1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

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

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

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

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

The provisions on liquidity - introduced in the European Union in June 2013 with the publication of Regulation (EU) 575/2013 and Directive 2013/36/EU - were updated in early 2015 with the publication in the Official Journal of the European Union of Commission Delegated Regulation (EU) 2015/61 with regard to liquidity coverage requirements (Liquidity Coverage Ratio - LCR), supplementing and partially amending previous regulations. Under Delegated Regulation (EU) 2015/61, as supplemented and amended, from 1 October 2015 banks are required to comply with the short-term indicator provided for in Article 38 (100% from 1 January 2018).

Since March 2015, the 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 the above-mentioned additional regulations, which revised the composition of the liquid assets eligible for liquidity reserves and the definition of the 30-day liquidity flows valid for the calculation of the LCR. With respect to structural liquidity, the most recent regulatory provisions of the Basel Committee concerning the Net Stable Funding Ratio (NSFR) have been adopted.

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 the approval of measurement methods, the definition of the main assumptions underlying the stress scenarios and the composition of early warning indicators used to activate emergency plans.

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

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

The Group's liquidity is managed by the aforesaid structures of the CFO area through continuous liaison with the Business Units, within the framework of the relevant business plans drawn up in accordance with the following guidelines:
- constant attention to the level of customer loyalty, aimed at maintaining a high stock of stable deposits;
- monitoring of the deposit-lending gap of the Business Units, with respect to plan and budget targets;
- balanced use of the institutional market, with particular attention to diversification of segments and instruments;
- selective use of refinancing operations by Central Banks.

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

The Chief Audit Officer assesses the functioning of the overall structure of the control system monitoring the process for measuring, managing and controlling the Group's exposure to liquidity risk and verifies the adequacy and compliance of the process with the requirements established by the regulations. The results of the controls carried out are submitted to the Corporate Bodies, at least once a year.

The liquidity risk measurement metrics and mitigation tools are formalised by the Group Liquidity Risk Management Guidelines which establish the methodology used for both the short-term and structural liquidity indicators.

The short-term liquidity is aimed at providing an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, while ensuring a sufficient liquidity buffer, available for use as the main mitigation tool for liquidity risk. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Liquidity Coverage Ratio - LCR), in addition to a system of early warning indicators for maturities from 3 months to one year.

The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high-quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the Regulations.

The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: 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. Early warning indicators have been established for maturities of more than 1 year, with particular attention to long-term gaps (> 5 years). NSFR's regulatory requirement, which is still subject to a period of observation, will come into force at the end of the legislative process in progress for the application of the global reform package on the CRR and CRD IV (Regulation 575/2013 and Directive 2013/36/EU).

The Group Liquidity Risk Management Guidelines also envisage the time extension of the stress scenario for the LCR indicator, provided by the new regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. The internal management guidelines also envisage an alert threshold (Stressed soft ratio) for the LCR indicator up to 3 months, with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions. Within this framework, the Treasury and Finance Department was officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term. These actions must be updated periodically to verify their compatibility with the market conditions and the stress scenario adopted.

The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, also indicating the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Financial and Market Risks Department.

The Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained largely within the risk limits set out in the current Group Liquidity Policy for 2018: both regulatory indicators, LCR and NSFR, were met, already reaching a level well above the limits provided for by the Regulations under normal conditions. In 2018, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average of 163%. The LCR indicator also takes account of the prudential estimate of the "additional outflows for other products and services", assessed based on the provisions of EU Delegated Regulation 2015/61 (Article 23).

At the end of December 2018, the Central Banks eligible and liquid reserves, mainly under centralised management by the Treasury Head Office Department of the Parent Company, including the reserves held with Central Banks (Cash and Deposits), amounted to a total of 175 billion euro (171 billion euro at December 2017), of which 89 billion euro, net of haircut, was unencumbered (98 billion euro at the end of December 2017). At the end of 2018, the HQLA component represented 60% of the own portfolio and 95% of the unencumbered. The other eligible reserves mainly consist of retained self-securitisations.

