1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, liquidity risk management processes and measurement methods

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

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

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

The provisions on liquidity introduced by the European Union in June 2013 and subsequently updated establish that banks are required to comply with the short-term liquidity coverage ratio (LCR), as set out in Art. 38 of Delegated Regulation (EU) 2015/61, as supplemented and amended (minimum level of 100% from 1 January 2018). The entry into force of the net stable funding ratio (100%) is, instead, planned to start in June 2021, following final approval and subsequent publication in the Official Journal in May 2019 of the package of banking reforms containing EU Directive 2019/878 (CRD V) and Regulation 2019/876 (CRR2).

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

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

The key principles guiding the internal control and management system for liquidity risk defined by those Guidelines are as follows:

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

The Group Liquidity Risk Management Guidelines set out the task assigned to the Corporate Bodies and allocate several important responsibilities to senior management, including approving measurement indicators, defining the main assumptions underlying the stress scenarios and composing the early warning thresholds used to activate emergency plans.

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

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

The Group's liquidity is managed by the aforesaid structures of the CFO area through continuous liaison with the Business Units, within the framework of the relevant business plans drawn up in accordance with the following guidelines:

- constant attention to the level of customer loyalty, aimed at maintaining a high stock of stable deposits;
- monitoring of the deposit-lending gap of the Business Units, with respect to plan and budget targets;
- balanced use of the institutional market, with particular attention to diversification of segments and instruments;
- selective use of refinancing operations by Central Banks.

The Financial and Market Risks Head Office Department is directly responsible for level two controls and, as an active member of the Managerial Committees, it performs a primary role in the management and dissemination of information on liquidity risk, helping improve the Group's overall awareness of the existing position. In particular, it ensures the measurement of the Group's current and future exposure to liquidity risks under normal and stressed conditions, verifying compliance with

the limits and, if those limits are exceeded, implementing the reporting to the competent Corporate Bodies and monitoring the agreed correction actions in the event of any excesses.
The Chief Audit Officer assesses the functioning of the overall structure of the control system monitoring the process for measuring, managing and controlling the Group's exposure to liquidity risk and verifies the adequacy and compliance of the process with the requirements established by the regulations. The results of the controls carried out are submitted to the Corporate Bodies, at least once a year.
The liquidity risk measurement metrics and mitigation tools are formalised by the Group Liquidity Risk Management Guidelines which establish the methodology used for both the short-term and structural liquidity indicators.
The short-term liquidity is aimed at providing an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, while ensuring a sufficient liquidity buffer, available for use as the main mitigation tool for liquidity risk. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of specific short-term indicators, both of a regulatory nature with a holding a period of one month (Liquidity Coverage Ratio - LCR) and internally defined (Survival Period indicators).
The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high-quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in an acute liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by Delegated Regulation (EU) 2015/61.
The Survival Period is an internal indicator designed to measure the first day on which the net liquidity position (calculated as the difference between available liquidity reserves and net outflows) becomes negative, i.e. when additional liquidity is no longer available to cover simulated net outflows. To this end, two different scenario hypotheses are considered, baseline and stressed, designed to measure, respectively: (i) the Group's independence from interbank funding on the financial markets and (ii) the survival period in the event of further tensions of a market and idiosyncratic nature, of medium-high severity, managed without envisaging restrictions on credit activity involving customers. For the Survival Period indicator, in stress conditions it is established that a minimum survival period must be maintained with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions.
The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions - the Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. In addition, the internal policy on structural liquidity also includes early warning indicators for maturities of more than 1 year, with particular attention to long-term gaps (> 5 years).
The Group Liquidity Risk Management Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, also indicating the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Financial and Market Risks Head Office Department. Within this framework, the Group Treasury and Finance Department was officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term.

