemic situation and its economic impacts, which are not suitably intercepted by the methods used to estimate the Lifetime PD. This aspect was already identified in the Half-yearly Report 2020, in consideration of the specific characteristics of micro-sectors. For the purpose of determining the Lifetime PD, the IFRS 9 methodology, resulting from the application of the prudential rules, considers large sectors to guarantee the stability of estimates. In the current crisis scenario, a diversified impact is expected on the individual micro-sectors, with behaviour that may be highly polarised in relation to the trend in their macro-sectors. Thus, this distance may entail a degree of worsening in the credit quality not captured by the current SICR rules.
The ECB also discussed that aspect in its Letter of 4 December 2020, ”*[…] Borrowers are being affected (directly or indirectly) by the coronavirus (COVID-19) pandemic to a different extent, depending on their sector. In this regard, macroeconomic information and/or the adverse business impact on specific sectors might in itself indicate that there has been a significant increase in credit risk for adversely affected exposures. A transfer to stage 2 may be necessary solely because of these particular circumstances, unless more granular information is available to show that exposures may still remain in stage 1. Using a more differentiated approach, it may be possible to rebut the assumption that adverse effects stemming from the business, financial and economic environment affect the entire portfolio”.*
To that end, a bottom-up analysis conducted to support the revision of the Credit Risk Appetite (CRA) Framework as a result of the COVID-19 pandemic was considered, which was based on the application of the micro-sector scenarios issued by the Research Department. The CRA methodology entails the processing of forward-looking financial statement data for single counterparties, simulated considering the scenario of the specific micro-sector and, based on this data, the estimation of a forward-looking rating at the landing point at the end of the time horizon of the forecast.
Moreover, based on the forward-looking rating, the Point-in-Time transition matrices were regenerated according to the IFRS 9 methodology and, as a result, the new ECL at counterparty level was calculated. As a result, it was possible to compare that ECL, on a cluster of exposures grouped by micro-sector, with that calculated on the same counterparties according to the IFRS 9 methodology (based on satellite models at macro-aggregate level) and calculated the related ECL change.
Therefore, where the behaviour of the micro-sector worsens to the point of exceeding the threshold of the related “ECL change”, it is considered more vulnerable than the reference macro-aggregate. In addition, on the basis of an expert-based assessment, a further 21 micro-sectors were added (deemed vulnerable and not captured by the methodology of forward-looking financial statements in relation to specific aspects, as in the case of companies operating in the construction sector, for which the variable of “turnover” is not significant), identifying a total of 56 micro-sectors, representing 16% of the exposures in the Corporate and Corporate SME segments of the scope examined.

That being said, the following triggers for transition to Stage 2 were identified for counterparties in the Corporate and Corporate SME segments (not already classified in that stage of risk) where they concurrently meet the following three conditions:
- they belong to the high-risk micro-sectors as identified above;

- they have availed of the extraordinary measure of moratorium at least once;
- they have a rating of less than or equal to M4 (equal to BB in the external rating scale), so that counterparties that may have availed of the measure due to opportunity and not due to need can be excluded.

Also as regards the Retail and Retail SME portfolios, an extraordinary trigger for sliding into Stage 2 was introduced for counterparties that have availed of at least one extraordinary measure (moratorium) and are considered risky (rating equal to or worse than RT10 for Retail or M4 for Retail SME). Moreover, consideration was also made of the findings gathered from the "Moratoria, Refinancing and Renegotiation" Action Plan, as part of the Coraggio Italia initiatives, completed during Q4 2020 for the purpose of priority analysis of the clusters of customers with the highest risk and expiring moratoria. The initiative under way is set up with a rolling approach on portfolios with consecutive expiries. The findings of the first batch processed were verified in order to add the "extraordinary" Stage 2 triggers not already captured by the rules mentioned above.
The findings of the initiative on the Individuals and Retail Companies portfolios of the Banca dei Territori Division were also considered. Starting with clusters defined on the basis of specific risk drivers, individual managers were asked to carry out a priority assessment (triggering a traffic light result) to identify customers for which to support the return to payment at the deadlines with appropriate measures based on the prospective of temporarily assisting them with financial difficulties. In brief, the traffic light results entailed, at each end of the range, the clustering of exposures with a green traffic light with a return to payment considered sustainable without intervention, save for any refinancing of the outstanding instruments, and those with red traffic light, with a return to payment considered unsustainable, no intervention possible and thus, subject to measures to transfer them to a higher risk status. Instead, the yellow traffic light was assigned where the recovery of payment was not sustainable, assessing the need for renegotiation, and temporary return to payment not sustainable, thus, with the need for extension and careful monitoring of the evolution of the risk. The orange traffic light was assigned where the return to payment was deemed unsustainable, but with little possibility of action and, thus, exposures to be placed on the watch list for the following months.
As a result, positions with a yellow or orange traffic light which were not already in Stage 2 due to the application of the IFRS 9 methodology or the Stage 2 triggers described above were classified in Stage 2.
The presumable results at the end of 2020 of the "Revitalisation and Restructuring of the Business Segment post-COVID" initiative on the CIB scope were analysed for transfer to Stage 2 with regard to Orange and Yellow severity levels, which involved around 15% of the cluster.

Scenarios used to determine the ECL and sensitivity analysis
As indicated in greater detail in the chapter "Overview of 2020" of the Report on operations, for the purpose of measuring the Expected Credit Loss in accordance with IFRS 9 as at 31 December 2020, the Group aligned its macroeconomic forecasts with the indications, reiterated in the recent ECB Letter of 4 December 2020, which emphasised that "[…] significant institutions are recommended to continue anchoring their IFRS 9 baseline scenarios using the ECB's forecasts in an unbiased manner". In particular, in interacting with the CRO Area, the Research Department generated IFRS 9 scenarios (most likely and alternative) using the (baseline, mild and severe) forecasts published by the Eurosystem/ECB on 10 December, along with the equivalent baseline forecasts for the Italian economy published by the Bank of Italy.
The table below thus shows the scenarios generated and used to measure Expected Credit Losses. In particular, the ECB/Bank of Italy forecasts were directly used for the indicators provided by them while - as is usual for non-EU indicators, only partly identified - the other necessary variables were reconstructed using simulations from internal modelling according to the standardised approach envisaged for that process in the Intesa Sanpaolo Group.
For the international subsidiary banks of the International Subsidiary Banks Division and Banca Intesa Russia, the assessments were made in line with the approach adopted centrally, taking into account the lower sophistication of some of the entities. In particular, the banks that adopt internal satellite models for the purposes of estimating the Point in Time (PIT) Forward Looking PD introduced local scenarios in line with that of the ECB of December 2020 or with the scenarios issued by the local Regulator.

Intesa Sanpaolo macroeconomic scenarios for calculating the ECL in the 2020 Financial Statements

		Baseline				Best case				Worst case			
		2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
Italy	Real GDP Italy	-9.0%	3.5%	3.8%	2.3%	-8.5%	6.2%	2.5%	1.9%	-9.1%	-0.5%	2.6%	1.7%
	CPI Italy	-0.2%	0.5%	0.9%	1.2%	-0.1%	0.6%	1.2%	1.4%	-0.2%	-0.3%	0.4%	1.0%
	Residential Property Italy	2.4%	-2.0%	0.5%	1.0%	2.7%	0.3%	2.0%	3.1%	2.4%	-5.0%	-2.7%	-1.7%
	10Y BTP yield	1.2%	0.8%	1.0%	1.2%	1.1%	1.0%	1.4%	2.2%	1.2%	1.0%	1.3%	1.7%
	BTP-Bund Spread 10Y	1.6%	1.3%	1.5%	1.6%	1.6%	1.3%	1.5%	1.6%	1.7%	1.6%	1.8%	2.1%
	Italian Unemployment	9.2%	10.4%	10.0%	9.5%	9.3%	10.2%	9.9%	9.5%	9.4%	11.6%	11.8%	11.5%
Euro Area	Real GDP EUR	-7.3%	3.9%	4.2%	2.1%	-7.2%	6.0%	4.3%	2.1%	-7.6%	0.4%	3.0%	2.9%
	CPI EUR	0.2%	1.0%	1.1%	1.4%	0.2%	1.1%	1.3%	1.5%	0.2%	0.7%	0.6%	0.8%
	Equity ESTOXX 50	-5.2%	4.6%	4.0%	2.9%	-1.6%	12.0%	3.6%	3.3%	-5.5%	-5.2%	-7.0%	-4.7%
	Euro/$	1.14	1.18	1.18	1.18	1.14	1.16	1.14	1.17	1.13	1.17	1.17	1.19
	Euribor 3M	-0.4%	-0.5%	-0.5%	-0.5%	-0.4%	-0.5%	-0.5%	-0.2%	-0.5%	-1.0%	-1.0%	-0.9%
	EurIRS 10Y	-0.1%	-0.2%	-0.1%	0.1%	-0.1%	0.0%	0.2%	0.8%	-0.2%	-0.4%	-0.2%	-0.2%
	10Y Bund yield	-0.5%	-0.5%	-0.5%	-0.4%	-0.5%	-0.2%	0.0%	0.6%	-0.5%	-0.6%	-0.5%	-0.4%
	Unemployment EUR	8.0%	9.3%	8.2%	7.5%	7.9%	8.8%	7.5%	6.9%	8.1%	10.3%	9.9%	9.4%
US Area	Real GDP US	-3.5%	4.2%	2.7%	2.1%	-3.5%	5.2%	3.9%	2.5%	-4.1%	0.3%	0.2%	0.2%
	Equity US	10.0%	7.3%	-0.4%	-0.6%	15.0%	29.0%	6.2%	2.8%	9.8%	-4.2%	-4.6%	-4.4%
	Unemployment US	8.2%	6.5%	5.6%	4.8%	8.2%	6.3%	5.1%	4.3%	8.4%	8.7%	7.8%	6.7%

In light of the epidemiological situation that can be forecast at the start of December 2020, the baseline scenario assumes only partial success in containing the virus, with persistence of infections in the first quarters of 2021 and consequent containment measures. However, these measures are expected to result in lower economic costs than those incurred during the initial strict lockdowns. In any event, the economy is expected to gradually grow. The transition period will last until the vaccination campaigns have reached significant critical mass, which is expected by mid-2021.
In the worst-case scenario it is assumed that the new restrictions put in place to combat the second wave that arose near the end of 2020 will have a more damaging impact on economic activity and will not effectively contain the disease, with the possibility of having to deal with a new wave during 2021.This new wave would require that containment measures stricter than those of the end of 2020 be maintained. Sustained efforts to prevent the spread of the virus would continue, in any event, to dampen activity in sectors of the economy until significant coverage by vaccines is achieved which, in this case, would not be effective by the end of the year.
With regard to the health situation, the best-case scenario assumes effective containment of the virus. The strict lockdown period should be followed by a gradual recovery of the economies. The successful containment of the spread of the virus during the second wave is due to rapid progress in treatment and efficient coverage by vaccines, thus paving the way for a gradual return to normal activity. This scenario does not foresee a resurgence of the virus and envisages that the economic responses from the authorities will be very successful.
These scenarios were applied in the measurement of loans according to the “Most-Likely scenario + Add-on” model described in the “Accounting Policies” and in the previous chapter of this section of the Notes to the financial statements.

Considering the considerable uncertainty that characterised the reference economic-financial context, evidenced by the extreme volatility of the above scenarios, the Group’s Expected Credit Loss (ECL) for 2020, calculated in accordance with IFRS 9, was subject to sensitivity analysis aimed at analysing the variability with respect to the individual alternative scenarios, also in light of the strengthening of the indications provided in that sense by the Regulators during 2020, to increase financial entities’ awareness of the need to include appropriate disclosure in the financial statements that allows the market to interpret the possible evolution – and potential impacts – of credit risk in the short/medium-term.
That analysis was conducted on a performing loan portfolio (Stage 1 and Stage 2) relating to the scope representing the Group (Parent Company and banks in the IMI C&IB Division that represent around 80% of the Group’s total exposure), assuming as reference scenario the single alternative scenarios (upside and downside) used to determine the add-on, in place of the most-likely scenario, keeping valid the effects deriving from adopting managerial adjustments and overlays, used to consider - in the exceptional context of COVID-19 – the specific elements that make it possible to ensure more consistent estimates of expected losses.
The sensitivity of the portfolio to the downside scenario would see a significant amount of counterparties sliding into Stage 2, whose exposure would potentially increase by 25%, with a resulting increase in the ECL 2020 estimated at around 17% (around 400 million euro) and greater average coverage of around 10 bps.
Vice versa, the sensitivity analysis of the portfolio in the upside scenario would see a significant reduction in the stock of positions in Stage 2, which would decrease by 30%, with a potential economic benefit on the ECL 2020 decreasing by 29% (over 600 million euro), and a resulting decrease in the coverage ratio of around 18 bps.

To complete the reporting, in line with the provisions of said Communication of 15 December of the Bank of Italy, which

supplements Circular 262, also see the quantitative information on the loans subject to COVID-19 support measures and the related net adjustments for credit risk published, respectively:

- in Part B – Information on the consolidated balance sheet – Assets, in the tables:
  - 3.3a Loans measured at fair value through other comprehensive income subject to Covid-19 support measures: gross amount and total adjustments;
  - 4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross amount and total adjustments;
- in Part C – Information on the consolidated income statement:
  - 8.1a Net adjustments for credit risk associated with loans measured amortised cost subject to Covid-19 support measures: breakdown;
  - 8.2a Net adjustments for credit risk associated with loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown;

Lastly, for quantitative information on transfers between different credit risk stages and loans subject to COVID-19 support measures broken down by category of non-performing exposures, refer to the following tables in this Part E (Section 2 "Risks of the prudential consolidation") in these Consolidated financial statements:

- A.1.3a Loans subject to Covid-19 support measures: transfers between stages of credit risk (gross amounts);
- A.1.5a Loans subject to Covid-19 support measures: gross and net amounts.

2.4. Credit risk mitigation techniques

The risk mitigation techniques include the instruments that contribute to reducing the loss the Bank would incur in the event of counterparty default, i.e. the Loss Given Default described in the paragraph above. In particular, they include guarantees and certain types of contracts that result in a reduction in credit risk.

The evaluation of the mitigating factors is performed through a procedure that assigns a Loss Given Default to each individual exposure, assuming the highest values in the case of ordinary unsecured financing and decreasing in accordance with the strength given to any mitigating factors present. The Loss Given Default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relation.

During the credit granting and managing process, the acquisition of mitigating factors is encouraged for counterparties with non-investment grade ratings or some types of transactions, namely medium/long-term transactions.

The mitigating factors that have the greatest impact include pledges of financial assets and residential mortgages. Other forms of risk mitigation are pledges of non-financial assets and non-residential mortgages.

The strength of the personal guarantees issued by rated parties, typically banks/insurance companies, Credit Guarantee Consortia and corporations, is instead assessed on the basis of the type of guarantee and guarantor's credit quality.

Detailed processes govern the material acquisition of single collateral and guarantees, identifying the responsible structures as well as the methods for correct acquisition of collateral and guarantees, for filing documentation and for complete and timely reporting of the related information in the applications.

The set of internal regulations and organisational and procedural controls is aimed at ensuring that:

- all duties are fulfilled to ensure the validity and effectiveness of the credit protection;
- for generally and normally used collateral and guarantees, standard contracts are defined, accompanied by instructions for their use;
- the methods for approving collateral and guarantee documents deviating from the standard by structures other than those in charge of commercial relations with the customer are identified.

The management of collateral and guarantees received uses a single platform at Group level, which is integrated with the register of assets and the portal that manages the real estate valuations.

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the valuation of the asset, the acquisition of the collateral and the control of its value. The enforcement of the collateral is handled by specialist departments, which are responsible for credit recovery.

In any case, the presence of collateral does not grant exemption from an overall assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated collateral.

The assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments accepted as collateral.

For real-estate collateral, the prudential market value is considered; for properties under construction, the construction cost is considered, net of prudential haircuts differentiated according to the intended use of the property.

Assets are appraised by internal and external appraisers. The external appraisers are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties used as collateral for mortgage loans to private individuals is mainly assigned to specialised companies. The work of the appraisers is monitored on an ongoing basis, by means of statistical verifications and sample checks carried out centrally.