(millions of euro)

	Proprietary		Unencumbered (net of haircut)	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Cash and Deposits at Central Banks (HQLA)	40,156	43,343	40,156	43,343
Highly Liquid Securities (HQLA)	64,805	62,663	44,190	42,821
Other eligible and/or marketable reserves	69,843	65,215	4,251	11,710
Total Group Liquidity Reserves	**174,804**	**171,221**	**88,597**	**97,874**

In view of the high stock of available liquidity reserves (liquid or eligible), the period of independence from wholesale funding, measured by the cumulative projected wholesale imbalances indicator, identifies a financial independence in situations of freeze of the money market ("survival period") for more than 12 months. Also the stress tests, in a combined scenario of market and specific crises (with significant loss in customer deposits), yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.
Intesa Sanpaolo's funding strategy is based on maintaining diversity in terms of customers, products, maturities and currencies. Intesa Sanpaolo's main sources of funding consist of: (i) deposits from the domestic Retail and Corporate market, which represent the stable portion of funding, (ii) short-term funding on wholesale markets, largely consisting of repurchase agreements and CD/CP funding, and (iii) medium/long-term funding, mainly composed of own issues (covered bonds/ABS and other senior debt securities in the euro and US markets, in addition to subordinated securities) and refinancing transactions with the Eurosystem (TLTRO II). The Guidelines for Group Liquidity Risk Management 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 liquidability.

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	**57,453**	**19,342**	**13,129**	**12,502**	**25,316**	**21,148**	**28,439**	**146,905**	**132,737**	**33,159**
A.1 Government bonds	14	50	13	93	883	2,638	4,359	22,968	19,236	-
A.2 Other debt securities	94	510	1,856	2,606	248	408	497	4,992	9,499	15
A.3 Quotas of UCI	2,244	-	-	-	-	-	-	-	-	5
A.4 Loans	55,101	18,782	11,260	9,803	24,185	18,102	23,583	118,945	104,002	33,139
- Banks	11,358	1,908	639	1,658	3,330	1,456	2,320	1,314	77	33,044
- Customers	43,743	16,874	10,621	8,145	20,855	16,646	21,263	117,631	103,925	95
B. Cash liabilities	**270,444**	**34,456**	**5,599**	**7,059**	**10,074**	**8,544**	**13,233**	**98,352**	**22,951**	**745**
B.1 Deposits and current accounts	257,965	888	900	1,486	5,466	2,639	3,381	5,353	1,059	3
- Banks	3,338	24	32	55	36	57	288	1,445	360	3
- Customers	254,627	864	868	1,431	5,430	2,582	3,093	3,908	699	-
B.2 Debt securities	20	380	656	3,458	3,823	5,101	8,991	30,152	17,437	742
B.3 Other liabilities	12,459	33,188	4,043	2,115	785	804	861	62,847	4,455	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	2,323	8,673	3,986	7,851	20,499	9,092	7,505	22,000	10,338	-
- Short positions	2,157	10,297	2,915	7,626	20,676	8,497	6,568	19,702	10,348	-
C.2 Financial derivatives without exchange of capital										
- Long positions	20,168	2	3	17	56	138	103	270	135	-
- Short positions	26,645	1	1	23	63	152	162	270	135	-
C.3 Deposits and loans to be settled										
- Long positions	42,862	-	-	-	-	-	-	-	-	-
- Short positions	-	42,741	-	-	50	-	-	72	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	3,711	22,539	14	214	509	543	5,539	21,976	3,073	-
- Short positions	57,854	47	14	206	44	169	203	52	2	-
C.5 Financial guarantees given	967	4	37	55	56	59	239	197	66	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	150	191	87	54	282	1,615	-
- Short positions	-	-	-	150	191	87	54	282	1,615	-
C.8 Credit derivatives without exchange of capital										
- Long positions	390	-	-	-	-	-	-	-	-	-
- Short positions	334	-	-	-	-	-	-	-	-	-