Impacts from the COVID-19 pandemic

The health emergency generated by the COVID-19 pandemic has laid out unique challenges also at the level of liquidity risk, and since the outbreak of the emergency the Group has preventively adopted all necessary management and monitoring measures to mitigate the potential worsening of the Bank's liquidity conditions.
The Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained within the risk limits set out in the current Group Liquidity Policy for all of 2020. Both regulatory indicators, LCR and NSFR, which also benefited from the positive contribution from the UBI Group from the end of August, were largely above the regulatory requirements. During 2020, the Intesa Sanpaolo Group's Liquidity Coverage Ratio (LCR), measured according to Delegated Regulation (EU) 2015/61, also consolidating the UBI Group from August, amounted to an average of 159.1%[48]. The NSFR also remained significantly higher than 100%, supported by a solid base of stable deposits from customers, adequate wholesale medium/long-term securities funding and the TLTRO funding from the ECB. The Group's NSFR is also significantly higher than 100%, even excluding the positive contribution from the TLTRO funding.

At the end of December 2020, the value of total unencumbered HQLA reserves at the various Group Treasuries, including the UBI Group, totalled 170 billion euro and was more than 47% comprised of cash and deposits held with Central Banks. Adding the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, the Group's unencumbered liquidity reserves amounted to a total of 195 billion euro.

[48] The figure presented refers to the simple average of the last 12 monthly observations, as per the EBA guidelines, "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) 575/2013", June 2017.

(millions of euro)

	Unencumbered (net of haircut)	
	31.12.2020 *	31.12.2019
HQLA Liquidity Reserves	**170,264**	**95,762**
Cash and Deposits held with Central Banks (HQLA)	80,698	22,326
Highly liquid securities (HQLA)	89,566	73,436
Other eligible and/or marketable reserves	24,403	22,594
Total Group's Liquidity Buffer	**194,667**	**118,356**

*The figures include the UBI Group's contribution

Considering the high amounts of unencumbered liquidity reserves (liquid or eligible), also the stress tests, in a combined scenario of market and specific crises (with significant loss in customer deposits), yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.
Intesa Sanpaolo's funding strategy is based on maintaining diversity in terms of customers, products, maturities and currencies. Intesa Sanpaolo's main sources of funding consist of: (i) deposits from the domestic Retail and Corporate market, which represent the stable portion of funding, (ii) short-term funding on wholesale markets, largely consisting of repurchase agreements and CD/CP funding, and (iii) medium/long-term funding, mainly composed of own issues (covered bonds/ABS and other senior debt securities in the euro and US markets, in addition to subordinated securities) and refinancing operations with the Eurosystem (TLTRO). The Group Liquidity Risk Management Guidelines require the regular monitoring of the concentration analyses for the funding (by counterparty/product) and for the liquidity reserves (by issuer/counterparty).
Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was regularly provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the risk factors. This report includes an assessment of the liquidity risk exposure, also determined based on the adverse scenarios. The Board of Directors of Intesa Sanpaolo is regularly involved in defining the strategy for maintaining an adequate liquidity position at the level of the entire Group.
The corporate assessment on the adequacy of Intesa Sanpaolo's position is reported in the ILAAP (Internal Liquidity Adequacy Assessment Process), which also includes the Group's Funding Plan. Within the annual approval process for this report by the Governing Bodies of Intesa Sanpaolo, the Liquidity Adequacy Statement (LAS) of the Members of the Board of Directors, which also presents the main findings from the self-assessment of the adequacy of the liquidity position, taking into account the results and values shown by the main indicators, confirms that the management of the liquidity position is considered to be adequate and deeply rooted in the Group's culture and business processes. It also notes, including from a prospective standpoint, that the current system of rules and procedures appears adequate to ensure a prompt and effective reaction should the risks and challenges actually materialise in severe and adverse stress scenarios.

QUANTITATIVE INFORMATION

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

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

Currency of denomination: Euro

(millions of euro)