The appraisers are required to produce estimates on the basis of standardised appraisal reports, differentiated according to the valuation method to be applied and the characteristics of the asset, in accordance with the Rules on real estate property valuation for credit purposes drawn up by the Bank. The internal rules are consistent with the "Guidelines for the valuation of real estate properties securing credit exposures" promoted by the Italian Banking Association and with the European Valuation Standards.

Property valuations are managed through a specific integrated platform covering the entire appraisal phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.

The market value of the real estate collateral is recalculated periodically through various statistical valuation methods, which apply prices/coefficients provided by an external supplier with proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.

Asset value is constantly monitored. The appraisers carry out inspections and verify the work progress for properties under construction. The valuation is duly updated in the event of limitation or splitting of the mortgage, of damage to the property,

significant impairment losses reported by market indicators used to monitor fair value and, in any case, according to the due dates established for significant exposures, or when there are real estate properties securing non-performing loans.
In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of a pledge when the assets decrease below their initial value or, for real estate collateral, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property's value. There is also an "umbrella" insurance policy that, with limited exceptions, covers damages on the entire portfolio of properties mortgaged as collateral for the loans granted. Collateral and guarantees are subject to accurate, regular control using a specific application, the CRM verifier, in which a series of tests have been implemented to confirm the effective compliance with the requirements set by prudential supervision regulations.
The support application verifies whether the collateral and guarantees received are eligible with regard to all three methods permitted by the regulations for calculating capital requirements (Standardised and Internal Rating Based). Based on the specifics of each category, the eligibility results are defined at the level of individual guarantee for unfunded guarantees (usually personal guarantees) or, for collateral, for each asset or financial instrument.
The Bank completed the implementation of two integrated asset and guarantee management systems (PGA - Active Guarantees Portal and ABS - System Assets Archive) in order to improve the efficiency of collateral management. This has been accompanied by the development of a specific system for managing bad loans, to track the main legal actions and particularly those relating to the enforcement of real estate collateral (EPC - Ex Parte Creditoris).

In order to mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (Securities Financing Transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow the netting of claims and obligations if a counterparty defaults.
This is achieved by entering into International Swap Derivatives Association (ISDA) and International Securities Market Association/Public Securities Association (ISMA/PSA) agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
In addition, the Group has collateral agreements in place, mainly with daily margining, to hedge OTC derivatives transactions (Credit Support Annexes), also due to the margin requirements for non-centrally cleared derivatives, established by the EMIR; for SFTs, the Bank implements daily margining agreements (GMRAs - Global Master Repurchase Agreements and GMSLAs - Global Master Securities Lending Agreements).
With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

In 2020, the Parent Company continued its activities relating to the "GARC" (Active Credit Risk Management) Project, involving a platform for monitoring credit risk of performing portfolios. The initiative involves the systematic acquisition of both personal guarantees and collateral to support lending to companies. In particular, considering the economic and market context in 2020, during the year specific initiatives were activated to support companies damaged by the COVID-19 emergency, with guarantees issued by the Guarantee Fund for SMEs.

The guarantees obtained provide hedging of default risk (past due, unlikely to pay and bad loan) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (including Regulation (EU) 575/2013 and Bank of Italy Circular 285/2013).

During the year – again as part of the "GARC" Project – the following were finalised: (i) a "Line A" portfolio relating to a tranched cover synthetic securitisation on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2014-2020 Regional Operational Programme of the European Regional Development Fund – Axis III "Competitiveness of production systems" – Thematic Objective III.3 "Promoting competitiveness of SMEs" – "Measure to support access to credit for piedmontese SMEs through the establishment of the 2017 Tranched Cover Piemonte Fund"; (ii) a newly issued portfolio dedicated to new business of companies in the Veneto Region as part of the programme of the Guarantee Fund for SMEs.

For details of the transactions carried out in 2020 under the GARC Project, see the description provided in paragraph C. Securitisations of this chapter.

In order to optimise capital absorption, transactions to hedge the risk of expropriation of the compulsory and unrestricted reserves of the ISP Group banks operating in Bosnia Herzegovina, Egypt and Moldova were also renewed.

3. NON-PERFORMING CREDIT EXPOSURES

3.1 Management strategies and policies

On 31 March 2020, the Board of Directors approved the annual revision of the Group NPL Plan, carried out on the basis of the ECB Guidance to banks on non-performing loans, in line with the baseline macroeconomic scenario prior to the COVID-19 pandemic. That document, sent to the Supervisor on 1 April 2020, was subsequently updated based on the revised Group budget (approved by the Board of Directors on 4 August 2020) to include the effects of the COVID-19 pandemic. The 2018-2021 NPL Plan is consistent with both the 2018-2021 Business Plan, approved by the Board of Directors in February 2018, and the Risk Appetite Framework, and takes into account the observations and recommendations of the Supervisory Authority.
The Group NPL Plan is made up of a main document (2018-2021 Group NPL Plan) which includes a summary of the initiatives detailed in the "Operational Plans" (drawn up at Business Owner level, which include the targets for reducing the stock of non-performing loans, the detailed measures and the enablers, as well as the related costs and investments required

to achieve the targets set) and the projections underlying the NPL Plan, with the granular level and in accordance with the requirements established by the ECB.
In the 2018-2021 Business Plan, de-risking is the first pillar through which the Group aims to reduce the level of gross non-performing loans as a proportion of total loans, at no cost to shareholders. Over the Plan period, a 49% reduction in the stock of gross non-performing loans is envisaged with respect to the figure at the beginning of 2018 and the achievement of a gross NPL ratio of 6.0% (from 11.9% at the beginning of 2018 after the IFRS 9 FTA and including the two former Venetian banks). Following the finalisation of several extraordinary de-risking operations during the year, as well as the classification of portfolios of non-performing loans of the Intesa Sanpaolo Group and UBI Banca as ready to be sold, under the caption Non-current assets held for sale and discontinued operations for around 5.4 billion euro gross of post-PPA adjustments (whose execution phase will be finalised during 2021), the Group achieved - one year in advance - the target for reducing non-performing loans that the Business Plan envisaged for the entire four-year period 2018-21. Non-performing loans before adjustments amounted to 20.9 billion euro (including the non-performing loan portfolio of the former UBI Banca), bringing the ratio of non-performing loans (before adjustments) to total loans to 4.4%, with a cost of risk of 104 basis points (50 basis points excluding the contribution of UBI Banca and the provisions for future impacts of COVID-19).

Preliminarily, it is noted that starting from November 2019, in line with the additional clarifications introduced by Bank of Italy Circular 272 to implement that set out in the EBA 2016/07 Guidelines of 18/01/2017 on the application of the definition of default under Article 178 of Regulation 575/2013 (CRR), the Intesa Sanpaolo Group adopted the New Definition of Default in advance. That definition of non-performing loans also coincides with the definition of “impaired” financial assets contained in IFRS 9, with the consequent recognition of all non-performing loans within Stage 3.
Intesa Sanpaolo Group adopts a “per borrower” approach in identifying non-performing exposures. Accordingly, the entire counterparty with credit relationship is assessed and subsequently classified, rather than the individual credit lines granted to that counterparty.

Based on the regulatory framework, according to the rules of the Bank of Italy, in line with IAS/IFRS and European Supervisory Regulations, supplemented by internal implementing rules, non-performing financial assets are classified into one of the three below mentioned categories, based on their level of severity:

- non-performing Past Due exposures: this category includes on-balance sheet exposures, other than those classified as bad loans or unlikely to pay that, as at the reporting date, are past due or overdrawn by over 90 days on a continuous basis. The total exposure to a debtor must be recognised as Past Due if, at the reference reporting date, the amount of the principal, interest and/or fees not paid when due exceeds both of the following thresholds (hereinafter, collectively, the "Relevance Thresholds"):
  - the absolute limit of 100 euro for retail exposures and of 500 euro for non-retail exposures (the "Absolute Threshold"), to be compared with the total amount past due from the borrower;
  - the relative limit of 1%, to be compared with the ratio of the total amount past due to the total amount of all on-balance sheet exposures to the same borrower (the "Relative Threshold").
- Unlikely To Pay: exposures for which - according to the judgement of the creditor bank - full repayment is deemed unlikely (in terms of capital or interest, and without considering recourse to actions such as enforcement of collateral/ guarantees). This assessment is conducted regardless of the presence of any amounts (or instalments) due and unpaid. As the assessment of unlikelihood of repayment is at the discretion of the Bank, it is not necessary to await an explicit symptom of anomaly (non-repayment), when there are elements that imply a risk of non-compliance by the borrower (for example, a crisis in the industrial sector in which the borrower operates). The overall on- and off-balance sheet exposures toward the same borrower in said situation is therefore classified under the category "Unlikely To Pay" (unless the conditions for classification of the borrower among bad loans exist). Loans classified as "Unlikely To Pay" should include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to listed debt securities, unless they meet the conditions for classification as bad loans. To this end the “grace period” established by the contract is recognised or, in its absence, the period recognised by the market listing the security.
  Intesa Sanpaolo Group’s policy also provides for a further classification within “unlikely to pay” exposures, identified as “forborne unlikely to pay”, which may include counterparties that have at least one exposure subject to forbearance measures that are regularly respected or remain in the state of risk pending the start of the normally imposed cure period (minimum of 12 months);
- bad loans: on- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Bank. This is irrespective, therefore, of whether any collateral or guarantees have been established to cover the exposures. Exposures whose anomalous situation may be attributed to Country risk are excluded from this category;

The type “exposures subject to concessions - forbearance” has also been established. These are exposures subject to renegotiation and/or refinancing due to financial difficulties (evident or in the process of becoming evident) of the debtor, which effectively constitute a subgroup of both non-performing exposures (non-performing exposures with forbearance measures) and performing exposures (other forborne exposures).
Non-performing exposures with forbearance measures do not represent a separate category of non-performing assets, rather, they are a sub-set of the above categories of non-performing assets.
Non-performing assets are subject to an assessment process resulting in the calculation of the expected loss for uniform categories (identified based on the risk status, duration of risk status and significance of the underlying exposure) and the allocation of the impairment adjustment for each position.
Non-performing loans are measured using two methods:

- analytical-statistical measurement: for exposures equal to or lower than certain thresholds, and for all Past Due exposures, based on the use of specific LGD grids;
- specific analytical measurement: for exposures above certain thresholds based on write-down estimates defined by the relationship manager, following analyses and valuations based on pre-established criteria.

In addition to the assessment component determined through statistical valuation models or through individual expert evaluation, a component is calculated to take into account the evolution of the current operational variables, the future

macroeconomic scenarios, the incremental risk of the counterparty as long as it remains in the specific risk status for unlikely-to-pay exposures (vintage), as well as the sales prospects if present.
The assessment of non-performing positions classified as assets held for sale was carried out based on the expected selling prices of the portfolios determined using fairness opinions.
The assessment methods for non-performing loans are described in detail in Part A - Section "A. 2 - Main financial statement captions" and in particular in the paragraph "*Impairment of assets*", to which reference is made.
The assessments are carried out upon classification of the exposures as non-performing and are reviewed periodically.
The assessment of the loans is also reviewed whenever a new event occurs that could affect the prospects for recovery (e.g. change in the value of collateral, developments in ongoing litigation, etc.).
In order to timely identify such events, the information set relative to borrowers and guarantors is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly monitored.
The management of the Group's Non-Performing exposures may be directly carried out by the internal organisational structures or by/with external partners granted appropriate mandates. The internal organisational structures are identified, on the basis of pre-determined relevance thresholds, as the local organisational units (at regional level) that perform specialist activities, or within the Head Office Departments, which are also responsible for the overall management and coordination of these matters.
The classification of positions to non-performing is performed on proposal of both territorial structures, owners of the commercial relationship, or of specialised central and local territorial structures in charge of the monitoring and recovery of non-performing loans. Classification may also be performed through automatic mechanisms when predefined objective default conditions arise. This refers, for example, to Past Due loans above certain thresholds for certain periods of time, and to forborne performing positions that have not yet completed their 12-month probation period, if the conditions are identified for the classification of these exposures to non-performing following the verification of objective parameters.
Furthermore, automatic mechanisms detect any mismatches, thereby ensuring that material non-performing loans to counterparties shared between the Group's various entities are subject to the required uniform convergence of management decisions. Materiality is represented by exceeding a pre-established relevance threshold for loans classified in a higher risk status with respect to the overall exposure.
Automatic mechanisms within the system also ensure that positions are allocated to the risk status most representative of their creditworthiness (bad loans excluded) as material default continues.
The return to performing status of non-performing exposures is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the Structures responsible for their management, upon verification that the critical conditions or state of default no longer exist.
Non-performing Past Due exposures and Unlikely To Pay exposures, not subject to forbearance measures must continue to be classified as such for at least 3 months after they cease to meet the requirements for being classified as such. During the probation period the counterparty's conduct must be assessed in light of its financial situation (in particular, by verifying the absence of amounts past due exceeding the Relevance Thresholds).
For counterparties classified as Forborne Unlikely-to-Pay, the application of the cure period of at least 12 months shall prevail. At the end of this period, the position may be reclassified as performing, provided that there are no past due exposures of the borrower and the borrower has repaid a significant amount of the principal and interest and, more generally, the criteria for the counterparties returning to performing status are met.
Exposures classified as Past Due return automatically to performing when the 90-day probation period has passed. The same mechanism is applied to exposures of moderate amounts previously classified as Unlikely To Pay when automatic mechanisms detect that the conditions that triggered the classification no longer apply.
The Internal Validation and Controls Head Office Department of the Chief Risk Officer Governance Area carries out II level controls on single positions, to verify proper classification and provisioning.

3.2 Write-offs

Lastly, with regard to non-performing loans, it is highlighted that the Intesa Sanpaolo Group uses the – full or partial – write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:

a) uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
b) disposal of the loan;
c) waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
d) no waiver of the credit claim. In order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value.

Therefore, on a periodic basis, the Group identifies the bad loan portfolios to be subject to total or partial write-offs:

- percentage cover of 100% and a vintage (understood as the period of time in "bad loan" status) of >1 year;
- when they jointly have a percentage cover of >95% and a vintage (understood as the period of time in "bad loan" status) of >5 years or >8 years, respectively, for non-mortgage and mortgage loans;
- with similar characteristics that are different from those indicated above, where the minimum coverage (calculated taking into account the accumulated write-offs on the position, according to the same rule established at prudential level by the calendar provisioning framework) is at least equal to the amount needed to bring the value of the exposures up to their fair value estimated based on the prices recorded in the latest sales of bad loans made by the Group.

In 2020, the Group carried out write-offs on gross bad loans for around 2.8 billion euro. Of these, around 2.3 billion euro regarded bad loans, for the most part using the allowance already set aside. More than 90% of these write-offs related to derecognised positions that are still subject to enforcement procedures, for which any recoveries from collections after the write-off will be recognised in the income statement as recoveries.

3.3 Purchased or originated credit-impaired financial assets

According to IFRS 9, loans considered as impaired already upon initial recognition in the financial statements, due to the high credit risk associated with them, are defined as Purchased or Originated Credit Impaired Assets (POCI).
If these loans fall within the scope of impairment in accordance with IFRS 9, they are valued by allocating allowances - from the date of initial recognition - to cover losses for the entire residual life of the loan (lifetime Expected Credit Loss). Since these are non-performing loans, they are initially recognised within Stage 3, subject to the possibility of being transferred, over the course of their lives, to Stage 2 if, based on the credit risk analysis, they are identified as no longer being impaired.
POCI loans recorded in the Group's financial statements may derive from single renegotiations of non-performing exposures carried out as part of routine lending activity or be recognised as part of business combinations. With regard to the latter case, the acquisition of the former UBI Group during 2020 resulted in the recognition of a significant portfolio of non-performing loans, which, therefore, were initially recognised as POCI pursuant to IFRS 9 and posted in the financial statements at the fair value determined on Purchase Price Allocation, as the initial recognition value. More in detail, at the acquisition date, the accounting records of the UBI Group showed a gross amount of non-performing loans of approximately 6.5 billion euro (8 billion euro in terms of credit claim). From initial recognition, a significant part of that acquired portfolio was already subject to deleveraging by the former UBI Group as at the acquisition date, completed at the end of 2020, in addition to another significant portion of former UBI non-performing loans included in the business line consisting of the bank branches to be sold to BPER under a binding agreement conditional upon the success of the Public Purchase and Exchange Offer, entered into between Intesa Sanpaolo and BPER Banca to prevent potential antitrust issues.
In December 2020, continuing the process of deleveraging NPLs that has marked the last few years, the Intesa Sanpaolo Group launched additional initiatives for the purpose of disposing of the non-performing loans acquired, whose closing is expected during 2021 thereby entailing reclassification of those POCI loans under discontinued operations pursuant to IFRS 5.