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	**5,302**	**3,762**	**2,803**	**2,539**	**4,443**	**4,196**	**5,554**	**18,586**	**10,489**	**1,457**
A.1 Government bonds	1	81	54	202	947	685	1,452	5,541	4,689	1
A.2 Other debt securities	48	82	5	186	212	141	559	2,254	1,746	-
A.3 Quotas of UCI	95	-	-	-	-	-	-	-	-	2
A.4 Loans	5,158	3,599	2,744	2,151	3,284	3,370	3,543	10,791	4,054	1,454
- Banks	1,976	2,147	1,696	1,191	966	1,275	744	323	63	1,381
- Customers	3,182	1,452	1,048	960	2,318	2,095	2,799	10,468	3,991	73
B. Cash liabilities	**16,174**	**3,805**	**6,656**	**5,611**	**4,275**	**2,293**	**2,074**	**9,384**	**7,713**	**-**
B.1 Deposits and current accounts	15,490	1,193	916	1,621	1,560	835	949	1,792	329	-
- Banks	1,714	459	336	208	359	131	31	454	59	-
- Customers	13,776	734	580	1,413	1,201	704	918	1,338	270	-
B.2 Debt securities	24	586	1,619	371	599	1,207	1,121	6,909	7,112	-
B.3 Other liabilities	660	2,026	4,121	3,619	2,116	251	4	683	272	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	783	14,378	4,331	10,345	19,573	10,974	10,451	20,074	11,503	-
- Short positions	105	14,294	5,788	10,593	21,238	11,312	11,772	21,587	10,700	-
C.2 Financial derivatives without exchange of capital										
- Long positions	3,749	-	27	29	16	64	88	149	4	-
- Short positions	3,950	1	3	18	30	54	92	149	6	-
C.3 Deposits and loans to be settled										
- Long positions	15	-	-	-	-	-	-	-	-	-
- Short positions	-	8	4	1	2	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	1,420	26	34	138	237	270	1,012	9,365	408	-
- Short positions	12,049	55	3	82	75	408	142	137	352	-
C.5 Financial guarantees given	709	6	7	19	65	103	88	208	25	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	173	183	-	-
- Short positions	-	-	-	-	-	-	173	183	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	253	-	-	-	-	-	-	-	-	-
- Short positions	240	-	-	-	-	-	-	-	-	-

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 2018 is provided below.

Adriano Lease SEC S.r.l.

This is a securitisation that was carried out in November 2017, with the support of the vehicle Adriano Lease Sec S.r.l., 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, 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 Parent Company for refinancing operations on the Eurosystem.
The vehicle Adriano Lease Sec S.r.l. issued two series of notes:

- a Senior tranche (Class A), with a nominal amount of 2.87 billion euro, listed and assigned an A1 rating by Moody’s and A rating by DBRS;
- a Junior tranche (Class B), with a nominal amount of 1.35 billion euro, unlisted and unrated.

The securities were purchased in full by Mediocredito Italiano. As at 31 December 2018, the senior security, amounting to around 2.2 billion euro, had been sold in full to the Parent Company through a repurchase agreement.

Intesa Sanpaolo SEC S.A.

The securitisation of loans issued to large international corporate customers by some international branches of Intesa Sanpaolo (Frankfurt, Hong Kong, Madrid and New York) was finalised in August 2013. The securitisation was conducted through the Luxembourg-based vehicle company Intesa Sanpaolo SEC S.A., which is a fully owned subsidiary of the Group.
The securities issued, with a total value of about 326 million euro, were subscribed by Intesa Sanpaolo and used for a value of about 308 million euro (corresponding to the most senior class of notes issued, representing the principal of the securitised loans) as collateral of a loan received by a primary European bank.

Brera Sec S.r.l.

In October 2017, a new self-securitisation was structured, implemented through the sale of five loan portfolios to the vehicle company Brera Sec S.r.l. and originated by the Parent Company and four of the Banks of the Banca dei Territori Division (Cassa di Risparmio di Bologna and the three banks merged into Intesa Sanpaolo in the second half of 2018: Banco di Napoli, Cassa di Risparmio di Forlì and Cassa di Risparmio Friuli Venezia Giulia). The underlying consisted of residential mortgages held by households and/or family businesses. This transaction is 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) 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. Each Selling Bank therefore subscribed both classes of securities pro rata in proportion to the individual sale price.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem. In this regard, each Originator will enter into repurchase agreements with the Parent Company relating solely to the senior securities and supported by Global Master Repurchase Agreements (GRMAs).
ISP 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). ISP will take 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 and the sale price of each portfolio sold was settled through the issuance of securities on 11 December 2017 for a total of 7 billion euro.