Type/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**68,766**	**12,637**	**7,360**	**11,453**	**23,998**	**26,664**	**38,397**	**197,438**	**200,220**	**71,918**
A.1 Government bonds	38	11	153	526	1,495	5,445	2,980	15,103	43,066	-
A.2 Other debt securities	168	311	715	3,063	141	377	696	8,967	18,344	-
A.3 Quotas of UCI	2,944	-	-	-	-	-	-	-	-	10
A.4 Loans	65,616	12,315	6,492	7,864	22,362	20,842	34,721	173,368	138,810	71,908
- Banks	16,518	3,382	854	200	1,138	664	2,612	936	290	71,659
- Customers	49,098	8,933	5,638	7,664	21,224	20,178	32,109	172,432	138,520	249
B. Cash liabilities	**427,627**	**3,087**	**1,496**	**4,734**	**10,496**	**7,730**	**9,301**	**137,774**	**27,639**	**-**
B.1 Deposits and current accounts	400,833	1,251	825	1,625	3,262	3,842	3,652	7,499	746	-
- Banks	4,364	247	30	45	126	248	150	1,114	342	-
- Customers	396,469	1,004	795	1,580	3,136	3,594	3,502	6,385	404	-
B.2 Debt securities	140	128	493	3,075	6,633	3,084	4,712	42,722	22,715	-
B.3 Other liabilities	26,654	1,708	178	34	601	804	937	87,553	4,178	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	2,087	13,199	5,439	7,082	25,102	10,669	9,710	17,795	8,970	-
- Short positions	3,774	12,286	4,152	6,053	21,722	7,754	6,922	16,909	12,231	-
C.2 Financial derivatives without exchange of capital										
- Long positions	23,036	139	9	63	207	304	662	147	159	-
- Short positions	31,146	44	18	104	206	441	743	147	159	-
C.3 Deposits and loans to be settled										
- Long positions	63,628	-	-	-	-	-	-	-	-	-
- Short positions	-	63,628	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	14,471	22,214	67	222	230	1,122	1,675	16,208	3,548	-
- Short positions	59,065	9	7	40	26	76	91	221	10	-
C.5 Financial guarantees given	856	5	2	7	92	81	168	285	112	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	17	53	325	1,042	-
- Short positions	-	-	-	-	-	17	53	325	1,042	-
C.8 Credit derivatives without exchange of capital										
- Long positions	1,193	-	-	-	-	-	-	-	-	-
- Short positions	1,246	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

(millions of euro)

Type/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**5,221**	**3,467**	**4,370**	**2,476**	**4,942**	**3,529**	**6,718**	**21,437**	**12,677**	**1,780**
A.1 Government bonds	35	240	130	287	1,290	738	1,578	4,037	5,909	-
A.2 Other debt securities	42	73	16	99	141	315	317	2,676	2,162	4
A.3 Quotas of UCI	277	-	-	-	-	-	-	-	-	-
A.4 Loans	4,867	3,154	4,224	2,090	3,511	2,476	4,823	14,724	4,606	1,776
- Banks	1,867	2,223	2,839	413	698	141	1,868	268	182	1,745
- Customers	3,000	931	1,385	1,677	2,813	2,335	2,955	14,456	4,424	31
B. Cash liabilities	**21,047**	**3,697**	**3,437**	**4,414**	**6,446**	**1,377**	**1,701**	**10,172**	**6,022**	**-**
B.1 Deposits and current accounts	19,434	1,593	809	2,238	1,696	873	972	1,690	210	-
- Banks	987	625	230	976	482	42	50	783	68	-
- Customers	18,447	968	579	1,262	1,214	831	922	907	142	-
B.2 Debt securities	14	436	191	315	1,466	365	630	7,969	4,865	-
B.3 Other liabilities	1,599	1,668	2,437	1,861	3,284	139	99	513	947	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	856	14,306	5,969	9,180	19,964	9,983	10,636	18,378	11,513	-
- Short positions	739	15,144	7,549	10,243	21,605	12,359	14,019	19,638	8,122	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,744	6	151	37	80	142	328	102	-	-
- Short positions	1,902	93	88	28	78	73	193	102	1	-
C.3 Deposits and loans to be settled										
- Long positions	1,212	-	-	-	-	-	-	-	-	-
- Short positions	4	-	641	1	7	530	-	29	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	298	35	7	190	631	1,008	1,521	9,706	522	-
- Short positions	12,280	138	1	1	38	56	155	158	168	-
C.5 Financial guarantees given	535	11	6	20	74	125	221	547	35	-
C.6 Financial guarantees received	-	1	-	-	-	-	-	10	2	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	37	-	-
- Short positions	-	-	-	-	-	-	-	37	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	414	-	-	-	-	-	-	-	-	-
- Short positions	432	-	-	-	-	-	-	-	-	-

2. Self-securitisations

The Intesa Sanpaolo Group has carried out securitisations in which all the liabilities issued by the vehicle companies involved were subscribed by Group companies.
A brief description of the existing transactions as at 31 December 2020 is provided below.