In light of the sales already carried out or expected during 2021, the POCI loans referring to the former UBI Group posted in the consolidated financial statements as at 31 December 2020 under assets measured at amortised cost amount to a total of 327 million euro, of which 267 million euro in non-performing loans and 60 million euro in positions that returned to performing status (Stage 2).

4. RENEGOTIATED FINANCIAL ASSETS AND FORBORNE EXPOSURES

Forbearance measures are concessions made to a borrower that is facing, or could face, situations of difficulty in meeting their contractual commitments that would prevent them from meeting their original payment obligations (troubled debt).
The term "forbearance measures" indicates contractual modifications granted to the borrower undergoing financial difficulties (modification), as well as the disbursement of a new loan in order to satisfy the pre-existing obligation (refinancing). "Forbearance measures" include the exercise of clauses, which may be freely requested by a borrower with regard to a contract already signed, but only if the lender deems that there are circumstances indicating that the borrower is in financial difficulty (the so-called "embedded forbearance clauses"). The concept of "forborne" therefore does not include renegotiations carried out due to commercial reasons/practices, which do not take into account the financial difficulties of the borrower.
In many cases, a situation of financial difficulty is accompanied by a situation of economic instability of the borrower, consisting of the inability of the core business to remunerate all the production factors that the company needs, through the usual sources of cash flow and at normal market conditions.
The identification of "forborne assets" or "forborne exposures", in line with the provisions of the EBA regulations and unlike the "per borrower" approach used by the Intesa Sanpaolo Group for the classification of non-performing exposures, necessarily takes place on a "per transaction" basis. The term "exposure" in this context refers to the renegotiated individual contract, rather than to all the exposures to the same borrower.
More generally, Intesa Sanpaolo Group's policy, based on the instructions provided by the Supervisory Authorities, envisages criteria for the identification of the financial difficulty (of the performing borrower) which, in the event of renegotiation/refinancing, entails the classification of one (or more) credit line(s) as forborne, if at least one of the following conditions applies:
- a significant deterioration in the debtor's rating identified in the previous three months;
- the presence of exposures past due by thirty days or more at the date of the measure;
- Early Warning System (EWS) traffic light at "red", associated with a rating in the highest risk band.

A state of financial difficulty is always assumed in the case where the borrower is classified as non-performing.
The definition of forborne exposure applies transversally to the classification macro-categories (performing and non-performing). Forborne assets may be included in Stage 2 (Performing) or Stage 3 (Non-Performing – forborne non-performing).
The forbearance measures granted are monitored for minimum predefined periods, differentiated based on the administrative status of the risk assigned to the counterparty. In detail:
- 24 months for performing positions (probation period);
- 36 months for positions classified as non-performing, represented by a cure period of 12 months and a probation period of an additional 24 months.

When a forbearance measure is granted to a performing counterparty, quantitative assessments (diminished financial obligation indicator set at 1%) and/or qualitative assessments are performed, as envisaged in the EBA Guidelines on the

application of the definition of default pursuant to Article 178 of Regulation (EU) 575/2013, which could result in the possible classification to Non-Performing.
According to Intesa Sanpaolo Group's interpretations, the identification of an exposure as forborne necessarily implies the existence of a "significant increase" in risk since the origination of the loan (and, therefore, implies also a classification in stages 2 or 3 at the time of assignment of the forborne status).
Unlike the forbearance measures, which relate to loans to borrowers in financial difficulty, renegotiations for commercial reasons involve borrowers that are not in financial difficulty and include all transactions aimed at adjusting the cost of the debt to market conditions.
Transactions involving commercial renegotiations result in a change in the original conditions of the contract, usually requested by the borrower, which normally relate to aspects concerning the cost of the debt (or its duration), with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer would borrow from another intermediary and the bank would incur a decrease in *expected future revenues*.
These operations, under certain conditions, are treated for accounting purposes as an early repayment of the original debt and the opening of a new loan.

The amount of the gross on-balance-sheet credit exposures to customers (non-performing and performing) subject to forbearance measures is shown in Table A.1.7bis below, in the section Quantitative information - A. Credit quality.

With regard to the influence of the measures to support the economy through payment moratoria on the process of measuring SICR and expected losses, see Paragraph 2.3 "Methods for measuring expected losses" of the previous Section.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and quotas of UCI.
The term "on-balance sheet credit exposures" refers to all the on-balance sheet financial assets due from banks or customers, irrespective of the accounting portfolio they are allocated to (measured at fair value through profit or loss, measured at fair value through other comprehensive income, measured at amortised cost, or discontinued financial assets).
The term "off-balance sheet exposures" refers to all the financial transactions that are not on the balance sheet (guarantees given, revocable and irrevocable commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of those transactions (trading, hedging, etc.). The off-balance sheet credit exposures also include the counterparty risk associated with any securities lending transactions. Where necessary, the counterparty risk associated with exposures relating to repurchase agreements, transactions involving the granting or assumption of goods on loan, and loans with margins falling within the notion of securities financing transactions defined by the prudential regulations, is also reported.
Non-performing credit exposures (on-balance sheet and off-balance sheet) do not include financial assets held for trading and hedging derivatives, which are therefore normally recognised as performing credit exposures.
Starting from the 2018 Financial Statements, the tables below also include the revocable commitments in the off-balance sheet exposures.

A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, economic and geographical breakdown

A.1.1. Prudential consolidation - Breakdown of financial assets by past-due brackets (book value)

(millions of euro)

Portfolios/risk stages	STAGE 1			STAGE 2			STAGE 3		
	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days
1. Financial assets measured at amortised cost	2,202	347	169	1,019	703	349	589	330	7,997
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Non-current financial assets held for sale	270	17	1	132	15	3	54	34	1,602
Total 31.12.2020	**2,472**	**364**	**170**	**1,151**	**718**	**352**	**643**	**364**	**9,599**
Total 31.12.2019	**1,277**	**170**	**848**	**474**	**402**	**299**	**394**	**313**	**10,792**

A.1.2. Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and total provisions

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS									
	Stage 1 assets					Stage 2 assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*
Initial total adjustments	**681**	**47**	**-**	***506***	***222***	**1,154**	**20**	**-**	***970***	***204***
Increases in purchased or originated financial assets	710	13	-	*560*	*163*	472	2	-	*364*	*110*
Derecognition other than write-offs	-219	-11	-	*-122*	*-108*	-145	-4	-	*-58*	*-91*
Net losses/recoveries for credit risk (+/-)	-319	-6	-	*-253*	*-72*	721	1	-	*676*	*46*
Changes in contracts without derecognition	-5	-	-	*-*	*-5*	26	-	-	*26*	*-*
Changes in the estimation methodology	3	-	-	*2*	*1*	1	-	-	*3*	*-2*
Write-offs not recognised directly through profit or loss	-	-	-	*-*	*-*	-	-	-	*-*	*-*
Other changes	14	-14	41	*27*	*14*	-149	-3	84	*-25*	*-43*
Final total adjustments	**865**	**29**	**41**	***720***	***215***	**2,080**	**16**	**84**	***1,956***	***224***
Recoveries on collection of financial assets previously written off	-	-	-	*-*	*-*	-	-	-	*-*	*-*
Write-offs recognised directly through profit or loss	-	-	-	*-*	*-*	-	-	-	*-*	*-*

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS						TOTAL PROVISIONS ON COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES GIVEN			TOTAL
	Stage 3 assets					Purchased or originated credit-impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*		Stage 1	Stage 2	Stage 3	
Initial total adjustments	**17,161**	**35**	**94**	***16,815***	***475***	**193**	**74**	**76**	**299**	**19,641**
Increases in purchased or originated financial assets	606	10	-	*592*	*24*	571	53	20	40	1,926
Derecognition other than write-offs	-7,713	-	-91	*-7,644*	*-160*	-41	-21	-17	-15	-8,236
Net losses/recoveries for credit risk (+/-)	2,987	3	-	*2,966*	*24*	79	26	66	-6	3,473
Changes in contracts without derecognition	11	-	-	*10*	*1*	-	-	-	-	32
Changes in the estimation methodology	1	-	-	*1*	*-*	-	1	-	2	8
Write-offs not recognised directly through profit or loss	-2,497	-	-	*-2,422*	*-75*	-72	-	-	-	-2,497
Other changes	-334	-	3,334	*2,821*	*179*	-14	-5	10	-4	2,974
Final total adjustments	**10,222**	**48**	**3,337**	***13,139***	***468***	**716**	**128**	**155**	**316**	**17,321**
Recoveries on collection of financial assets previously written off	68	-	-	*67*	*1*	-	-	-	-	68
Write-offs recognised directly through profit or loss	-273	-	-	*-263*	*-10*	-1	-	-	-	-273

The Intesa Sanpaolo Group does not use the simplified method for the valuation of the loss allowance in relation to trade receivables, contract assets and lease receivables (method envisaged by IFRS 9, paragraph 5.5.15).

A.1.3. Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: transfers between stages of credit risk (gross and nominal amounts)

(millions of euro)

Portfolios/risk stages	GROSS AMOUNTS/NOMINAL VALUE					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
1. Financial assets measured at amortised cost	44,386	9,642	1,335	440	1,186	137
2. Financial assets measured at fair value through other comprehensive income	402	263	12	-	3	-
3. Non-current financial assets held for sale	1,057	494	250	45	89	7
4. Commitments to disburse funds and financial guarantees given	40,373	6,382	183	29	220	32
Total 31.12.2020	**86,218**	**16,781**	**1,780**	**514**	**1,498**	**176**
Total 31.12.2019	**56,080**	**36,285**	**3,494**	**960**	**1,067**	**338**

A.1.3a Loans subject to Covid-19 support measures: transfers between stages of credit risk (gross amounts)

(millions of euro)

Portfolios/Risk stages	GROSS EXPOSURE / PAR VALUE					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfer between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
A. Loans measured at amortized cost	**7,834**	**788**	**126**	**109**	**158**	**32**
A.1 subject to EBA-compliant moratoria	6,111	786	117	108	117	29
A.2 subject to COVID-19-related forbearance measures	23	-	9	-	11	-
A.3 newly originated loans	1,700	2	-	1	30	3
B. Loans and advances valued at fair value with an impact on overall profitability	**-**	**-**	**-**	**-**	**-**	**-**
B.1 subject to EBA-compliant moratoria	-	-	-	-	-	-
B.2 subject to COVID-19-related forbearance measures	-	-	-	-	-	-
B.3 newly originated loans	-	-	-	-	-	-
Total 31.12.2020	**7,834**	**788**	**126**	**109**	**158**	**32**

The row “Loans subject to forbearance measures compliant with GL” shows the information relating to financial assets subject to moratoria that fall within the scope of application of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis”, published by the EBA (EBA/GL/2020/02), as amended.

A.1.4. Prudential Consolidation – On- and off-balance sheet credit exposures to banks: gross and net values

(millions of euro)

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	4	X	-4	-	79
- of which: forborne exposures	*-*	*X*	*-*	*-*	*-*
b) Unlikely to pay	79	X	-14	65	-
- of which: forborne exposures	*79*	*X*	*-14*	*65*	*-*
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	*-*	*X*	*-*	*-*	*-*
d) Performing past due exposures	X	4	-	4	-
- of which: forborne exposures	*X*	*-*	*-*	*-*	*-*
e) Other performing exposures	X	117,372	-39	117,333	-
- of which: forborne exposures	*X*	*-*	*-*	*-*	*-*
Total (A)	**83**	**117,376**	**-57**	**117,402**	**79**
B. Off-balance sheet exposures					-
a) Non-performing	8	X	-	8	-
b) Performing	X	66,296	-2	66,294	-
Total (B)	**8**	**66,296**	**-2**	**66,302**	**-**
Total (A+B)	**91**	**183,672**	**-59**	**183,704**	**79**

A.1.5. Prudential Consolidation – On- and off-balance sheet credit exposures to customers: gross and net values

(millions of euro)

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	13,755	X	-8,737	5,018	8,036
- of which: forborne exposures	*1,985*	*X*	*-1,066*	*919*	*454*
b) Unlikely to pay	12,299	X	-4,771	7,528	743
- of which: forborne exposures	*5,222*	*X*	*-1,596*	*3,626*	*524*
c) Non-performing past due exposures	637	X	-111	526	2
- of which: forborne exposures	*37*	*X*	*-4*	*33*	*-*
d) Performing past due exposures	X	5,353	-127	5,226	-
- of which: forborne exposures	*X*	*243*	*-16*	*227*	*-*
e) Other performing exposures	X	588,517	-2,949	585,568	-
- of which: forborne exposures	*X*	*5,656*	*-303*	*5,353*	*-*
Total (A)	**26,691**	**593,870**	**-16,695**	**603,866**	**8,781**
B. Off-balance sheet exposures					
a) Non-performing	2,606	X	-314	2,292	-
b) Performing	X	324,107	-283	323,824	-
Total (B)	**2,606**	**324,107**	**-597**	**326,116**	**-**
Total (A+B)	**29,297**	**917,977**	**-17,292**	**929,982**	**8,781**

The dealings between the Banking Group and other non-banking companies included within the scope of consolidation amounted to:
- 269 million, adjusted by 27 million, included among gross non-performing on-balance sheet exposures to customers;
- 7,002 million, adjusted by 17 million, included among gross performing on-balance sheet exposures to customers;
- 92 million, adjusted by 3 million, included among gross non-performing off-balance sheet exposures to customers;
- 5,719 million, adjusted by 17 million, included among gross performing off-balance sheet exposures to customers;

The exposures also include financial assets allocated to the accounting portfolio of discontinued operations.

A.1.5a Loans subject to Covid-19 support measures: gross and net amounts

(millions of euro)

Loans types / amounts	Gross exposure	Total value adjustments and total provisions	Net exposure
A. BAD LOANS	**25**	**-9**	**16**
a) Subject to EBA-compliant moratoria	22	-8	14
b) Subject to other COVID-19-related forbearance measures	2	-1	1
c) Newly originated loans	1	-	1
B. UNLIKELY TO PAY LOANS	**484**	**-130**	**354**
a) Subject to EBA-compliant moratoria	424	-114	310
b) Subject to other COVID-19-related forbearance measures	33	-10	23
c) Newly originated loans	27	-6	21
C. NON-PERFORMING PAST DUE LOANS	**42**	**-5**	**37**
a) Subject to EBA-compliant moratoria	34	-4	30
b) Subject to other COVID-19-related forbearance measures	1	-	1
c) Newly originated loans	7	-1	6
D. OTHER PAST DUE PERFORMING LOANS	**316**	**-8**	**308**
a) Subject to EBA-compliant moratoria	155	-7	148
b) Subject to other COVID-19-related forbearance measures	2	-	2
c) Newly originated loans	159	-1	158
E. OTHER PERFORMING LOANS	**68,076**	**-628**	**67,448**
a) Subject to EBA-compliant moratoria	34,237	-556	33,681
b) Subject to other COVID-19-related forbearance measures	159	-6	153
c) Newly originated loans	33,680	-66	33,614
TOTAL (A+B+C+D+E)	**68,943**	**-780**	**68,163**

The row “Loans subject to forbearance measures compliant with GL” shows the information relating to financial assets subject to moratoria that fall within the scope of application of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis”, published by the EBA (EBA/GL/2020/02), as amended.

The loans subject to COVID-19 support measures presented in the table also include loans allocated to the accounting portfolio of discontinued operations.