The securities, which are listed with an Aa2 Moody’s and A (High) DBRS rating, are eligible for the Eurosystem and have been subscribed by each originator in amounts proportional to the portfolio sold, as detailed in the table below:

- Intesa Sanpaolo had subscribed 54.30% of the senior (3,272 million euro) and junior securities (580 million euro);
- Banco di Napoli (now merged into Intesa Sanpaolo) had subscribed 11.25% of the senior (678 million euro) and junior securities (120 million euro);
- CR Bologna had subscribed 9.02% of the senior (543 million euro) and junior securities (96 million euro);
- CR Forlì e della Romagna (now merged into Intesa Sanpaolo) had subscribed 12.09% of the senior (728 million euro) and junior securities (129 million euro);
- CR Friuli Venezia Giulia (now merged into Intesa Sanpaolo) had subscribed 13.34% of the senior (804 million euro) and junior securities (142 million euro).

Following the merger by incorporation into Intesa Sanpaolo on 23 July 2018 (CR Friuli Venezia Giulia) and 26 November 2018 (Banco di Napoli and CR Forlì e della Romagna), the loans sold were transferred to the ISP portfolio.
As at 31 December 2018, the value of the outstanding subscribed securities was as follows:

- Intesa Sanpaolo
  - Senior securities: 4,929 million euro
  - Junior securities: 971 million euro
- CR Forlì e della Romagna
  - Senior securities: 489 million euro
  - Junior securities: 96 million euro

Brera Sec S.r.l. (SME)
In October 2018, a new self-securitisation was structured, implemented through the sale of three loan portfolios to the vehicle company Brera Sec. Srl and originated by the Parent Company and two of the Banks of the Banca dei Territori Division (Banco di Napoli - now merged into Intesa Sanpaolo, Cassa di Risparmio di Bologna and Cassa di Risparmio di Firenze). The underlying is made up of mortgage loans and other loans to small and medium enterprises and corporates (the latter only if the group turnover is less than 100 million euro). This transaction is the Group's second Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS) 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. Each Selling Bank therefore subscribed both classes of securities pro rata in proportion to the individual sale price.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem. In this regard, each Originator will enter into repurchase agreements with the Parent Company relating solely to the senior securities and supported by Global Master Repurchase Agreements (GRMAs).

On 26 November 2018, following the merger by incorporation of Banco di Napoli into Intesa Sanpaolo, the loans sold were transferred to the ISP portfolio.

The total sale consideration was 5.3 billion euro. The sale price of each portfolio sold was settled through the issuance of securities on 14 December 2018 for a total of 5.3 billion euro.

The securities, which are listed with an A1 Moody's and A (High) DBRS rating, are eligible for the Eurosystem and have been subscribed by each originator in amounts proportional to the portfolio sold, as detailed below:

- Intesa Sanpaolo subscribed 76.47% of the senior (2,867 million euro) and junior securities (1,169 million euro);
- CR Firenze subscribed 12.68% of the senior (476 million euro) and junior securities (194 million euro);
- CR Bologna subscribed 10.85% of the senior (407 million euro) and junior securities (166 million euro).

Berica ABS 5 S.r.l
This is a self-securitisation with an underlying of mortgages. The nominal amounts of the ABS securities issued through this transaction are detailed below:

- senior tranche of 507 million euro (of which 413 million euro subscribed by Intesa Sanpaolo) with an external rating assigned by Fitch ("AA-") and Moody's ("Aa2") and yield indexed to the 3-month Euribor plus 40 bps. As at 31 December 2018, securities totalling 384 million euro were still to be repaid;
- mezzanine tranche of 39 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Fitch ("A") and Moody's ("A1") and yield indexed to the 3-month Euribor plus 50 bps;
- mezzanine tranche of 21 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Fitch ("BBB") and Moody's ("A3") and yield indexed to the 3-month Euribor plus 60 bps;
- junior tranche of 52 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), without rating and indexed to the 3-month Euribor.

Claris RMBS 2016 S.r.l.
In November 2016, Veneto Banca, now merged into Intesa Sanpaolo, arranged a securitisation of mortgages, together with Banca Apulia, for a total of 1,162 million euro (921 million euro and 241 million euro, respectively), which were sold at a price equal to the value of the principal amount of the remaining debt outstanding at the time of the sale.
With respect to the portfolio sold, in November 2016, "Claris RMBS 2016 srl", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 1,189 million euro, broken down as follows:

- class A tranche of 929 million euro, which had a residual amount of 652 million euro as at 31 December 2018 and an external rating assigned by Fitch ("AA+") and by DBRS ("AAA");
- class B tranche of 116 million euro, which had a residual amount of 116 million euro as at 31 December 2018 and an external rating assigned by Fitch ("A-") and by DBRS ("A (High)");
- class J1 tranche of 114 million euro, which had a residual amount of 144 million euro as at 31 December 2018 and without rating;
- class J2 tranche of 30 million euro, fully redeemed as at 31 December 2018 and without rating.