Adriano Lease SEC S.r.l.

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

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

Following the merger by incorporation, the securities originally purchased by Mediocredito Italiano S.p.A. were included in Intesa Sanpaolo. As at 31 December 2020, the senior securities came to 1,062 million euro and junior securities to 1,351 million euro.
The senior securities are eligible for use in the Eurosystem.

Apulia Finance N. 4 S.r.l.

In May 2008, Banca Apulia S.p.A. (now merged into Intesa Sanpaolo), completed a securitisation of residential and commercial mortgages, sold to the vehicle company Apulia Finance N. 4 S.r.l.

With respect to the portfolio sold, in July 2008, Apulia Finance 2008 S.r.l., the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 378.4 million euro, broken down as follows:

- a class A senior tranche for 319.8 million euro, placed on the market and with a AAA rating assigned to the issue by Moody's. The security was fully redeemed in December 2020.
- a junior tranche (class B) for 58.6 million euro, retained and unrated.

The class A senior securities, denominated in euro, paid a floating-rate six-monthly coupon indexed to the 6-month Euribor plus a spread of 0.70% and were listed on the Luxembourg Stock Exchange.

The junior securities, also denominated in euro, were fully subscribed by Banca Apulia S.p.A. (now merged into Intesa Sanpaolo). The redemption of the nominal amount is subject to the full redemption of the higher-class securities.

As at 31 December 2020, the value of the outstanding subscribed securities was 59 million euro consisting solely of junior securities.

Brera Sec S.r.l.

In October 2017, a self-securitisation was structured, carried out through the sale of five loan portfolios to the vehicle company Brera Sec S.r.l. and originated by the Parent Company and by four banks of the Group subsequently incorporated into Intesa Sanpaolo (Banco di Napoli, Cassa di Risparmio di Forlì e della Romagna and Cassa di Risparmio del Friuli Venezia Giulia, incorporated in the second half of 2018 and Cassa di Risparmio in Bologna, incorporated in the first half of 2019). The underlying consisted of residential mortgage loans held by households and/or family businesses. This transaction was the Group's first Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation.

The transaction involved the issuance by the vehicle company of two tranches of securities:

- a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility;
- and an unlisted junior tranche without rating. Both the senior and junior securities were subscribed *pro rata* by each individual selling bank based on the sale price of each portfolio, so that the loans could remain in the balance sheets of each selling bank without derecognition.

The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.

Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with a corporate entity outside the Group (Dutch-registered foundation known as a Stichting). Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.

The total sale consideration was 7.1 billion euro. The sale price of the portfolio sold was settled through the issuance of securities on 11 December 2017 for a total of 7.1 billion euro.

The senior securities, which are listed with an Aa3 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and have been subscribed by Intesa Sanpaolo.

As at 31 December 2020, the value of the outstanding subscribed securities for Intesa Sanpaolo was 4,081 million euro for senior securities and 1,067 million euro for junior securities.

Brera Sec S.r.l. (SME)

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

This is the Group's second multi-Originator Asset Backed Security ("ABS") securitisation and the first with an underlying of SME loans. The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating. Both the senior and junior securities were subscribed *pro rata* by each individual selling bank based on the sale price of each portfolio, so that the loans could remain in the balance sheets of each selling bank without derecognition.

The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.

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

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

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

As at 31 December 2020, the value of the outstanding securities subscribed by Intesa Sanpaolo was 1,031 million euro for senior securities and 1,530 million euro for junior securities.

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

In September 2019, a new self-securitisation was structured, implemented through the sale of a loan portfolio originated by Intesa Sanpaolo to the vehicle company Brera Sec S.r.l. This transaction is the Group's third Residential Mortgage Backed Security ("RMBS") securitisation.

The transaction involved the issuance by the vehicle company of two tranches of securities on 27 November 2019: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating.

Both the senior and junior securities were subscribed by Intesa Sanpaolo, so that the loans could remain in the balance sheet of Intesa Sanpaolo without derecognition.