A.1.6. Prudential Consolidation – On-balance sheet credit exposures to banks: changes in gross non-performing exposures

(millions of euro)

Reasons/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**4**	**96**	**-**
- of which: exposures sold not derecognised	-	-	-
B. Increases	**-**	**2**	**-**
B.1 inflows from performing exposures	-	1	-
B.2 inflows from purchased or originated credit-impaired financial assets	-	1	-
B.3 transfers from other non-performing exposures categories	-	-	-
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	-	-	-
- of which: business combinations			
C. Decreases	**-**	**-19**	**-**
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-19	-
C.4 profits on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposure categories	-	-	-
C.7 changes in contracts without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Final gross exposure	**4**	**79**	**-**
- of which: exposures sold not derecognised	-	-	-

A.1.6. Bis Prudential Consolidation – On-balance sheet credit exposures to banks: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Description/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**96**	**-**
- of which: exposures sold not derecognised	-	-
B. Increases	**1**	**-**
B.1 inflows from non-forborne performing exposures	1	-
B.2 inflows from forborne performing exposures	-	X
B.3 inflows from non-performing forborne exposures	X	-
B.4 inflows from forborne non-performing exposures	-	-
B.5 other increases	-	-
C. Decreases	**-18**	**-**
C.1 outflows to non-forborne performing exposures	X	-
C.2 outflows to forborne performing exposures	-	X
C.3 outflows to non-performing forborne exposures	X	-
C.4 write-offs	-	-
C.5 collections	-18	-
C.6 profits on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Final gross exposure	**79**	**-**
- of which: exposures sold not derecognised	-	-

A.1.7. Prudential Consolidation – On-balance sheet credit exposures to customers: changes in gross non-performing exposures

(millions of euro)

Reasons/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**19,525**	**11,610**	**886**
- of which: exposures sold not derecognised	*26*	*78*	*9*
B. Increases	**3,281**	**5,303**	**900**
B.1 inflows from performing exposures	200	2,154	734
B.2 inflows from purchased or originated credit-impaired financial assets	1,328	1,733	80
B.3 transfers from other non-performing exposures categories	1,160	731	19
B.4 changes in contracts without derecognition	-	5	-
B.5 other increases	593	680	67
C. Decreases	**-9,051**	**-4,614**	**-1,149**
C.1 outflows to performing exposures	-19	-354	-219
C.2 write-offs	-2,376	-392	-2
C.3 collections	-859	-1,178	-134
C.4 profits on disposal	-1,572	-726	-3
C.5 losses on disposal	-209	-53	-
C.6 transfers to other non-performing exposure categories	-56	-1,104	-750
C.7 changes in contracts without derecognition	-	-20	-
C.8 other decreases	-3,960	-787	-41
D. Final gross exposure	**13,755**	**12,299**	**637**
- of which: exposures sold not derecognised	*8*	*15*	*1*

"Inflows from purchased or originated credit-impaired financial assets" reports the amounts deriving from the acquisition of the UBI Banca Group companies.
With regard to exposures to banks, the company acquisitions amount to a total of 1 million euro, among unlikely-to-pay exposures.
With regard to exposure to customers, at the date of the operation, the company acquisitions amount to 1,247 million euro in bad loans, 1,733 million euro in unlikely-to-pay exposures and 80 million euro in past due exposures.
The "other increases" mainly include the increases in the amounts for charges and the increase in the amounts in foreign currency due to changes in the exchange rate.
The "other decreases" mainly include the portfolio of loans classified as "bad loans" and "unlikely to pay" which were sold during the year.

A.1.7. Bis Prudential Consolidation – On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Reasons/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**7,541**	**5,927**
- of which: exposures sold not derecognised	*89*	*214*
B. Increases	**2,671**	**3,512**
B.1 inflows from non-forborne performing exposures	236	1,540
B.2 inflows from forborne performing exposures	425	X
B.3 inflows from non-performing forborne exposures	X	221
B.4 inflows from forborne non-performing exposures	228	10
B.5 other increases	1,782	1,741
C. Decreases	**-2,968**	**-3,540**
C.1 outflows towards non-forborne performing exposures	X	-2,350
C.2 outflows towards forborne performing exposures	-221	X
C.3 outflows towards non-performing forborne exposures	X	-425
C.4 write-offs	-468	-
C.5 collections	-587	-602
C.6 profits on disposal	-660	-3
C.7 losses on disposal	-49	-
C.8 other decreases	-983	-160
D. Final gross exposure	**7,244**	**5,899**
- of which: exposures sold not derecognised	*11*	*2*

A.1.8 Prudential Consolidation – On-balance sheet non-performing credit exposures to banks: changes in total adjustments

(millions of euro)

Reasons/Categories	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*
A. Initial total adjustments	**4**	**-**	**14**	***14***	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-
B. Increases	**1**	**-**	**-**	**-**	**-**	**-**
B.1 adjustments to purchased or originated credit-impaired assets	-	*X*	-	*X*	-	*X*
C.2 other adjustments	1	-	-	-	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposures categories	-	-	-	-	-	-
B.5 changes in contracts without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	-	-	-	-
C. Decreases	**-1**	**-**	**-**	**-**	**-**	**-**
C.1 recoveries on impairment losses	-1	-	-	-	-	-
C.2 recoveries on repayments	-	-	-	-	-	-
C.3 profits on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing exposure categories	-	-	-	-	-	-
C.6 changes in contracts without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Final total adjustments	**4**	**-**	**14**	**14**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-

A.1.9 Prudential Consolidation – On-balance sheet non-performing credit exposures to customers: changes in total adjustments

(millions of euro)

Reasons/Categories	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*
A. Initial total adjustments	**12,769**	**1,635**	**4,379**	**1,540**	**142**	**14**
- of which: exposures sold not derecognised	*9*	*3*	*34*	*30*	*1*	*-*
B. Increases	**3,437**	***592***	**2,492**	***939***	**182**	***6***
B.1 adjustments to purchased or originated credit-impaired assets	352	*X*	275	*X*	7	*X*
B.2 other adjustments	2,236	*293*	1,885	*590*	122	*5*
B.3 losses on disposal	209	30	53	13	-	-
B.4 transfers from other non-performing exposures categories	445	127	141	18	11	-
B.5 changes in contracts without derecognition	-	-	28	*28*	-	-
B.6 other increases	195	142	110	290	42	1
C. Decreases	**-7,469**	**-1,161**	**-2,100**	**-883**	**-213**	**-16**
C.1 recoveries on impairment losses	-413	-73	-330	-177	-40	-
C.2 recoveries on repayments	-193	-16	-163	-76	-12	-1
C.3 profits on disposal	-42	-8	-31	-12	-	-
C.4 write-offs	-2,376	-348	-392	-120	-2	-
C.5 transfers to other non-performing exposure categories	-30	-6	-435	-126	-132	-13
C.6 changes in contracts without derecognition	-	-	-8	*-8*	-	-
C.7 other decreases	-4,415	-710	-741	-364	-27	-2
D. Final total adjustments	**8,737**	**1,066**	**4,771**	**1,596**	**111**	**4**
- of which: exposures sold not derecognised	*3*	*-*	*3*	*2*	*-*	*-*

"Inflows from purchased or originated credit-impaired financial assets" mainly include the amounts deriving from the acquisition of the UBI Banca Group companies.
With regard to credit exposures to customers, the amount of adjustment deriving from the business combination at the acquisition date came to 344 million euro in bad loans, 273 million euro in unlikely-to-pay exposures and 2 million euro in past due exposures. Those amounts, limited to the row "of which Forborne" were reported in the caption "Other increases" (107 million euro in bad loans and 195 million euro in unlikely-to-pay exposures).
The recoveries on repayments referring to on-balance sheet non-performing credit exposures to customers deriving from payments from the borrower as capital or interest repayments amount to 65 million euro for bad loans, 158 million euro for unlikely-to-pay exposures and 12 million euro for past due exposures. Recoveries on repayments deriving from the recovery of guarantees amount to 128 million euro for bad loans and 5 million euro for unlikely-to-pay exposures.
The "other increases" mainly include the collections of loans derecognised in full (through "recoveries on repayments") and increases in the balances of allowances in foreign currency due to changes in the exchange rate.
The "other decreases" mainly include the portfolio of loans classified as "bad loans" and "unlikely to pay", which were sold during the year. This caption also includes the collections of overdue interest applied in previous years, losses on disposal not covered by the allowance, the decrease in allowances in foreign currency due to changes in the exchange rate and the reduction in the allowances for adjustment due to the passing of time.

A.2. Classification of exposures based on external and internal ratings

A.2.1. Prudential Consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by external rating classes (gross amounts)

The Intesa Sanpaolo Group uses the ratings supplied by the following external rating agencies for portfolios subject to reporting: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings, DBRS Morningstar and Cerved Group Spa. These agencies are valid for all Group banks[46].

In compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used, when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken

(millions of euro)

Exposures	EXTERNAL RATING CLASSES						UNRATED	TOTAL
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortized cost	**16,486**	**31,695**	**119,379**	**14,094**	**5,177**	**848**	**441,539**	**629,218**
- Stage 1	16,247	28,462	114,095	9,079	3,355	353	356,549	528,140
- Stage 2	239	3,233	5,281	5,010	1,821	295	64,004	79,883
- Stage 3	-	-	3	5	1	200	20,986	21,195
B: Financial assets measured at fair value through other comprehensive income	**13,149**	**16,882**	**17,896**	**3,425**	**456**	**113**	**2,337**	**54,258**
- Stage 1	12,946	16,417	17,630	3,109	425	94	2,218	52,839
- Stage 2	203	465	266	316	31	6	84	1,371
- Stage 3	-	-	-	-	-	13	35	48
C. Non-current financial assets held for sale	**-**	**-**	**51**	**75**	**-**	**-**	**29,475**	**29,601**
- Stage 1	-	-	51	75	-	-	21,215	21,341
- Stage 2	-	-	-	-	-	-	2,836	2,836
- Stage 3	-	-	-	-	-	-	5,424	5,424
Total (A+B+C)	**29,635**	**48,577**	**137,326**	**17,594**	**5,633**	**961**	**473,351**	**713,077**
of which: purchased or originated credit-impaired financial assets	*-*	*5*	*3*	*2*	*1*	*2*	*2,816*	*2,829*
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	10,637	24,776	39,935	10,654	2,109	135	144,606	232,852
- Stage 2	184	2,136	6,883	3,029	524	246	41,339	54,341
- Stage 3	-	-	-	-	-	5	2,601	2,606
Total (D)	**10,821**	**26,912**	**46,818**	**13,683**	**2,633**	**386**	**188,546**	**289,799**
Total (A+B+C+D)	**40,456**	**75,489**	**184,144**	**31,277**	**8,266**	**1,347**	**661,897**	**1,002,876**

The following tables show the mapping of risk classes and the external ratings.

Mapping of long-term ratings issued by external rating agencies

Long-term ratings for exposures to: central governments and central banks, supervised issuers, public-sector entities, local authorities, multilateral development banks, enterprises and other parties

	ECAI		
	Moody's	**Fitch Standard & Poor's DBRS Morningstar**	**Cerved Rating Agency**
Credit quality step			
1	from Aaa to Aa3	from AAA to AA-	-
2	from A1 to A3	from A+ to A-	from A1.1 to A3.1
3	from Baa1 to Baa3	from BBB+ to BBB-	B1.1
4	from Ba1 to Ba3	from BB+ to BB-	from B1.2 to B2.2
5	from B1 to B3	from B+ to B-	C1.1
6	Caa1 and lower	CCC+ and lower	from C1.2 to C2.1

[46] Solely for the securitisations, the former UBI Group used DBRS Ratings Limited, part of the DBRS Morningstar Group. The agency Cerved Group Spa was used solely for the product companies UBI Leasing and UBI Factor of the former UBI Group.

Short-term ratings for exposures to supervised issuers and enterprises

	ECAI			
	Moody's	Fitch	Standard & Poor's	DBRS Morningstar
Credit quality step				
1	P -1	F1 +, F1	A -1 + , A -1	R -1
2	P -2	F2	A -2	R -2
3	P -3	F3	A -3	R -3
from 4 to 6	NP	lower than F3	lower than A -3	R-4 R-5

Ratings for exposures to UCI

	ECAI		
	Moody's	Fitch DBRS Morningstar	Standard & Poor's
Credit quality step			
1	from Aaa to Aa3	from AAA to AA-	from AAA m/f to AA - m/f
2	from A1 to A3	from A+ to A-	from A + m/f to A - m/f
3 and 4	from Baa1 to Ba3	from BBB+ to BB-	from BBB + m/f to BB - m/f
5 and 6	B1 and lower	B+ and lower	B + m/f and lower

Standardised approach - Long-term ratings for exposures to securitisations

	ECAI		
	Moody's	DBRS Morningstar	Fitch Standard & Poor's
Credit quality step			
1	from Aaa to Aa3	from AAA to AAL	from AAA to AA-
2	from A1 to A3	from AH to AL	from A+ to A-
3	from Baa1 to Baa3	from BBBH to BBBL	from BBB+ to BBB-
4	from Baa1 to Ba3	from BBH to BBL	from BB+ to BB-
5	B1 and lower	BH and lower	B+ and lower

Standardised approach - Short-term ratings for exposures to securitisations

	ECAI			
	Moody's	Fitch	DBRS Morningstar	Standard & Poor's
Credit quality step				
1	P -1	F 1 +, F 1	R-1 (high), R-1 (middle), R-1 (low)	A -1 + , A -1
2	P -2	F2	R-2 (high), R-2 (middle), R-2 (low)	A -2
3	P -3	F3	R-3	A -3
from 4 to 6	NP	lower than F3	-	lower than A -3

IRB approach - Long-term ratings for exposures to securitisations

	ECAI		
	Moody's	**DBRS Morningstar**	**Fitch Standard & Poor's**
Credit quality step			
1	Aaa	AAA	AAA
2	Aa	AA	AA
3	A1	AH	A+
4	A2	A	A
5	A3	AL	A-
6	Baa1	BBBH	BBB+
7	Baa2	BBBH	BBB
8	Baa3	BBBL	BBB-
9	Ba1	BBH	BB+
10	Ba2	BB	BB
11	Ba3	BBL	BB-
12	lower than Ba3	lower than BBL	lower than BB-

IRB approach - Short-term ratings for exposures to securitisations

	ECAI			
	Moody's	**Fitch**	**DBRS Morningstar**	**Standard & Poor's**
Credit quality step				
1	P -1	F 1 +, F 1	R-1 (high), R-1 (middle), R-1 (low)	A -1 + , A -1
2	P -2	F2	R-2 (high), R-2 (middle), R-2 (low)	A -2
3	P -3	F3	R-3	A -3
All other credit quality steps	lower than P-3	lower than F3	All other ratings	lower than A -3

A.2.2. Prudential Consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by internal rating classes (gross amounts)

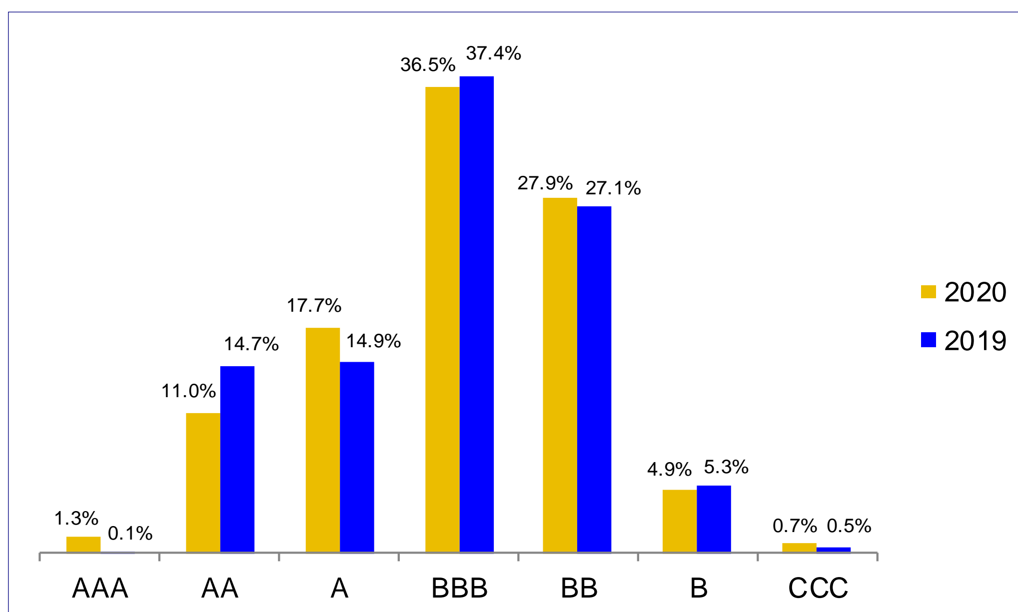
As indicated above in the paragraph entitled “Basel 3 Regulations”, the Intesa Sanpaolo Group has a set of ratings for the various operating segments of the counterparties (Corporate, Retail SME, Retail, Public Sector Entities and Banks).
The breakdown of exposures by internal rating classes shown in the following table is based on all ratings available in the credit risk management and control system, in addition to ratings for validated models. These ratings include credit ratings assigned by external agencies for counterparties in customer segments for which an internal model is not available.
Unrated exposures account for 9% of all exposures to performing counterparties and refer to customer portfolios for which a rating model is not available, to counterparties for which the roll-out of internal models is still underway (mainly international subsidiaries), as well as to Group companies whose mission is not related to credit and loans, which have been integrated into the credit risk management system, or to marginal exposures.