The class A and B securities are denominated in euro and provide for the payment of a quarterly floating rate coupon and a sequential redemption plan, linked to receipts on the underlying portfolio. These securities, which are listed on the Irish Stock Exchange, were subscribed proportionally by the parent company Veneto Banca, now merged into Intesa Sanpaolo, and by the subsidiary Banca Apulia. The class A securities can therefore be used for refinancing operations with the European Central Bank.
The J1 and J2 securities, also denominated in euro, where subscribed respectively by Veneto Banca and Banca Apulia. Their yield is based on a quarterly floating-rate coupon, subject to the full redemption of higher-class securities.

As at 31 December 2018, the book value of the residual loans is 880 million euro.

Claris SME 2015 S.r.l.
In October 2015, Veneto Banca arranged a securitisation of mortgage and other loans, together with Banca Apulia, for a total of 1,953 million euro (1,563 million euro and 390 million euro, respectively), which were sold at a price equal to the value of the principal amount of the remaining debt outstanding at the time of the sale.
With respect to the portfolio sold, in October 2015, "Claris SME 2015 srl", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 1,963 million euro, broken down as follows:
- class A tranche of 1,270 million euro, fully redeemed as at 31 December 2018 and with an external rating assigned by Fitch ("AA+") and by DBRS ("A High");
- class B tranche of 290 million euro, which had a residual amount of 248 million euro as at 31 December 2018 (190 million euro for Intesa Sanpaolo and 58 million euro for Banca Apulia, respectively) and an external rating assigned by Fitch ("A+");
- class J1 tranche of 321 million euro, which had a residual amount of 321 million euro as at 31 December 2018 (entirely subscribed by Intesa Sanpaolo) and without rating;
- class J2 tranche of 81 million euro, which had a residual amount of 81 million euro as at 31 December 2018 (entirely subscribed by Banca Apulia) and without rating.

The class A and B securities are denominated in euro and provide for the payment of a quarterly floating rate coupon and a sequential redemption plan, linked to receipts on the underlying portfolio. These securities, which are listed on the Luxembourg Stock Exchange, were subscribed proportionally by the former parent company Veneto Banca and by the subsidiary Banca Apulia. The class A securities can therefore be used for refinancing operations with the European Central Bank.
The J1 and J2 securities, also denominated in euro and without rating, where subscribed respectively by Veneto Banca and Banca Apulia. Their yield is based on a quarterly floating-rate coupon, subject to the full redemption of higher-class securities.

As at 31 December 2018, the book value of the remaining loans was 625 million euro.

Claris Finance 2008 S.r.l.
In 2008, Veneto Banca carried out a securitisation of mortgage loans for a total of 592 million euro. The transaction involved residential and commercial loans totalling 439 million euro and 153 million euro, respectively. The sale, which took place at a price equal to the value of the outstanding principal debt, was completed on 10 June 2008 with financial and legal effects from 1 May 2008.

With respect to the portfolio sold, "Claris Finance 2008 srl", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 592 million euro, broken down as follows:
- Class A Tranche of 492 million euro, fully redeemed as at 31 December 2018 and with an external rating assigned by Fitch ("AA-") and by S&P ("AAA");
- Class B Tranche of 45 million euro, which had a residual amount of 45 million euro as at 31 December 2018 and an external rating assigned by Fitch ("AA");
- Class C1 Tranche of 41 million euro, which had a residual amount of 41 million euro as at 31 December 2018 and without rating;
- Class C2 Tranche of 14 million euro, which had a residual amount of 14 million euro as at 31 December 2018 and without rating.