The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
The total sale consideration was 7.5 billion euro. The sale price of the portfolio was settled through the issuance of securities on 27 November 2019 for a total of 7.5 billion euro.
The senior securities, which are listed with an A1 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and have been fully subscribed by Intesa Sanpaolo.
As at 31 December 2020, the value of the outstanding securities subscribed by Intesa Sanpaolo was 5,834 million euro for senior securities and 860 million euro for junior securities.

Clara Sec S.r.l.
In 2020, a new revolving self-securitisation was structured involving receivables arising from performing personal loans within the consumer credit area and disbursed to consumer households, a transaction subject to periodic repurchase of the loans.
The transaction took place with the sale, in two tranches (April and May), of the portfolio of loans originated by Intesa Sanpaolo to the vehicle company Clara Sec S.r.l. and is the Group's fourth Asset Backed Security ("ABS") securitisation.
Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with an entity from outside the Group (Dutch-registered foundation known as a Stichting).
Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
The transaction involved the issuance by the vehicle company of two tranches of securities on 23 June 2020: a listed senior tranche with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without a rating.
Both the senior and junior securities were subscribed by Intesa Sanpaolo, so that the loans could remain in the balance sheet of Intesa Sanpaolo without derecognition.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
The total sale consideration was 7.6 billion euro. As part of that transaction, securities were issued on 23 June 2020 for 7.2 billion euro. The senior securities, which are listed with an A1 Moody's and an A (High) DBRS rating, are eligible for the Eurosystem and have been fully subscribed by Intesa Sanpaolo.
As at 31 December 2020, the value of the outstanding securities subscribed by Intesa Sanpaolo remained unchanged at 6,350 million euro for senior securities and 824 million euro for junior securities.

Giada Sec S.r.l.
In November 2020, a new self-securitisation was structured, implemented through the sale of a portfolio of loans, disbursed to companies belonging to the small business, SME and Corporate segment and originated by Intesa Sanpaolo, to the vehicle company Giada Sec S.r.l.. This is the Group's fifth Asset Backed Security ("ABS") securitisation and the second with an underlying of SME loans.
Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with a corporate entity outside the Group (Dutch-registered foundation known as a Stichting).
The securitisation is a revolving transaction and ISP will have the option to sell the vehicle further portfolios of loans with similar characteristics and quality, which the Vehicle will purchase by drawing on the receipts generated by the portfolio segregated over time.
The total sale consideration was 10.1 billion euro. The sale price of the portfolio was settled through the issuance of securities on 21 December 2020 for a total of 10.1 billion euro.
The transaction involved the issuance by the vehicle company of two tranches of securities on 21 December 2020: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating.
Both the senior and junior securities were subscribed by Intesa Sanpaolo, so that the loans could remain in the balance sheet of Intesa Sanpaolo without derecognition.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
The senior securities, which are listed with an A1 Moody's and an A DBRS Morningstar rating, are eligible for the Eurosystem and have been fully subscribed by Intesa Sanpaolo.
As at 31 December 2020, the value of the outstanding securities subscribed by Intesa Sanpaolo remained unchanged at 6,610 million euro for senior securities and 3,485 million euro for junior securities.

UBI SPV Lease 2016
The UBI SPV Lease 2016 self-securitisation derives from the business combination of the former UBI Banca Group into the Intesa Sanpaolo Group in the third quarter of 2020. The self-securitisations was carried out on portfolios of UBI Leasing in 2016, for the purpose of generating eligible assets for refinancing operations with the European Central Bank.
For the transaction, a special purpose vehicle was established, UBI SPV Lease 2016 Srl, to which performing loans were transferred along with the related leases for 3,065 million euro (in terms of principal). The assignment was finalised on 23 June 2016, with accounting and economic effectiveness on the previous 31 May.

The transaction involved the issuance by the vehicle company of two tranches of securities on 28 July 2016:
- Class A securities (senior tranches): nominal value of 2,100 million euro, floating rate, maturity in 2050, assigned an A1 rating by Moody's and an A (low) by DBRS;
- Class B securities (junior tranches): nominal value of 1,001 million euro, maturity in 2050, unrated, with yield equal to the additional return of the operation.

The subscription of the junior notes also enabled the creation of a Cash Reserve within the operation of 31.5 million euro, still fully available at the reference date of these Notes.
Repayment of the securities has not yet begun, and, therefore, the situation as at 31 December 2020 remained unchanged.
As at 31 December 2020, the securitised portfolio, which continued to be posted under the originator's assets, amounted to 2,616 million euro of residual capital debt.