When unrated counterparties and non-performing loans are excluded, there is a high concentration of investment grade classes (classes 1, 2 and 3, representing ratings between AAA and BBB-) at 77.1% of the total, whilst 18.4% fall within the BB+/BB- range (class 4) and 4.4% fall under higher risk classes (of which 0.6% are below B-).

(millions of euro)

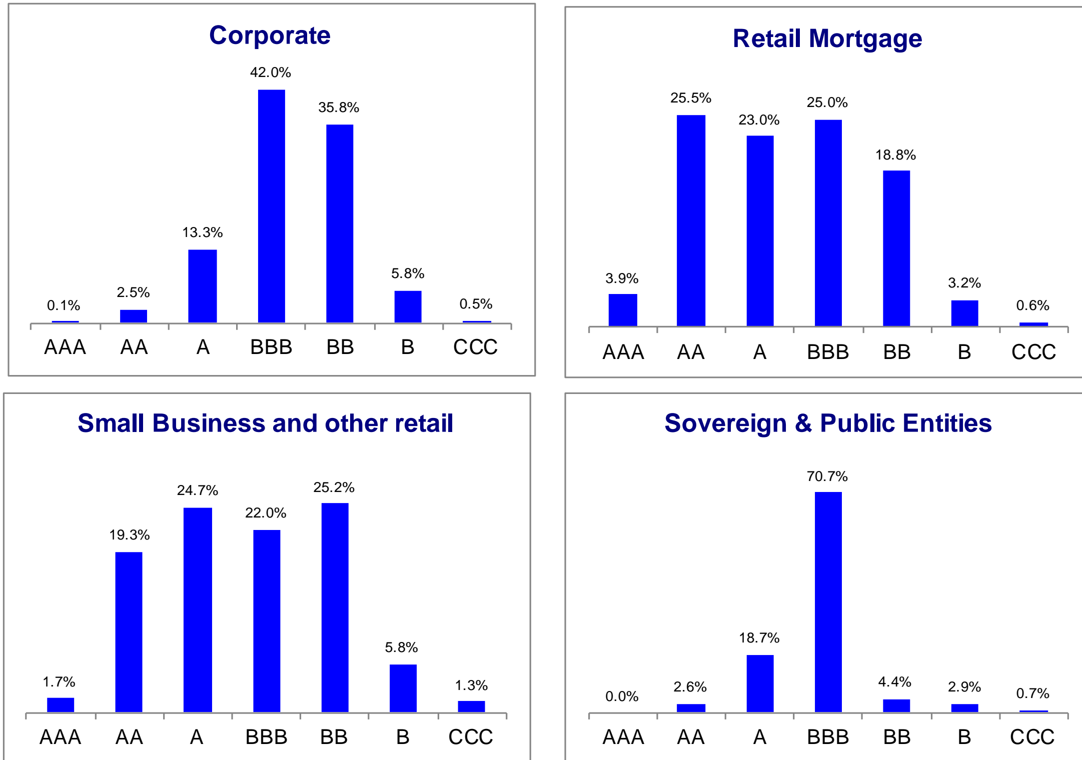
Exposures	Internal rating classes						UNRATED	TOTAL
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6		
A. Financial assets measured at amortized cost	**64,942**	**104,362**	**241,084**	**108,945**	**24,965**	**6,241**	**78,679**	**629,218**
- Stage 1	64,572	100,960	223,161	76,460	9,811	818	52,358	528,140
- Stage 2	370	3,402	17,922	32,482	14,628	3,321	7,758	79,883
- Stage 3	-	-	1	3	526	2,102	18,563	21,195
B. Financial assets measured at fair value through other comprehensive income	**13,758**	**12,683**	**18,054**	**2,715**	**397**	**112**	**6,539**	**54,258**
- Stage 1	13,677	12,387	17,482	2,456	359	100	6,378	52,839
- Stage 2	81	296	572	259	38	5	120	1,371
- Stage 3	-	-	-	-	-	7	41	48
C. Non-current financial assets held for sale	**6,172**	**8,074**	**5,335**	**2,581**	**795**	**487**	**6,157**	**29,601**
- Stage 1	6,041	7,661	4,714	1,798	393	147	587	21,341
- Stage 2	131	413	621	783	402	333	153	2,836
- Stage 3	-	-	-	-	-	7	5,417	5,424
Total (A+B+C)	**84,872**	**125,119**	**264,473**	**114,241**	**26,157**	**6,840**	**91,375**	**713,077**
of which: purchased or originated credit-impaired financial assets	*-*	*4*	*8*	*26*	*24*	*62*	*2,705*	*2,829*
D. Commitments and financial guarantees given								
- Stage 1	29,390	57,356	94,392	32,986	3,716	147	14,865	232,852
- Stage 2	3,224	9,120	16,104	16,438	4,576	593	4,286	54,341
- Stage 3	-	-	-	-	596	396	1,614	2,606
Total (D)	**32,614**	**66,476**	**110,496**	**49,424**	**8,888**	**1,136**	**20,765**	**289,799**
Total (A+B+C+D)	**117,486**	**191,595**	**374,969**	**163,665**	**35,045**	**7,976**	**112,140**	**1,002,876**

In addition to the tables required by the regulations, the rating allocation for performing loans to customers attributable to the main Group banks is shown below.
As at 31 December 2020, performing loans to customers assigned an individual rating internally or by an external agency accounted for 94% of the loans of the main Group banks.



The allocation shows a high level of investment grade exposures (from AAA to BBB inclusive), at 66.6%, slightly down compared to the previous year (67.1%).
Movements between rating classes are mainly caused by changes in risk parameters as a result of the update of the models.

The breakdown of the following portfolios by rating is presented below: Corporate, Retail Mortgage (residential mortgages for individuals), Small Business and other retail, Sovereign & Public Sector Entities.



Investment grade positions account for 57.9%, 77.4%, 67.7% and 92.0% of the above portfolios, respectively.
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A.3. Breakdown of guaranteed credit exposures by type of guarantee

A.3.1. Prudential Consolidation – Guaranteed on- and off-balance sheet credit exposures to banks

(millions of euro)

	Gross exposure	Net exposures	Collaterals (*) (1)				Personal guarantees (2)	
							Credit derivatives	
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	CLN	Other derivatives
								Central counterparties
1.Guaranteed on-balance sheet credit exposures:	**6,762**	**6,756**	**-**	**5**	**5,839**	**-**	**-**	**-**
1.1 totally guaranteed	5,757	5,752	-	5	5,631	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	1,005	1,004	-	-	208	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**7,513**	**7,513**	**-**	**-**	**2,863**	**2,460**	**-**	**-**
2.1 totally guaranteed	5,770	5,770	-	-	2,863	1,747	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	1,743	1,743	-	-	-	713	-	-
- of which non-performing	-	-	-	-	-	-	-	-

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							Total
	Credit derivatives			Commitments				
	Other derivatives							
	Banks	Other financial companies	Other counterparties	Public Administration	Banks	Other financial companies	Other counterparties	(1)+(2)
1.Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**2**	**188**	**86**	**40**	**6,160**
1.1 totally guaranteed	-	-	-	2	23	-	38	5,699
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	-	-	-	-	165	86	2	461
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**49**	**81**	**-**	**36**	**5,489**
2.1 totally guaranteed	-	-	-	44	74	-	14	4,742
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	-	-	-	5	7	-	22	747
- of which non-performing	-	-	-	-	-	-	-	-

(*) Fair value of the guarantee or, if difficult to determine, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

A.3.2. Prudential Consolidation - Guaranteed on- and off-balance sheet credit exposures to customers

(millions of euro)

	Gross exposure	Net exposure	Collateral (*) (1)				Personal guarantees (*) (2)	
							Credit derivatives	
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	CLN	Other derivatives
								Central counterparties
1. Guaranteed on-balance sheet credit exposures:	**341,730**	**330,843**	**175,065**	**10,724**	**27,297**	**13,450**	**-**	**76**
1.1 totally guaranteed	284,745	275,711	172,513	10,651	26,710	10,607	-	-
- of which non-performing	*16,660*	*9,342*	*6,035*	*1,543*	*46*	*264*	*-*	*-*
1.2 partly guaranteed	56,985	55,132	2,552	73	587	2,843	-	76
- of which non-performing	*2,746*	*1,143*	*508*	*2*	*35*	*62*	*-*	*-*
2. Guaranteed off-balance sheet credit exposures:	**52,438**	**52,292**	**2,651**	**18**	**13,210**	**2,552**	**-**	**-**
2.1 totally guaranteed	42,789	42,690	2,117	10	12,608	2,088	-	-
- of which non-performing	*451*	*402*	*91*	*-*	*8*	*7*	*-*	*-*
2.2. partly guaranteed	9,649	9,602	534	8	602	464	-	-
- of which non-performing	*261*	*232*	*38*	*-*	*1*	*17*	*-*	*-*

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							Total
	Credit derivatives			Commitments				
	Other derivatives							
	Banks	Other financial companies	Other counterparties	Public administration	Banks	Other financial companies	Other counterparties	(1)+(2)
1. Guaranteed on-balance sheet credit exposures	**45**	**32**	**-**	**44,624**	**579**	**2,229**	**31,494**	**305,615**
1.1 totally guaranteed	-	4	-	22,891	463	1,633	25,527	270,999
- of which non-performing	*-*	*-*	*-*	*176*	*7*	*146*	*1,057*	*9,274*
1.2 partly guaranteed	45	28	-	21,733	116	596	5,967	34,616
- of which non-performing	*-*	*-*	*-*	*63*	*1*	*21*	*143*	*835*
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**2,327**	**125**	**1,762**	**25,628**	**48,273**
2.1 totally guaranteed	-	-	-	1,793	113	1,358	22,241	42,328
- of which non-performing	*-*	*-*	*-*	*2*	*-*	*17*	*265*	*390*
2.2. partly guaranteed	-	-	-	534	12	404	3,387	5,945
- of which non-performing	*-*	*-*	*-*	*1*	*-*	*4*	*56*	*117*

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

A.4. Prudential consolidation – Financial assets and non-financial assets resulting from the enforcement of guarantees

(millions of euro)

	Derecognised credit exposure	Gross amount	Total adjustments	Book value	
					of which obtained during the year
A. Property and equipment	**342**	**406**	**-54**	**352**	**117**
A.1 Used in operations	3	3	-	3	1
A.2. Investment	139	137	-6	131	67
A.3 Inventories	200	266	-48	218	49
B. Equities and debt securities	**381**	**382**	**-139**	**243**	**43**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets held for sale and discontinued operations	**8**	**9**	**-3**	**6**	**-**
D.1 Property and equipment	8	9	-3	6	-
D.2. Other assets	-	-	-	-	-
Total 31.12.2020	**731**	**797**	**-196**	**601**	**160**
Total 31.12.2019	**654**	**681**	**-115**	**566**	**54**

For the Group, the assets seized (book value) are mainly represented by:

- Property and equipment used in operations: buildings (3 million euro);
- Investment property: buildings (95 million euro); land (36 million euro);
- Property and equipment – Inventories: buildings (205 million euro), land (12 million euro); other (1 million euro);
- Equities and debt securities:
  - equity investments of 64 million euro (60 million euro relating to the equity investment in Risanamento);
  - financial assets mandatorily measured at fair value of 109 million euro;
  - financial assets measured at fair value through other comprehensive income of 70 million euro. These are financial assets not previously provided by the borrower as security for pre-existing loans, but acquired under bilateral agreements with the borrower, following which the Group has derecognised the credit exposure;
- Non-current assets held for sale and discontinued operations: land (6 million euro).

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1. Prudential Consolidation - Breakdown by sector of on- and off-balance sheet credit exposures to customers

(millions of euro)

Exposures/Counterparts	Public administration		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans	143	-93	73	-223	-	-
- of which: forborne exposures	*-*	*-*	*20*	*-98*	*-*	*-*
A.2 Unlikely to pay	53	-37	241	-181	-	-
- of wich: forborne exposures	*15*	*-30*	*60*	*-82*	*-*	*-*
A.3 Non-performing past due exposures	2	-	33	-5	-	-
- of which: forborne exposures	*-*	*-*	*-*	*-*	*-*	*-*
A.4 Performing exposures	114,408	-105	68,442	-196	1,676	-1
- of which: forborne exposures	*52*	*-*	*215*	*-6*	*-*	*-*
Total (A)	**114,606**	**-235**	**68,789**	**-605**	**1,676**	**-1**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	3	-3	24	-2	-	-
B.2 Performing exposures	38,835	-6	54,880	-48	8,592	-
Total (B)	**38,838**	**-9**	**54,904**	**-50**	**8,592**	**-**
Total (A+B) 31.12.2020	**153,444**	**-244**	**123,693**	**-655**	**10,268**	**-1**
Total (A+B) 31.12.2019	**137,248**	**-298**	**128,779**	**-610**	**13,272**	**-4**

(millions of euro)

Exposures/Counterparts	Non-financial companies		Households	
	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures				
A.1 Bad loans	3,503	-6,289	1,299	-2,132
- of which: forborne exposures	*654*	*-775*	*245*	*-193*
A.2 Unlikely to pay	5,208	-3,881	2,026	-672
- of which: forborne exposures	*2,614*	*-1,293*	*937*	*-191*
A.3 Non-performing past due exposures	81	-16	410	-90
- of which: forborne exposures	*9*	*-1*	*24*	*-3*
A.4 Performing exposures	228,141	-1,797	179,803	-978
- of which: forborne exposures	*3,828*	*-247*	*1,485*	*-66*
Total (A)	**236,933**	**-11,983**	**183,538**	**-3,872**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	2,208	-295	57	-14
B.2 Performing exposures	213,248	-194	16,105	-35
Total (B)	**215,456**	**-489**	**16,162**	**-49**
Total (A+B) 31.12.2020	**452,389**	**-12,472**	**199,700**	**-3,921**
Total (A+B) 31.12.2019	**357,033**	**-14,735**	**153,885**	**-3,957**

B.2. Prudential Consolidation - Breakdown by geographical area of on- and off-balance sheet credit exposures to customers

(millions of euro)

Exposure/Geographical areas	Italy		Other european countries	
	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures				
A.1 Bad loans	4,786	-8,081	225	-531
A.2 Unlikely to pay	7,019	-4,404	384	-229
A.3 Non-performing past due exposures	428	-64	82	-37
A.4 Performing exposures	434,825	-2,312	113,417	-597
Total (A)	**447,058**	**-14,861**	**114,108**	**-1,394**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	2,231	-278	48	-32
B.2 Performing exposures	188,002	-169	96,444	-88
Total (B)	**190,233**	**-447**	**96,492**	**-120**
Total (A+B) 31.12.2020	**637,291**	**-15,308**	**210,600**	**-1,514**
Total (A+B) 31.12.2019	**489,846**	**-17,756**	**201,497**	**-1,425**