The Class A and B securities are denominated in euro and provide for the payment of a half-yearly floating-rate coupon and a sequential redemption plan, linked to receipts on the underlying portfolio starting from December 2009. These bonds, listed on the Dublin Stock Exchange (Ireland), were initially subscribed by the parent company Veneto Banca and used for repurchase agreements with the European Central Bank. They were subsequently sold to institutional investors in the last quarter of 2013.
The Class C1 and C2 securities, respectively subscribed by Veneto Banca (therefore now in the ISP portfolio), are denominated in Euro and have not been rated. Their yield is calculated on a residual basis and is only paid if the receipts from the portfolio exceed the amount of the expenses and outlays related to the higher-class securities.

As at 31 December 2018, the book value of the remaining loans was 118 million euro.

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 31.12.2018**
Adriano Lease SEC S.r.l.					**3,577**
of which issued in euro		Senior	Receivables from lease payments	Moody's A1	2,227
		Junior	Receivables from lease payments	no rating	1,350
Intesa Sanpaolo SEC SA					**323**
of which issued in euro					291
	Secured Principal Notes	Senior	Receivables from large international corporate customers	no rating	276
	Secured Income Notes	Junior	Receivables from large international corporate customers	no rating	15
of which issued in USD					32
	Secured Principal Notes	Senior	Receivables from large international corporate customers	no rating	30
	Secured Income Notes	Junior	Receivables from large international corporate customers	no rating	2
BRERA SEC S.r.l.					**6,485**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa2	5,418
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	1,067
BRERA SEC S.r.l. (SME)					**5,279**
	Class A RMBS F/R Notes	Senior	Receivables from SME and large corporate customers	Moody's A1; DBRS A	3,750
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Receivables from SME and large corporate customers	no rating	1,529
Berica ABS 5 S.r.l.					**496**
of which issued in euro		Senior	Mortgages	Moody's Aa2; Fitch AA-	384
		Mezzanine	Mortgages	Moody's A1; Fitch A	39
		Mezzanine	Mortgages	Moody's A3; Fitch BBB	21
		Junior	Mortgages	no rating	**52**
CLARIS FINANCE 2008 S.r.l.					**100**
of which issued in euro		Mezzanine	Mortgages	Fitch AA	45
		Junior	Mortgages	no rating	55
CLARIS SME 2015 S.r.l.					**650**
of which issued in euro		Mezzanine	Mortgages	Fitch A+	248
		Junior	Mortgages	no rating	402
CLARIS RMBS 2016 S.r.l.					**912**
of which issued in euro		Senior	Mortgages	Fitch AA+; DBRS AAA	652
		Mezzanine	Mortgages	Fitch A-; DBRS A	116
		Junior	Mortgages	no rating	144
TOTAL					**17,822**

The following securitisations were terminated in 2018: Intesa Sanpaolo Securitisation Vehicle S.r.l., Berica PMI 2 S.r.l., Berica Funding 2016 S.r.l, Claris Finance 2006 S.r.l., Apulia Finance n.2 S.r.l., Apulia Mortgages Finance n.3 S.r.l. and Apulia Finance n.4 S.r.l. – 3rd issue.

OTHER INFORMATION ON FINANCIAL RISKS

SOVEREIGN RISK EXPOSURE BY COUNTRY OF RESIDENCE OF THE COUNTERPARTY

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

(millions of euro)

	DEBT SECURITIES					LOANS
	BANKING GROUP			INSURANCE COMPANIES	TOTAL	
	Loans and Receivables	Financial assets available for sale	Investments held to maturity			
EU Countries	**9,582**	**40,039**	**2,418**	**48,568**	**100,607**	**13,130**
Austria	-	-	115	2	117	-
Belgium	-	502	51	4	557	-
Bulgaria	-	-	-	61	61	-
Croatia	-	1,046	113	93	1,252	1,073
Cyprus	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	-
Denmark	-	-	-	-	-	-
Estonia	-	-	-	-	-	-
Finland	-	36	65	7	108	-
France	302	3,215	365	157	4,039	5
Germany	-	1,250	347	501	2,098	-
Greece	-	-	72	-	72	-
Hungary	-	1,027	86	32	1,145	33
Ireland	-	204	2	113	319	-
Italy	8,993	20,301	896	45,723	75,913	11,554
Latvia	-	9	-	-	9	40
Lithuania	-	5	5	-	10	-
Luxembourg	-	25	-	-	25	-
Malta	-	-	-	-	-	-
Netherlands	-	374	287	90	751	-
Poland	18	40	-10	30	78	-
Portugal	-	-	-5	-	-5	-
Romania	-	251	1	197	449	9
Slovakia	-	478	-	-	478	139
Slovenia	-	179	-	7	186	216
Spain	269	11,010	-66	1,449	12,662	61
Sweden	-	-	129	-	129	-
United Kingdom	-	87	-35	102	154	-
North African Countries	**-**	**1,050**	**-**	**14**	**1,064**	**-**
Algeria	-	-	-	-	-	-
Egypt	-	1,050	-	14	1,064	-
Libya	-	-	-	-	-	-
Morocco	-	-	-	-	-	-
Tunisia	-	-	-	-	-	-
Japan	**-**	**-**	**838**	**-**	**838**	**-**