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

(millions of euro)

Vehicle		Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2020
ADRIANO LEASE SEC SRL					
of which issued in euro					**2,413**
	Class A	Senior	Receivables from lease payments	Moody's A1 / DBRS Morningstar A	1,062
	Class B	Junior	Receivables from lease payments	no rating	1,351
APULIA FINANCE 4 SRL					
of which issued in euro					**59**
	Class A	Senior	Residential mortgage loans	no rating	-
	Class B	Junior	Residential mortgage loans	no rating	59
BRERA SEC S.r.l.					
of which issued in euro					**5,148**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa3 / DBRS Morningstar AH	4,081
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	1,067
BRERA SEC S.r.l. (SME)					
of which issued in euro					**2,561**
	Class A RMBS F/R Notes	Senior	Receivables from SME and large corporate customers	Moody's A1 / DBRS Morningstar AH	1,031
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Receivables from SME and large corporate customers	no rating	1,530
BRERA SEC SRL (SEC 2)					
of which issued in euro					**6,694**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's A1 / DBRS Morningstar AH	5,834
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	860
CLARA SEC S.r.l.					
of which issued in euro					**7,174**
	Class A RMBS F/R Notes	Senior	Personal loans	Moody's A1 / DBRS Morningstar AH	6,350
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Personal loans	no rating	824
GIADA SEC S.r.l.					
of which issued in euro					**10,095**
	Class A RMBS F/R Notes	Senior	Receivables from Smal business, SME and corporate customers	Moody's A1 / DBRS Morningstar A	6,610
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Receivables from Smal business, SME and corporate customers	no rating	3,485
UBI SPV LEASE 2016 S.r.l.					
of which issued in euro					**3,101**
	Class A	Senior	Leasing	Moody's A2 / DBRS Morningstar A	2,100
	Class B	Junior	Leasing	no rating	1,001
TOTAL					**37,245**

The following self-securitisations were terminated in 2020: Berica ABS 5 S.r.l, Claris RMBS 2016 S.r.l. and Claris RMBS 2014 S.r.l.

OTHER INFORMATION ON FINANCIAL RISKS

SOVEREIGN RISK EXPOSURE BY COUNTRY OF RESIDENCE OF THE COUNTERPARTY

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

(millions of euro)

	DEBT SECURITIES					LOANS
	BANKING GROUP			INSURANCE COMPANIES	TOTAL	
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss			
EU Countries	**28,506**	**30,557**	**3,034**	**60,526**	**122,623**	**12,099**
Austria	-	41	-76	2	-33	-
Belgium	793	531	-23	4	1,305	-
Bulgaria	-	-	10	64	74	-
Croatia	11	1,205	171	164	1,551	1,227
Cyprus	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	-
Denmark	-	-	-	-	-	-
Estonia	-	-	-	-	-	-
Finland	-	13	2	3	18	-
France	2,564	3,555	388	2,081	8,588	4
Germany	515	1,053	1,551	298	3,417	-
Greece	-	12	47	-	59	-
Hungary	23	829	11	37	900	249
Ireland	145	516	-3	57	715	-
Italy	20,210	13,206	1,791	54,963	90,170	10,237
Latvia	-	-	-	-	-	32
Lithuania	6	-	-	-	6	-
Luxembourg	-	-	3	-	3	-
Malta	-	-	-	-	-	-
The Netherlands	52	323	77	77	529	-
Poland	50	61	-	18	129	-
Portugal	84	356	-22	39	457	-
Romania	66	314	17	288	685	6
Slovakia	-	672	-	-	672	86
Slovenia	1	186	2	-	189	196
Spain	3,986	7,657	-936	2,431	13,138	62
Sweden	-	27	24	-	51	-
Non-EU Countries						
Albania	267	270	1	-	538	1
Egypt	-	1,723	2	63	1,788	240
Japan	-	2,020	410	-	2,430	-
Russia	-	94	-	-	94	-
Serbia	2	718	8	-	728	93
United Kingdom	-	-	-	101	101	-
U.S.A.	1,258	3,566	613	72	5,509	-

Management accounts

As illustrated in the table, the exposure to Italian government securities at the end of 2020 totalled approximately 90 billion euro (86 billion euro at the end of 2019, which did not include UBI Banca), in addition to around 10 billion euro represented by loans (11 billion euro at the end of 2019).