(millions of euro)

Exposure/Geographical areas	America		Asia		Rest of the world	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans	-	-48	3	-30	4	-47
A.2 Unlikely to pay	32	-80	51	-20	42	-38
A.3 Non-performing past due exposures	2	-	-	-	14	-10
A.4 Performing exposures	21,060	-72	13,635	-25	7,857	-70
Total (A)	**21,094**	**-200**	**13,689**	**-75**	**7,917**	**-165**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	11	-	1	-	1	-4
B.2 Performing exposures	26,830	-18	8,807	-5	2,985	-3
Total (B)	**26,841**	**-18**	**8,808**	**-5**	**2,986**	**-7**
Total (A+B) 31.12.2020	**47,935**	**-218**	**22,497**	**-80**	**10,903**	**-172**
Total (A+B) 31.12.2019	**54,440**	**-194**	**20,674**	**-31**	**10,488**	**-194**

B.2.Bis Prudential consolidation – Breakdown of relations with customers resident in Italy by geographical area

(millions of euro)

Exposure/Geographical areas		North West		North East		Centre		South and islands	
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures									
A.1 Bad loans		1,587	-2,526	800	-1,528	1,211	-1,992	1,188	-2,035
A.2 Unlikely to pay		2,803	-1,970	1,211	-727	1,715	-1,061	1,290	-646
A.3 Non-performing past due exposures		136	-20	53	-8	111	-17	128	-19
A.4 Performing exposures		157,457	-928	74,171	-386	144,129	-534	59,068	-464
Total A		**161,983**	**-5,444**	**76,235**	**-2,649**	**147,166**	**-3,604**	**61,674**	**-3,164**
B. Off-balance sheet exposures									
B.1 Non-performing exposures		670	-90	524	-64	886	-108	151	-16
B.2 Performing exposures		84,545	-82	31,574	-28	59,347	-38	12,536	-21
Total B		**85,215**	**-172**	**32,098**	**-92**	**60,233**	**-146**	**12,687**	**-37**
Total (A+B)	**31.12.2020**	**247,198**	**-5,616**	**108,333**	**-2,741**	**207,399**	**-3,750**	**74,361**	**-3,201**
Total (A+B)	**31.12.2019**	**163,645**	**-5,786**	**94,305**	**-3,702**	**173,871**	**-4,564**	**58,025**	**-3,704**

B.3. Prudential Consolidation - Breakdown by geographical area of on- and off-balance sheet credit exposures to banks

(million of euro)

Exposures / Geographical Area		Italy		Other european countries	
		Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures					
A.1 Bad loans		-	-	-	-1
A.2 Unlikely to pay		-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-
A.4 Performing exposures		76,623	-9	33,849	-17
Total (A)		**76,623**	**-9**	**33,849**	**-18**
B. Off-balance sheet exposures					
B.1 Non-performing exposures		-	-	-	-
B.2 Performing exposures		9,707	-	38,017	-1
Total (B)		**9,707**	**-**	**38,017**	**-1**
Total (A+B)	**31.12.2020**	**86,330**	**-9**	**71,866**	**-19**
Total (A+B)	**31.12.2019**	**26,984**	**-9**	**61,992**	**-19**

(Millions of euro)

Exposures / Geographical Area		America		Asia		Rest of the world	
		Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures							
A.1 Bad loans		-	-	-	-3	-	-
A.2 Unlikely to pay		65	-14	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-
A.4 Performing exposures		2,594	-2	2,233	-5	2,038	-6
Total (A)		**2,659**	**-16**	**2,233**	**-8**	**2,038**	**-6**
B. Off-balance sheet exposures							
B.1 Non-performing exposures		8	-	-	-	-	-
B.2 Performing exposures		5,621	-	9,382	-	2,160	-1
Total (B)		**5,629**	**-**	**9,382**	**-**	**2,160**	**-1**
Total (A+B)	**31.12.2020**	**8,288**	**-16**	**11,615**	**-8**	**4,198**	**-7**
Total (A+B)	**31.12.2019**	**8,719**	**-18**	**12,488**	**-6**	**5,130**	**-9**

B.3.Bis Prudential consolidation – Breakdown of relations with banks resident in Italy by geographical area

(millions of euro)

Exposure/Geographical areas	NORTH WEST		NORTH EAST		CENTRE		SOUTH AND ISLANDS	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	4,311	-4	418	-	71,889	-5	5	-
Total A	**4,311**	**-4**	**418**	**-**	**71,889**	**-5**	**5**	**-**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	5,854	-	923	-	2,713	-	217	-
Total B	**5,854**	**-**	**923**	**-**	**2,713**	**-**	**217**	**-**
Total (A+B) 31.12.2020	**10,165**	**-4**	**1,341**	**-**	**74,602**	**-5**	**222**	**-**
Total (A+B) 31.12.2019	**9,762**	**-4**	**1,156**	**-**	**16,022**	**-5**	**44**	**-**

B.4 Large exposures

Large exposures	
a) Book value (millions of euro)	232,932
b) Weighted value (millions of euro)	19,174
b) Number	7

Based on regulatory provisions, the number of large exposures presented in the table was determined by the reference to unweighted "exposures" in excess of 10% of eligible capital as defined by Regulation (EU) 575/2013 (CRR). The "exposures" are defined as the sum of on-balance sheet assets at risk and off-balance sheet transactions (excluding those deducted from eligible capital) with a customer or a group of related customers, without applying weighting factors. Such presentation criteria result in the inclusion in the financial statement table for large exposures of entities that - even with a weighting of 0% - present an unweighted exposure in excess of 10% of eligible capital for the purposes of large risks.
In accordance with the provisions of the EBA document "Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) 575/2013", the supervisory reports have standard methods of presentation of groups of connected clients that (in the case of silos) require exposures to the central governments to be repeated within each corresponding economic group directly controlled by a central government or connected to it by economic dependence.
However, the amounts shown in points a) and b) and the number shown in point c) in the table above include the exposure to the various central governments, to which the Intesa Sanpaolo Group is exposed, only once.

C. SECURITISATIONS

This section does not include securitisations where the originators are Intesa Sanpaolo Group banks and all the liabilities (e.g. ABS securities, loans at the warehousing stage) issued by the vehicle companies are subscribed at the time of issue by one or more Group companies. For a description of these types of transaction, see the section on liquidity risk in Part E of the Notes to the consolidated financial statements.

Qualitative information

With reference to the aggregation of the UBI Group into the Intesa Sanpaolo Group, described in Part G of these Notes to the consolidated financial statements, the UBI Group has six outstanding securitisation transactions.

The securitisations carried out in 2020 are summarised below:

GARC Securitisations

As part of the "GARC" operations, four synthetic securitisations were finalised during the year: GARC Leasing-1, GARC Corp-3, GARC Energy Renewables-1 and GARC SME-9. For the first three transactions indicated, the junior risk relating to the following portfolios was sold to specialist investors:

i) around 1.5 billion euro in finance leases to approximately 2,500 businesses in the Corporate regulatory segment, valued using internal models (Advanced IRB). For that transaction, Intesa Sanpaolo holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations;
ii) around 3.1 billion euro in loans to approximately 500 businesses in the Corporate regulatory segment, valued using internal models (Advanced IRB). For that transaction, Intesa Sanpaolo holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations;
iii) around 1.3 billion euro in loans and leases relating to 42 projects on renewable energy, mainly located in Italy and valued using internal models (Advanced IRB); For that transaction, Intesa Sanpaolo holds 10% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.

As part of the GARC SME-9 operation, the mezzanine risk relating to a portfolio of approximately 1.8 billion euro in loans to approximately 4,000 businesses in the Corporate and Corporate SME regulatory segments, valued using internal models (Advanced IRB), was transferred to the European Investment Fund (EIF). The initiative, realised in cooperation with the European Investment Bank (EIB), aims to provide new loans totalling 450 million euro to SMEs and midcaps damaged by the emergency caused by the COVID-19 epidemic. For this latter transaction, Intesa Sanpaolo holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.
Overall, the portfolios of the transactions mainly consist of customers operating in Northern Italy.

Tranched Cover Fondo di Garanzia per le PMI Securitisation

During 2020, as part of operations with the Guarantee Fund for SMEs, a tranched cover transaction was finalised on a newly issued portfolio dedicated to new entrepreneurship in the Veneto Region. In particular, the guarantee from the Fund, increased also using the resources provided by the Veneto Region Special Section, covers the junior risk of a portfolio of loans amounting to approximately 15 million euro to around 90 businesses in the Veneto Region.
For these transactions, Intesa Sanpaolo holds 20% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.
During the year, four new portfolios were admitted to the guarantee of the Fund, for a total amount of around 1.3 billion euro, activated to support businesses damaged by the COVID-19 emergency. The ramp-up of those portfolios will be completed from the second half of 2021 to the initial months of 2022.

"Tranched Cover Piemonte 2017 – Linea A" Securitisation

During the year, the "Line A" portfolio was completed relating to a tranched cover synthetic securitisation on newly-issued loans promoted by the Piedmont Regional Authority under the 2014-2020 Regional Operational Programme of the European Regional Development Fund – Axis III "Competitiveness of production systems" – Thematic Objective III.3 "Promoting competitiveness of SMEs" – "Measure to support access to credit for piedmontese SMEs through the establishment of the 2017 Tranched Cover Piemonte Fund". This transaction involves the issue of collateral on the junior tranche by Finpiemonte S.p.A. to cover the credit risk relating to a portfolio of around 109 million euro of loans to around 500 companies in Piedmont.
For this transaction, Intesa Sanpaolo holds 100% of the senior tranches and 20% of the junior tranches in compliance with the retention rule laid down by the supervisory regulations.

Yoda Securitisation

As part of the wider de-risking strategy envisaged in the 2018-2021 Business Plan, in December 2020 the Intesa Sanpaolo Group launched and completed a process to deconsolidate a loan portfolio of Intesa Sanpaolo classified as "bad loans", through a securitisation and subsequent application for issue of a "GACS" government guarantee for the holders of senior notes issued as part of the transaction, once those senior notes had obtained an investment grade rating of no less than BBB or equivalent, as envisaged by Italian Law no. 49/2016.
The portfolio, identified at the cut-off date of 30 June 2020, has a GBV (Gross Book Value) of approximately 4.5 billion euro (4.3 billion euro at the sale date in December 2020) and a NBV (Net Book Value) of approximately 1.3 billion euro (1.2 billion euro at the sale date).
The transaction was structured in two main phases:

i) "self-securitisation": in that phase, the sale of the portfolio to a securitisation vehicle, Yoda SPV S.r.l., established pursuant to Italian Law no. 130/99, was finalised, with ISP fully subscribing the senior, mezzanine and junior notes issued by the SPV to finance the purchase price of the portfolio. At the time of issue of the notes, ISP disbursed a loan with limited recourse as a liquidity facility for said SPV. In this phase of the transaction, as the risks and rewards of the

assets sold had not yet been transferred, the portfolio continued to be consolidated in the ISP financial statements. Concurrent with the issue of the securitisation notes, Moody's, DBRS and Scope issued ratings for the senior class of notes - investment grade "BBB" or equivalent (i.e. BBB for DBRS and Scope, Baa2 for Moody's);

ii) "placement" of the subordinated mezzanine and junior notes and deconsolidation of the portfolio sold from the accounts: in that phase, the process of due diligence by the investors was completed and, following receipt of binding offers for the sale of 95% of the mezzanine and junior notes, ISP finalised the sale of the notes to third-party investors on 23 December 2020. Following the sale, the accounting and regulatory derecognition of the portfolio was finalised, and the GACS guarantee was applied for from the Ministry of the Economy and Finance and Concessionaria Servizi Assicurativi Pubblici.

The securitised assets were broken down as follows by geographical area:
- 31.2% North-West;
- 23.9% North-East;
- 23.7% Centre;
- 20.8% South and Islands;
- 0.4% Outside Italy.

The breakdown of the assigned debtors by economic sector was mainly concentrated in the following sectors:
- "Construction companies" at 30.9%;
- "Manufacturing" at 18.5%;
- "Distribution" at 16.6%;
- "Real estate business" at 13.6%;
- and a residual amount in other business sectors (Services, Transport, Agriculture, Fashion Industry, Finance and Insurance, Utilities, and others).

In relation to the sale of the portfolio, the SPV issued three different classes of notes (senior, mezzanine and junior) with the following tranching:
- Senior notes: 81% of the sale price, equal to 1,010 million euro in nominal value;
- Mezzanine notes: 17% of the sale price, equal to 210 million euro in nominal value;
- Junior notes: 2% of the sale price, equal to 20 million euro in nominal value.

In this regard, the notes subscribed by Intesa Sanpaolo, due to the business model used and the look-through test carried out, have been classified as follows:
- senior tranches under securities at amortised cost;
- mezzanine and junior tranches under securities measured at FVTPL.

Sirio Securitisation

In December 2020 UBI Banca finalised the deconsolidation of a portfolio of loans classified as bad loans, through a securitisation with senior, mezzanine and junior issues. The senior notes issued as part of the transaction obtained an investment grade rating (BBB) and, therefore, it was also possible to apply for the issue of the "GACS" government guarantee in favour of the holders of this class of notes, as envisaged by Italian Law no. 49/2016. The portfolio is composed of around 22,600 accounts, corresponding to approximately 14,300 borrowers, mainly SMEs, with a GBV of around 1 billion euro.

The breakdown of the assigned debtors by economic sector was mainly concentrated as follows:
- Non-financial companies - around 77%;
- Financial companies - around 1%;
- Other - around 22%.

The securitised assets were broken down as follows by geographical area:
- North - around 52.5%;
- Centre - around 29%;
- South and Islands - around 18%;
- Outside Italy - around 0.5%.

The transaction was structured through the sale of the loans to a securitisation vehicle, Sirio SPV S.r.l. ("SPV"), established pursuant to Italian Law no. 130/99, with UBI Banca fully subscribing the senior, mezzanine and junior notes issued by the SPV to finance the purchase price of the portfolio. At the time of issue of the notes, UBI Banca also disbursed a loan with limited recourse as a liquidity facility for said SPV. Concurrent with the issue of the securitisation notes, DBRS and Scope issued ratings for the senior class of notes - investment grade "BBB".

A due diligence process was then completed by third-party investors to which UBI Banca sold 95% of the junior and mezzanine notes on 23 December 2020. Following the sale, the accounting and regulatory derecognition of the portfolio was finalised, and the GACS guarantee was applied for from the Ministry of the Economy and Finance and Concessionaria Servizi Assicurativi Pubblici.

The three different classes of notes (senior, mezzanine and junior) issued by the SPV, with the related tranching, were as follows:

- Senior notes: 86% of the sale price, equal to 290 million in nominal value;
- Mezzanine notes: 11% of the sale price, equal to 35 million in nominal value;
- Junior notes: 3% of the sale price, equal to 10 million in nominal value.

Lastly, the notes subscribed by UBI Banca, due to the business model used and the look-through test carried out, also in line with the approach adopted by Intesa Sanpaolo, have been classified as follows:

- senior tranches under securities at amortised cost;
- mezzanine and junior tranches under securities measured at FVTPL.

Quantitative information

C.1. Prudential consolidation - Breakdown of exposures deriving from the main "originated" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	**3,469**	**-12**	**238**	**-**	**188**	**-127**
– Loans to businesses (including SMEs) (*)	2,725	-12	234	-	185	-127
– Residential mortgage loans	743	-	4	-	1	-
– Consumer credit	1	-	-	-	2	-
B. Partly derecognised	-	-	-	-	-	-
C. Not derecognised	**21,187**	**-53**	**223**	**-11**	**367**	**-6**
– Loans to businesses (including SMEs) (**) (***)	19,208	-51	50	-8	149	-1
– Leasing (***)	1,247	-1	-	-	6	-
– Residential mortgage loans (***)	732	-1	173	-3	212	-5
TOTAL	**24,656**	**-65**	**461**	**-11**	**555**	**-133**

(*) The entire amount refers to non-performing financial assets associated with the Savoy and Kerma securitisations (see the 2018 and 2019 Annual Reports, respectively, for details about the transactions) and the Yoda and Sirio securitisations (described in the paragraph on "Qualitative information" of this Section).