Operating data

As illustrated in the table, the exposure to Italian government securities totalled approximately 76 billion euro, in addition to around 12 billion euro represented by loans. The value of debt security exposures was in line with the figure recorded as at 31 December 2017.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure to structured credit products amounted to 2,018 million euro as at 31 December 2018 with respect to funded and unfunded ABSs/CDOs, compared to 2,279 million euro as at 31 December 2017. There were no exposures in structured packages.
The strategy for this portfolio in 2018 focused on investments to exploit market opportunities, on the one hand, and on disposing of the portfolio hard hit by the financial crisis, on the other.
The exposure to funded and unfunded ABSs/CDOs measured at fair value went from 2,034 million euro in December 2017 to 1,818 million euro in December 2018, with decrease attributable to sales and redemptions of ABSs by Banca IMI and of European ABSs by the Parent Company, only partially offset by investments in ABSs by Banca IMI (part of which were classified to the portfolio of financial assets measured at fair value through other comprehensive income) and in European ABSs purchased by the Parent Company and classified to the trading book.
Banca IMI's investments mainly consist of securities with underlying residential mortgages and CLOs with mainly AA ratings, while the Parent Company confirmed its transactions in European RMBS with mainly AAA ratings, aimed at seizing market opportunities.
The exposure represented by securities classified in the portfolio of assets measured at amortised cost showed a net decrease (from 245 million euro in December 2017 to 200 million euro in December 2018) due to greater investments made by Banca IMI, offset by sales by the Parent Company, and by reclassifications to the accounting categories measured at fair value through profit or loss, upon First-Time Adoption (FTA) of IFRS9, due to the failure to pass the SPPI Test on the contractual cash flow characteristics.
From the perspective of the income statement, a profit of +16 million euro was posted for 2018, against the +28 million euro for 2017.
As at 31 December 2018, the profits (losses) on trading – caption 80 of the income statement – for the exposures in funded and unfunded ABSs amounted to -10 million euro (+17 million euro in 2017), whereas the positions in multi-sector CDOs were at nil (+4 million euro in 2017).
The profits (losses) from financial assets mandatorily measured at fair value was +19 million euro and related to the funded and unfunded ABS positions in the Parent Company's loan portfolio, reclassified into the new accounting category upon First-Time Adoption (FTA) of IFRS 9. This result was made up of +15 million euro for the valuation components and +4 million euro for the realisation components.
The exposure to funded and unfunded ABSs in securities classified by the subsidiary Banca IMI in the portfolio of assets measured at fair value through other comprehensive income recorded a net decrease in fair value of 4 million euro in 2018, recognised in the specific Shareholders' Equity Reserve (from a positive reserve at the end of December 2017 of +4 million euro to a reserve of nil in December 2018) and an impact of +1 million euro from sales made in the period (nil impact in 2017).
Securities classified in the portfolio of assets measured at amortised cost recorded a net gain of +6 million euro as at 31 December 2018 (nil impact in 2017) consisting of +2 million euro due to valuation components and +4 million euro due to realisation components.
With regard to the monoline and non-monoline packages, there were no positions in 2018 because they had been disposed of in 2017, generating a contribution of +7 million euro to the profits (losses) on trading – caption 80 of the income statement – as at 31 December 2017.

INFORMATION ON LEVERAGED FINANCE AND LEVERAGED TRANSACTIONS

This section provides information not only on leveraged finance transactions, which have been reported for some time, but also on leveraged transactions, a new scope of operations defined in accordance with the specific provisions issued by the ECB.