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products came to 2,729 million euro as at 31 December 2020, showing a net decrease of 1,065 million euro compared to the stock of 3,794 million euro as at 31 December 2019. The exposure includes investments in ABSs (asset-backed securities) of 1,449 million euro, in CLOs (collateralised loan obligations) of 1,207 million euro and, to a residual extent, in CDOs (collateralised debt obligations) of 73 million euro, for which there was substantially marginal activity during the year.

(millions of euro)

Accounting categories	31.12.2020				31.12.2019	changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	380	469	-	**849**	**1,514**	-665	-43.9
Financial assets mandatorily measured at fair value	-	4	-	**4**	**20**	-16	-80.0
Financial assets measured at fair value through other comprehensive income	444	675	-	**1,119**	**1,485**	-366	-24.6
Financial assets measured at amortised cost	383	301	73	**757**	**775**	-18	-2.3
Total	**1,207**	**1,449**	**73**	**2,729**	**3,794**	**-1,065**	**-28.1**

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

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

The exposure in ABSs and CLOs measured at fair value went from 3,019 million euro in December 2019 to 1,972 million euro in December 2020, a net decrease of 1,047 million euro, mainly attributable to operations on positions of the IMI Corporate & Investment Banking Division, in the financial assets held for trading portfolio and, to a lesser extent, in the assets measured at fair value through other comprehensive income portfolio.

The exposure to debt securities classified as assets measured at amortised cost amounted to 775 million euro in December 2019, compared with an exposure of 757 million euro in December 2020.

From profit or loss perspective, a loss of -5 million euro was posted for 2020, down compared to the +27 million euro recorded in the previous year.

This loss from trading activities – caption 80 of the income statement – of -6 million euro (+15 million euro in 2019) was fully due to exposures in ABSs, substantially the result of valuation effects.

Though that performance reflects a decline if compared with the previous year, it marks a recovery on the negative impact regarding the unrealised component in the previous quarters of the year (-18 million euro as at 30 September, -34 million euro as at 30 June and -39 million euro as at 31 March), attributable to the downturn in the markets in the period due to the COVID-19 health emergency.

The loss from financial assets mandatorily measured at fair value was -1 million euro, compared to a profit of +10 million euro recorded as at 31 December 2019 (the latter resulting from +16 million euro in realised gains and -6 million euro in valuation components).

The exposures in debt securities classified as assets measured at fair value through other comprehensive income recorded a decrease in fair value of -6 million euro in 2020 through a shareholders' equity reserve (from a positive reserve of +2 million euro in December 2019 to a negative reserve of -4 million euro in December 2020). There was also an impact of +4 million euro from sales during the year (+1 million euro in 2019).

Adjustments recognised on the debt securities classified as assets measured at amortised cost amounted to -2 million euro as at 31 December 2020, compared to an impact of +1 million euro in 2019.

With regard to the monoline and non-monoline packages, in line with the situation as at the end of 2019, there were no positions held as at 31 December 2020.

Note that there are no structured credit products within the scope of the former UBI Group.

(millions of euro)

Income statement results broken down by accounting category	31.12.2020				31.12.2019	changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	-	-6	-	**-6**	**15**	-21	
Financial assets mandatorily measured at fair value	-	-1	-	**-1**	**10**	-11	
Financial assets measured at fair value through other comprehensive income	-	4	-	**4**	**1**	3	
Financial assets measured at amortised cost	-	-2	-	**-2**	**1**	-3	
Total	**-**	**-5**	**-**	**-5**	**27**	**-32**	

INFORMATION ON LEVERAGED TRANSACTIONS

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

The perimeter in scope of the ECB Guidance includes exposures in which the borrower's level of leverage, measured as the ratio of total financial debt to EBITDA, is greater than 4, in addition to exposures to entities whose majority of capital is held by one or more financial sponsors. Moreover, counterparties with Investment Grade ratings, Private individuals, credit institutions, financial institutions and companies in the financial sector in general, public entities, non-profit entities, as well as counterparties with credit facilities below a certain materiality threshold (5 million euro), Retail SME counterparties and Corporate SME counterparties (the latter if not owned by financial sponsors) are explicitly excluded from the scope of Leveraged Transactions. Specialised lending transactions (project finance, real estate and object financing) and certain other types of credit, such as trade finance operations, are also excluded.