(**) The amounts include non-performing financial assets amounting to 37 million euro in Senior exposures, 30 million euro in Mezzanine exposures and 18 million euro in Junior exposures.

(***) The captions also include performing amounts associated with the synthetic securitisations originated within the Intesa Sanpaolo Group.

Off-balance sheet

This type of exposure did not exist as at 31 December 2020.

C.2. Prudential consolidation - Breakdown of exposures deriving from main "third-party" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Leases	-	-	11	-	2	-
Covered bonds	47	-	16	-	-	-
Commercial mortgage loans	113	-5	20	-4	-	-
Securitisations	154	-7	-	-	-	-
Trade receivables	522	4	14	-	1	-
Consumer credit	246	-	65	-3	-	-
Residential mortgage loans	645	-2	101	-	-	-
Loans to businesses (including SMEs) (*)	962	-1	275	-	6	-1
Other assets (**)	5,990	5	-	-	-	-
TOTAL	**8,679**	**-6**	**502**	**-7**	**9**	**-1**

(*) The exposures include non-performing financial assets amounting to 41 million euro in Mezzanine exposures and 1 million euro in Junior exposures, respectively. The aggregate also includes debt securities issued by the securitisation vehicle set up as part of the sale of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato to Credit Agricole by the National Interbank Deposit Guarantee Fund - Voluntary Scheme, which the Bank participates in. The related Junior Notes were fully written down.

(**) The amount also includes the Romulus securities for 4,097 million, held by the Banking Group, generally represented among third-party securitisations, as well as loans to the vehicle Duomo Funding Plc for 1,384 million as a result of the use of credit lines. For more information regarding the type of underlying assets, reference is made to Section 4 – Risks of other companies, of this Part E.

Off-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
Duomo ABCP Conduit transactions (*)	-	-	-	-	-	-	(*)	(*)	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(*) With regard to the Duomo Funding Plc transaction funded by ABCP, Intesa Sanpaolo has granted credit lines (equal to 4,392 million euro in terms of net exposures and 3 million euro of adjustments) to secure the assets included under "Other assets" in Table C.2 On-balance sheet.

C.3. Prudential consolidation - Stakes in securitisation vehicles

(millions of euro)

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION (a)	ASSETS (b)			LIABILITIES (b)		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l. (c)	Conegliano Veneto (TV)	(e)	2,411	-	130	1,062	-	1,351
Apulia Finance n. 4 S.r.l. (c) (h)	Conegliano Veneto (TV)	(e)	62	-	12	-	-	59
Augusto S.r.l. (d)	Milano	(e)	-	-	2	13	-	-
Berica ABS 3 S.r.l. (h)	Vicenza	(e)	(f)	(f)	(f)	(f)	(f)	(f)
Berica ABS 4 S.r.l. (h)	Vicenza	Non consolidated	(f)	(f)	(f)	(f)	(f)	(f)
Brera Sec S.r.l. (c)	Conegliano Veneto (TV)	(e)	13,967	-	804	10,946	-	3,457
Clara S.r.l. (c)	Conegliano Veneto (TV)	(e)	6,573	-	1,220	6,350	-	824
Diocleziano S.r.l. (d)	Milano	(e)	1	-	1	49	-	-
Giada S.r.l. (c)	Conegliano Veneto (TV)	(e)	9,613	-	587	6,610	-	3,485
ISP CB Ipotecario S.r.l. (g)	Milano	Consolidated	16,401	-	4,454		19,896	
ISP CB Pubblico S.r.l. (g)	Milano	Consolidated	2,275	1,563	1,308		4,968	
ISP OBG S.r.l. (g)	Milano	Consolidated	46,391	-	8,461		54,756	
UBI Finance S.r.l. (g)	Milano	Consolidated	15,688	-	1,686		17,473	
UBI Finance CB2 S.r.l. (g)	Milano	Consolidated	-	-	3,004		2,868	
UBI SPV Lease 2016 S.r.l. (c)	Milano	(e)	2,799	-	394	2,100	-	1,001

(a) Consolidation method referring to the so-called "prudential" scope.

(b) Figures gross of any intercompany relations.

(c) Self-securitisation vehicle described in Section 1.4 Banking Group - Liquidity Risk, Quantitative Information, paragraph 2 of these Notes to the consolidated financial statements.

(d) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2019).

(e) Vehicle consolidated at equity.

(f) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.4 of these Notes to the consolidated financial statements.

(g) Vehicle used for the covered bond issue by the Intesa Sanpaolo Group. For more information, see Section D.4 in Part E of these Notes to the consolidated financial statements.

(h) Vehicle deriving from the acquisition of certain assets and liabilities of the former Venetian Banks

With regard to the securitisations structured by the Intesa Sanpaolo Group on its own assets, including those named Towers, K-Equity, Savoy, Kerma, Yoda, Maior, Iseo and Sirio in addition to those shown in the table above, other special purpose vehicles were also used that are third-party and independent entities with respect to Intesa Sanpaolo and in which the Group does not hold any investments.

C.4 Prudential consolidation – Unconsolidated securitisation vehicles

The unconsolidated securitisation vehicles include the vehicles in which the Intesa Sanpaolo Group does not hold any stake in the capital and those in which it holds a residual stake. The table below shows the assets, liabilities, costs and revenues of each vehicle used for transactions in which the Group acts as originator.

(millions of euro)

	Berica ABS 4 S.r.l. (*) (**)	BERICA ABS 3 S.r.l. (*)
A. Assets	**320**	**279**
A.1 Loans	320	279
A.2 Securities	-	-
A.3 Other assets	-	-
B. Use of cash and cash equivalents	**13**	**13**
B.1 Deposits with banks	-	-
B.2 Prepayments and accrued income	-	-
B.3 Other	13	13
B Liabilities	**289**	**249**
B.1 Class A Securities issued	45	11
B.2 Class B Securities issued	76	94
B.3 Class C Securities issued	47	-
B.4 Class J Securities issued	95	115
B.5 Other liabilities	26	29
C. Interest expense and other expenses	**6**	**6**
D. Interest income and other revenues	**9**	**8**

(*) The vehicles are used for securitisations involving residential mortgage loans. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards.

(**) Vehicle company which the Intesa Sanpaolo Group has not invested in.

With regard to the unconsolidated structured entities used for securitisations, the Group holds residual stakes in the vehicles Augusto and Diocleziano, consolidated at equity. These vehicles are entities used in securitisations of assets, primarily land and public works financing, of a company subject to joint control sold in previous years.
The Group holds a residual stake in these vehicles. There are no agreements in place which could result in the obligation of the Group to provide financial support to said vehicles.
The Intesa Sanpaolo Group controls the companies Romulus Funding Corporation and Duomo Funding Plc (included solely in the scope of accounting consolidation pursuant to IFRS 10), which are used for transactions in which the Intesa Sanpaolo Group acts as sponsor and whose operations are described in Section 4 - Risks of other companies, of this Part E.

C.5. Prudential consolidation - Servicer activities – originated securitisations: collection of securitised loans and repayment of securities issued by the securitisation vehicle

SERVICER	SPECIAL PURPOSE VEHICLE	SECURITISED ASSETS (end-of-period figure) (millions of euro)		COLLECTIONS OF LOANS IN THE YEAR (millions of euro)		PERCENTAGE OF REIMBURSED SECURITIES (period-end figure)					
						Senior		Mezzanine		Junior	
		Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing
Intesa Sanpaolo	Apulia Finance n.4 S.r.l. (*)	25	37	2	5	0%	100%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 3 S.r.l.	38	241	3	40	0%	99%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 4 S.r.l.	38	282	3	48	0%	94%	0%	0%	0%	0%
Intesa Sanpaolo	Brera Sec S.r.l. (*)	118	13,849	13	2,361	0%	33%	0%	0%	0%	0%
Intesa Sanpaolo	Clara Sec S.r.l. (*)	37	6,536	4	1,159	0%	0%	0%	0%	0%	0%
Intesa Sanpaolo	Giada Sec S.r.l. (*) (**)	2	9,611	-	461	0%	0%	0%	0%	0%	0%
UBI Banca	UBI SPV LEASE 2016 (*) (**)	75	2,724	4	492	0%	0%	0%	0%	0%	0%
Total		**333**	**33,280**	**29**	**4,566**						

(*) Vehicle used for self-securitisations

(**) Vehicle structured in 2020 for securitisations for which no redemptions took place as at 31 December 2020.

C.6. Prudential consolidation – Consolidated securitisation vehicles

There were no transactions that used consolidated securitisation vehicles during 2020.

D. SALES

A. Financial assets sold not fully derecognised

Qualitative information

For a description of the operations shown in tables D.1 and D.3 below, reference is made to the information shown below the relevant tables.
Conversely, for operations in debt securities against medium/long-term repurchase agreements, reference is made to the information in Part B of the Notes to the consolidated financial statements.

Quantitative information

Prudential consolidation - Financial assets sold fully recognised and related financial liabilities: book value

(millions of euro)

	Financial assets sold fully recognised				Related financial liabilities		
	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*	*of which: non-performing*	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*
A. Financial assets held for trading	**1,075**	**-**	***1,075***	***X***	**1,040**	**-**	***1,040***
1. Debt securities	887	-	*887*	*X*	847	-	*847*
2. Equities	188	-	*188*	*X*	193	-	*193*
3. Loans	-	-	-	*X*	-	-	-
4. Derivatives	-	-	-	*X*	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**5,048**	**-**	***5,048***	**-**	**4,987**	**-**	***4,981***
1. Debt securities	5,048	-	*5,048*	-	4,987	-	*4,981*
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**3,062**	***137***	***2,863***	***18***	**2,911**	***97***	***2,767***
1. Debt securities	2,925	-	*2,863*	-	2,814	-	*2,767*
2. Loans	137	*137*	-	*18*	97	*97*	-
TOTAL 31.12.2020	**9,185**	***137***	***8,986***	***18***	**8,938**	***97***	***8,788***
TOTAL 31.12.2019	**32,353**	***686***	***31,610***	***69***	**32,135**	***411***	***31,680***

The table above does not include covered bond transactions in which the Intesa Sanpaolo Group is both the seller and lender for the vehicle issuing the debt securities.

The operations shown in the table mainly relate to the use of securities held for short and medium/long-term repurchase agreements and loans to customers assigned as part of the K-Equity securitisations resulting from the acquisition of the former Venetian banks.

Prudential consolidation – Financial assets sold partly recognised and related financial liabilities: book value

These are not present in the Intesa Sanpaolo Group.

Prudential consolidation - Sales with liabilities having recourse exclusively on the assets sold and not fully derecognised: fair value

(millions of euro)

	Fully recognised	Partly recognised	31.12.2020	31.12.2019
A. Financial assets held for trading	**1,075**	**-**	**1,075**	**2,395**
1. Debt securities	887	-	887	2,395
2. Equities	188	-	188	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**5,048**	**-**	**5,048**	**24,457**
1. Debt securities	5,048	-	5,048	24,457
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	**3,062**	**-**	**3,062**	**5,605**
1. Debt securities	2,925	-	2,925	4,885
2. Loans	137	-	137	720
Total financial assets	**9,185**	**-**	**9,185**	**32,457**
Total related financial liabilities	**8,886**	**-**	**8,886**	**32,279**
Net value 31.12.2020	**299**	**-**	**299**	**X**
Net value 31.12.2019	**178**	**-**	**X**	**178**

The table above does not include covered bond transactions in which the Intesa Sanpaolo Group is both the seller and lender for the vehicle issuing the debt securities.

B. Financial assets sold fully derecognised with recognition of continuing involvement
This type of exposure did not exist as at 31 December 2020.

C. Financial assets sold and fully derecognised

Qualitative information

Multioriginator sale transactions involving loan portfolios – classified as unlikely to pay in particular – attributable to the sale of loans to a mutual investment fund with the assignment of the units in the fund to the selling intermediaries
At 31 December 2020, the Intesa Sanpaolo Group held units of mutual funds acquired in multioriginator sales of loan portfolios.
In accordance with the provisions of the Communication of the Bank of Italy of 23 December 2019, disclosures regarding "*Multioriginator sale transactions involving loan portfolios – classified as unlikely to pay in particular – attributable to the sale of loans to a mutual fund with the assignment of the units in the fund to the selling intermediaries*" are provided below.

Back2Bonis Fund
In implementation of the derisking envisaged in the 2018-2021 Business Plan, in the third quarter of 2020 the Intesa Sanpaolo Group began the deconsolidation of a portfolio of credit exposures classified as unlikely to pay with underlying real estate, contracts and assets held by the parent company ISP and UBI Banca, accompanied by their conversion into units of the securities fund called Back2Bonis.
The transaction, the closing of which took place at the end of 2020, took the form for Intesa Sanpaolo of the sale of a portfolio of loans, contracts, legal relationships and assets from lease contracts for a total gross amount of 166 million euro and net exposure of 71 million euro, accompanied by the subscription of the units of the Back2Bonis Fund for an amount of 70.6 million euro, substantially in line with the NBV of the loans and receivables sold.
The transaction was finalised through: (i) the sale to the securitisation vehicle Ampre S.r.l. of the bank receivables and the lease receivables; (ii) the sale to Ampre LeaseCo S.r.l. of the legal relationships and assets arising from the leases; (iii) the sale of the short-term revolving contracts and the related legal relationships and receivables of ISP, together with the medium/long-term contracts with residual disbursements and the related legal relationships, other than the lease relationships and assets through the fronting bank provided by Banca Finanziaria Internazionale S.p.A.; (iv) the subscription by the Back2Bonis Fund of all the securities issued by the securitisation vehicle; and (v) the acquisition by Intesa Sanpaolo of the units of the Fund in exchange for the loans and receivables sold.
In addition to the transaction finalised last year, UBI Banca sold loans belonging to 14 counterparties, for a total amount of 33.8 million euro (net book value at sale), receiving as consideration units of the Back2Bonis Fund for 32.1 million euro, generating a loss on sale of around 1.7 million euro.
The Back2Bonis fund, established in the form of a closed-end mutual fund whose units can only be subscribed by professional investors, is a multi-originator platform for the management of Real Estate Small & Medium Size loans classified as unlikely to pay, deriving from loans and credit lines granted to companies operating in the real estate sector or to real estate funds (including those not fully disbursed/drawn down at the time of sale).
Following the completion of the transfer of the loans and receivables to the platform, the Intesa Sanpaolo Group deconsolidated the loans and receivables and recognised the Fund's units in place of those loans and receivables.
At 31 December 2020, the Intesa Sanpaolo Group held an approximately 39% stake in the Back2Bonis Fund, classified among investments subject to significant influence, for a book value of 163 million euro.
The Back2Bonis Fund has been valued by an independent third party, which assigned it a fair value in line with its carrying amount as at 31 December 2020.

FI.NAV. Fund
In pursuit of the de-risking activities provided for in the 2018-2021 Business Plan, in the fourth quarter of 2018 the Intesa Sanpaolo Group launched the contribution to the FI.NAV. Fund (a closed-end Italian securities umbrella fund) of a portfolio of non-performing secured and unsecured loans attributable to the shipping sector.
The Fund, reserved for institutional investors, is managed by the asset management company Davy Investment Fund Service Limited, not a member of the Intesa Sanpaolo Group, based in Ireland, and is divided into two autonomous sub-funds: FI.NAV. Sub-fund A – Loans in which the loans transferred by the Intesa Sanpaolo Group, Unicredit were included and FI.NAV. Sub-fund B - New Finance, in which the capital of third-party investors will be included to relaunch the "repossessed" ships.
The transaction, formulated in 2018, was closed in 2019 through a sale of receivables without recourse for total gross consideration of 155 million euro and a net exposure of 102 million euro, equal to the sale price, set off against the price of subscription of the Fund units and, therefore, without any effects on the income statement for 2019.
In the first quarter of 2020, a further tranche was sold without recourse for a gross amount of 37 million euro and a net value of 34 million euro, in line with the sale price and, therefore, with no impact on the income statement for the year.
Pursuant to IFRS 9, for the Intesa Sanpaolo Group the transaction entailed the derecognition of the loans sold since the Fund has become solely responsible for managing them following the sale; the Intesa Sanpaolo Group therefore derecognised the loans concerned, while recognising the corresponding fair value of the units of the Fund assigned.
The Group companies involved in the transaction were the Parent Company Intesa Sanpaolo (including the units of the former subsidiaries Cassa di Risparmio in Bologna and Mediocredito acquired through the mergers in 2019) and Banca IMI, absorbed on 20 July 2020.
The FI.NAV. Fund, recognised in the Parent Company's financial statements at a value of 138.6 million euro, has been valued by an independent third party, which assigned it a fair value of 135.2 million euro. As a consequence, the value of the fund has been adjusted, resulting in a decrease of 3.4 million euro.

At 31 December 2020, the Parent Company ISP held a 43.5% stake in the FI.NAV. Fund, classified among investments subject to significant influence, for a consolidated book value of 126 million euro with measurement at current exchange rates.

RSCT Fund – Loans Sub-Fund
As part of the derisking envisaged in the 2018-2021 Business Plan, the Intesa Sanpaolo Group identified the opportunity to transfer assets (loans and securities) relating to non-performing positions to the closed-end RSCT FUND, in exchange for units of the fund. The project was managed by Pillarstone, which selected a portfolio of industrial and commercial companies with the objective of helping each of them to identify a strategy for maximising the potential for debt recovery, also through injections of new finance.
The transaction took place in May 2020 with the transfer of a portfolio of loans with 18 companies originated by the ISP Group (ISP and Banca IMI, subsequently merged into ISP on 20 July 2020), Unicredit, BPER Banca and Crédit Agricole to the newly established closed-end alternative investment RSCT Fund, managed by Davy Investment Fund Services, an alternative fund manager authorised by the Central Bank of Ireland.
The RSCT Fund is made up of two separate sub-funds: sub-fund A for the management of loans acquired from the selling banks and sub-fund B for the management of the new finance.
The sale involved a portfolio of loans, Sirti notes and PS Reti equity instruments for a gross amount of 377 million euro (ISP and Banca IMI) at a net value of 256 million euro, substantially in line with the sale price and, therefore, with no effects on the income statement for the year.
In July, a further sale was completed of a loan position for a gross amount of 6.5 million euro at a value of 4.5 million euro, with the sale price offset against the subscription price of the Fund’s units, with no effects on the income statement for the year.
The RSCT Fund, recognised at a value of 259.3 million euro, has been valued by an independent third party, which assigned it a fair value of 257.3 million euro. As a consequence, the value of the fund was adjusted, resulting in a decrease of 2 million euro.
At 31 December 2020, the Parent Company held a 71.97% stake in the RSCT Fund, classified among investments subject to significant influence, for a book value of 257.3 million euro.

IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-fund
In 2018, the Intesa Sanpaolo Group (specifically Intesa Sanpaolo and the banks subsequently merged into Intesa Sanpaolo: Cassa di Risparmio del Veneto, Cassa di Risparmio di Firenze, Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio in Bologna, and Mediocredito) participated in the closed-end Italian fund IDEA, managed by Dea Capital Alternative Funds S.G.R. Spa and dedicated to the recovery of mid-size Italian companies in situations of financial tension but with solid industrial fundamentals. The transaction, which was completed in 2018, was undertaken by contributing non-performing loans with a nominal value of 59 million euro and a net exposure to the sale price of 39.2 million euro, with the price of sale offset against the subscription price, of equal amount, of the units of the IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-Fund.
These stakes were joined by the stakes of UBI Banca, which in December 2020 sold the Idea CCR II Fund - Loans Sub-fund loans relating to 7 counterparties, for a total of around 48.2 million euro (net book value at sale), in addition to PFIs and other financial instruments fully held by UBI Banca for an amount of around 1.7 million euro, obtaining Fund units as consideration for 46.8 million euro, and generating a loss on sale of around 3.1 million euro.
The sales made in 2020 by UBI Banca follow similar operations carried out from 2017 to 2019 with the IDeA Corporate Credit Recovery II Fund (Idea CCR II), managed by Dea Capital Alternative Funds SGR.
As at 31 December 2020, the Intesa Sanpaolo Group held a 38% stake in the IDEA Fund, classified among Financial assets mandatorily measured at fair value, for a book value of 135 million euro.
The IDEA CCR Corporate Credit Recovery II Fund has been valued by an independent third party, which has assigned it a fair value in line with its carrying amount as at 31 December 2020.

Prudential consolidation - Covered bond transactions

Covered bond transactions where the selling Bank and the lending Bank are the same must be reported under this section. The Intesa Sanpaolo Group uses covered bonds mainly as a type of funding through securities guaranteed by assets originated by Intesa Sanpaolo or by other companies of the Group.

Over time, Intesa Sanpaolo has carried out three Covered Bond issue programmes.

The first programme, launched in 2009, has a maximum amount of 20 billion euro (the original maximum amount was 10 billion euro). The guarantor of the Covered Bonds is the vehicle ISP CB Pubblico, to which a portfolio of performing loans and securities to the public sector, originated by the former subsidiary Banca Infrastrutture Innovazione e Sviluppo, now Intesa Sanpaolo, was transferred. The Bank gradually sold the vehicle assets with a total original nominal value of 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro). The last sale (amounting to around 1 billion euro) took place in April 2013. In September 2020, the retrocession of a customer was carried out for an amount of 132 million euro.
As at 31 December 2020, loans and securities sold to the vehicle had a book value of 3.8 billion euro.
Against these sales, Covered Bonds were issued over time for a total nominal value of 24.2 billion euro (of which 17.3 billion euro relating to issues acquired in full by the Parent Company and subject to early redemption or matured and 3.5 billion euro relating to an exchange offer to investors during 2012, of which 2 billion euro that matured in the second quarter of 2017).
In 2020, the tenth series of Covered Bonds was partially redeemed in advance for a total nominal amount of 0.85 billion euro.
Therefore, as at 31 December 2020, a total nominal amount of 4.1 billion euro of issues made as part of the Covered Bond programme of the vehicle ISP CB Pubblico was outstanding, of which 4 billion subscribed by Intesa Sanpaolo and 0.1 billion placed with third-party investors.
All the securities issued under the programme are listed on the Luxembourg Stock Exchange and have a Moody’s A2 rating.

In the second programme, launched in 2010, amounting to a maximum of 25 billion euro (the original maximum amount was 20 billion euro), the guarantor of the covered bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans, and initially bonds issued by Adriano Finance S.r.l., originated by Intesa Sanpaolo were transferred. The Bank gradually sold the vehicle mortgage loans with an original total nominal value of 33.8 billion euro (net of retrocessions). As at 31 December 2020, the loans sold to the vehicle had a book value of 16.4 billion euro.
Over time, against the sale of these assets, Intesa Sanpaolo has carried out issues of Covered Bonds for a total nominal value of approximately 33.2 billion euro (of which a total of 15.3 billion euro subject to early redemption or matured at December 2019).
No new sales were made under the programme in 2020. In addition:
- in January, the twenty-seventh series of Covered Bonds was issued in the form of a floating-rate bond for a nominal value of 0.75 billion euro, with an 11-year maturity, listed on the Luxembourg Stock Exchange and with a Moody's Aa3 rating. The bond was fully subscribed by the Parent Company;
- during the year, the twentieth series was redeemed in advance in two tranches, the first in July for an amount of 0.7 billion euro and the second in August for the remaining amount of 0.55 billion euro;
- the twenty-sixth series of Covered Bonds was partially redeemed in advance during the year, for a total nominal amount of 0.5 billion euro.

All the securities issued under the programme are listed on the Luxembourg Stock Exchange and have a Moody's Aa3 rating.
As at 31 December 2020, a total nominal amount of 16.9 billion euro of issues made as part of the covered bond programme of the vehicle ISP CB Ipotecario was outstanding, of which 12 billion placed with third party investors and 4.9 billion subscribed by Intesa Sanpaolo. Part of the latter was subsequently used in repurchase agreements for an amount of 1.8 billion euro.

The third multi-originator Covered Bond issue programme, launched in 2012, has the vehicle ISP OBG S.r.l. as the guarantor of its securities. This programme is secured by mortgages for a maximum amount of 50 billion euro (the original maximum amount was 30 billion euro) and is aimed at realising the retained issues.
The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli, Cassa di Risparmio del Veneto, Cassa di Risparmio in Bologna and Banca CR Firenze (merged by incorporation into Intesa Sanpaolo between July 2018 and February 2019). Over time, the Intesa Sanpaolo Group sold mortgages to the vehicle for an original total nominal value of 62.4 billion euro (net of exclusions).
The following sales were carried out in 2020:
- in March 2020, for a total of 6 billion euro;
- in June 2020, for a total of 5.1 billion euro;
- in November 2020, for a total of 1.6 billion euro.

In May 2020, Intesa Sanpaolo also closed retrocessions of non-performing loans with a nominal value of 65 million euro.
As at 31 December 2020, the loans sold to the vehicle by Intesa Sanpaolo had a book value of 46.4 billion euro.
Over time, against the sales of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of 70.75 billion euro (of which 33.95 billion euro subject to early redemption and reimbursed).
During 2020:
- in February, the securities of the sixth, fifteenth and sixteenth series were redeemed in advance for a total of 3.5 billion euro;
- in February, the thirty-eighth and thirty-ninth series of Covered Bonds were issued, each amounting to a nominal value of 1.75 billion euro, at floating rate and with maturities of 13 and 14 years, respectively;
- in March, the fortieth series of Covered Bonds was issued with a nominal value of 1.8 billion euro. This is a 14-year, floating-rate bond;
- in April, securities were issued for the forty-first and forty-second series, each amounting to 2.4 billion euro, at floating rate and with maturities of 15 years;
- in June, the forty-third and forty-fourth series of Covered Bonds were issued, each amounting to 1.35 billion euro, at floating rate and with maturities of 8 and 16 years, respectively;
- in December, the seventeenth series was partially redeemed for a total of 0.2 billion euro.

All the securities issued as part of the programme are listed on the Luxembourg Stock Exchange and have a DBRS A (High) rating. The characteristics of the issues make them eligible for Eurosystem refinancing operations. As at 31 December 2020, the issues made under the programme guaranteed by the vehicle ISP OBG had a total nominal amount of 45.90 billion euro, fully subscribed by Intesa Sanpaolo and subsequently used in repurchase agreements for 50 million euro.

The companies of the former UBI Banca Group currently include two covered bond programmes, run by two special purpose vehicles named UBI Finance S.r.l. and UBI Finance CB2 S.r.l., respectively.
The first programme, UBI Finance, was launched by the former UBI Banca Group in 2008 and still provides UBI Banca with the right to issue securities, targeted to institutional investors, for a maximum amount of 15 billion euro. The programme includes a portfolio of residential mortgage loans assigned by the former UBI Group's network banks. These banks participated in the programme as Originator Banks as well as Lending Banks.
Currently, UBI Banca and IW Bank are participating in the programme. As at 31 December 2020, the loans sold to the vehicle had a total book value of 16.7 billion euro, of which 0.2 billion euro sold by IW Bank and the entire remaining amount sold by UBI Banca.
For the purpose of providing complete information, note that as part of the activities relating to the integration of the companies of the former UBI Banca Group into the Intesa Sanpaolo Group, in January 2021 an operation was finalised for the repurchase of loans totalling 5.2 billion euro di euro (in terms of residual capital debt), of which 0.2 billion euro repurchased by IW Bank, equal to its entire portfolio at the repurchase date, and the remaining 5 billion euro repurchased by UBI Banca.
During 2020, no new issues of securities or repayments of outstanding issues were carried out. Therefore, considering the various bonds issued in the previous years, the nominal value of the securities as at 31 December 2020 totalled 12 billion euro.

At the same date, those bonds were assigned an Aa3 rating from Moody's and AA from DBRS.

The second Covered Bond programme of the former UBI Banca Group, named UBI Finance CB2, was established in 2012 and aimed at issuing new retained bonds, i.e. subscribed by UBI Banca itself and used as eligible securities for operations with the Eurosystem.
The ceiling set for this Covered Bond programme was 5 billion euro.
Also for the second programme, the securitised loans, mainly represented by commercial mortgage loans, were sold by the former UBI Group's network banks, which had participated in the Programme as Originator Banks as well as Lending Banks.
In the second half of 2020, following the entry of the companies of the former UBI Banca Group into the Intesa Sanpaolo Group, the early termination of the UBI Finance CB2 Programme was decided: in December 2020, the covered bonds issued under this Programme were recalled and eliminated, and the two originators, UBI Banca and IW Bank, repurchased all of the loans sold still outstanding, for a total amount of 2.9 billion euro (in terms of residual capital debt), of which 2.899 billion euro belonging to UBI Banca and the remaining 12.8 million euro relating to the portfolio of IW Bank.
The effective termination of the Programme is expected in January 2021.

The key figures for ISP CB Pubblico, ISP CB Ipotecario, ISP OBG, UBI Finance and UBI Finance CB2 as at 31 December 2020 are shown in the table below.

(millions of euro)

COVERED BONDS		VEHICLE DATA		SUBORDINATED LOAN [1]	COVERED BONDS ISSUED	
		Total assets	Cumulated write-downs on securitised portfolio	amount	Nominal amount (2)	Book value (2)
ISP CB PUBBLICO	Performing public sector loans and securities	5,146	7	4,968	146	153
ISP CB IPOTECARIO (3)	RMBSs (Performing residential mortgages)	20,856	62	19,896	13,763	14,450
ISP OBG	Mortgages	54,852	233	54,756	50	50
UBI FINANCE	Residential mortgages	17,374	253	17,420	8,534	9,104
UBI FINANCE CB2	Commercial mortgages	3,004	-	2,957	-	-

(1) This caption includes the subordinated loan granted to the vehicles for the purchase of the portfolio lodged as collateral for the CB. This loan is derecognised in the IAS-compliant separate financial statements. The amount of the loan refers to the issue already executed as part of an issue programme with a higher maximum amount.

(2) The nominal amount and the book value shown in the table are to be considered net of securities repurchased.

(3) The covered bonds (CB) issued by Intesa Sanpaolo were placed on the market with institutional investors for almost the entire amount issued.

In addition to this type of Covered Bonds, provided for by Italian law (Law 80/2005), there are some mortgage bonds issued by the Slovak investee VUB. These are securities whose nominal value and returns are guaranteed by mortgage loans, i.e. loans with maturity of four to thirty years, backed by a pledge on property located in the Slovak Republic, including property under construction, at least 90% of the value of which is financed by the issue of these securities.
Each issue has specific coverage, and the entire nominal value of the issue, including interest, must be backed by mortgages on local properties on at least 90% of their nominal value, and the remaining 10% by liquidity, deposits with the National Bank of Slovakia or with other resident banks, by government securities or other mortgage bonds.
As at 31 December 2020, the subsidiary VUB had issued 3.4 billion euro in this type of securities, booked in the financial statements at a value of approximately 3.4 billion euro.

E. PRUDENTIAL CONSOLIDATION - MODELS FOR THE MEASUREMENT OF CREDIT RISK

As at 31 December 2020, the expected loss on performing loans to customers (which takes account of cash and unsecured loan types) was 0.39%, down by around 2 basis points on the figure at the end of 2019. The decrease was mainly attributable to the exit of higher risk operations, which offset the slight increase in risk observed on counterparties across the two periods.
Overall economic capital was 2.15% of drawdowns, recording a decrease compared to the 2019 figure (-0.22%), mainly resulting from the reduction in concentration risk deriving from exposures in securities, and a recomposition of the less risky portfolio.
The figures for the indicators as at 31 December 2019 were reassessed according to the ICAAP 2020 approach.
For the companies included in the roll out plan, the LGD and EAD internal rating models are subject to a second level of control by the Validation function, as described in paragraph 2.3 of this Section, and a third level of control by the Internal Auditing function. The control functions produce an annual report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also includes a verification on the deviations of the ex-ante estimates and the effective ex post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms compliance with the regulatory requirements.