As of 31 December 2020, for the Intesa Sanpaolo Group, including the UBI Group, the transactions that meet the definition of Leveraged Transactions as per the ECB Guidance amounted to almost 33 billion euro (31 billion euro- net of the UBI positions classified as leveraged transactions sold to BPER), of which 22 billion euro relating to the ISP Group and referred to to 1,674 credit lines. As of 31 December 2019, the amount of Leverage Transactions for the ISP Group was 21 billion euro, relating to 1,912 credit lines.

In accordance with the requirements of the ECB Guidance, as part of the Credit Risk Appetite a specific limit for the outstanding stock of leveraged transactions and limits on new transaction flows were submitted for approval to the Board of Directors, in line with the Bank's risk appetite on these types of operations.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Hedge Fund portfolio as at 31 December 2020 amounted to 39 million euro in the trading book and 277 million euro in the banking book, compared to 115 million euro and 194 million euro respectively in December 2019.

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

During 2020, stocks increased by 7 million euro compared to 31 December 2019, due to diversified strategies based on the portfolio of allocation of the instruments.

Specifically, the increase is due to new investments for 83 million euro in the banking book, considering a renewed stability of the international financial markets, due to both an economic recovery and the robust support measures implemented by the various monetary and fiscal authorities for COVID-19.

That impact was partially offset by sales in the trading books for 76 million euro, which occurred mainly in the first quarter of the year as an action to reduce the intrinsic risk of this portfolio in a situation of extreme volatility and downturn in the markets, as a result of the health emergency, by using the greater dynamism allowed for trading books.

In terms of profit or loss effect, the profits (losses) on trading – caption 80 of the income statement (trading book) – showed a loss of 21 million euro as at 31 December 2020 compared to a profit of +2 million euro in December 2019. The balance for the period included valuation losses of 5 million euro and losses on disposals of 16 million euro, the latter substantially relating to the de-risking decision adopted by the Investment Committee on 12 March 2020, which resulted in a reduction of the trading book.

The net profit (loss) on financial assets mandatorily measured at fair value – caption 110 of the income statement (banking book) – recorded a profit of 18 million euro (compared to +5 million euro in December 2019), attributable to valuation components, which confirm the recovery trend from the valuations recorded in the previous quarters of 2020.

There are no investments in hedge funds within the scope of the former UBI Group.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 31 December 2020, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 8,934 million euro which, net of the contribution of the UBI Group for 234 million euro, came to 8,700 million euro (7,694 million euro as at 31 December 2019). The notional value of these derivatives totalled 75,296 million euro which, net of the contribution of the UBI Group (6,783 million euro), came to 68,513 million euro (62,528 million euro as at 31 December 2019).

In particular, the notional value of plain vanilla contracts was 69,636 million euro, which, net of the contribution of the UBI Group (6,783 million euro), came to 62,853 million euro (58,403 million euro as at 31 December 2019), while that of structured contracts was 5,660 million euro (4,125 million euro as at 31 December 2019).

Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures came to 5,802 million euro (5,269 million euro as at 31 December 2019), of which 543 million euro (476 million euro as at 31 December 2019) referred to structured contracts.

Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, was 1,460 million euro as at 31 December 2020 which, net of the contribution of the UBI Group (2 million euro), came to 1,458 million euro (1,410 million euro as at 31 December 2019). The notional value of these derivatives totalled 19,222 million euro which, net of the contribution of the UBI Group (712 million euro), came to 18,510 million euro (20,334 million euro as at 31 December 2019).

In particular, the notional value of plain vanilla contracts was 23,649 million euro (17,392 million euro as at 31 December 2019), while that of structured contracts was 1,413 million euro (2,942 million euro as at 31 December 2019).

The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 31 December 2020, this led to a negative effect of 50 million euro being recorded under “Profits (Losses) on trading” in the income statement.

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