Leveraged Finance transactions have in fact been the subject of detailed disclosure in the annual reports and interim reports of Intesa Sanpaolo since 2008. In the absence of a clear definition for these transactions, Intesa Sanpaolo decided to represent in this category the exposures that are connected to structured financing operations, normally medium/long-term, with legal entities in which the majority of the share capital is held by private equity funds. These are mainly positions in support of Leveraged Buy-Out projects (therefore with high financial leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor. None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.
As at 31 December - based on the above definition - there were 122 transactions outstanding for a total amount granted of 3,941 million euro.

In May 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 new regulations is to strengthen company controls over "leveraged" transactions, where such transactions increase globally and in the context of a highly competitive market, marked by a long period of low interest rates and the resulting search for yields.
The scope identified in the ECB Guidance includes exposures in which the borrower's level of leverage, measured as the ratio of total financial debt to EBITDA, is greater than 4, in addition to exposures to parties whose majority of capital is held by one or more financial sponsors. Moreover, counterparties with Investment Grade ratings, individuals, credit institutions, companies in the financial sector in general, public entities, non-profit entities, as well as counterparties with credit facilities below a certain materiality threshold (5 million euro), Retail SME counterparties and Corporate SME counterparties if not owned by financial sponsors, are explicitly excluded from the scope of Leveraged Transactions. Specialised lending transactions (project finance, real estate, object financing and commodities financing) and certain other types of credit, such as trade finance operations, are also excluded.
Intesa Sanpaolo has initiated and completed a specific project within the deadline set for the implementation of the ECB's instructions on leveraged transactions, involving the identification and reporting of those transactions and the sending to the JST of the required assurance prepared by the Audit function.
In accordance with the requirements of the ECB Guidance, in 2018 a specific limit for the outstanding stock of leveraged transactions was introduced and submitted for approval to the Board of Directors, within the framework of the 2018 Credit Risk Appetite.
As at 31 December 2018, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions in the ECB Guidance amounted to 22 billion euro, relating to approximately 2,900 credit lines.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Hedge Fund portfolio as at 31 December 2018 amounted to 146 million euro in the trading book and approximately 88 million euro in the banking book, compared to 214 million euro and 90 million euro respectively at the end of June and 416 million euro and 19 million euro in December 2017. The investments allocated to the banking book are recognised under financial assets mandatorily measured at fair value and relate to investments made in the last year in funds that have medium/long-term investment strategies and redemption times that are longer than those of UCITS (Undertakings for Collective Investment in Transferable Securities) funds.

During 2018, the reduction of the trading book continued through distributions and redemptions, with a consequent reduction in the risk level of the exposure. In particular, the most significant redemptions in 2018 involved the MAP 1A fund for 46 million euro, the MAP 17A fund for 36 million euro and the MAP 4A fund for almost 33 million euro in the first quarter; the MAP 19A fund for 40 million euro in the second quarter; and the Algebris fund for 28 million euro in the fourth quarter. By contrast, the sales and reductions in the third quarter were more fragmented.

The income statement effect for the profits (losses) on trading - caption 80 of the income statement - at the end of December 2018 was a loss of 16 million euro, compared to a profit of 16 million euro recorded in this caption in December 2017. This result mainly reflected the write-down of the Matrix Pve Map 6A fund by almost 6 million euro, due to particularly prudent policies (worst case scenario) used by the servicer to value the underlying assets and of the Harbinger Distressed Credit fund by over 3 million euro, in relation to the write-down of the investment in the Ligado fund.

The income statement recognised in the net profit (loss) on financial assets mandatorily measured at fair value - income statement caption 110 - at the end of December 2018 was a loss of almost 5 million euro.

As a whole, the current strategy of the portfolio remains prudent, while waiting for any market opportunities to arise.

As at 31 December 2018, the portfolio was mainly concentrated on credit-related strategies (43% of the total value).

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 31 December 2018, 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 6,602 million euro (7,011 million euro as at 31 December 2017). The notional value of these derivatives totalled 57,047 million euro (50,488 million euro as at 31 December 2017). Of these, the notional value of plain vanilla contracts was 53,501 million euro (46,764 million euro as at 31 December 2017), while that of structured contracts was 3,546 million euro (3,724 million euro as at 31 December 2017).

Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures came to 4,452 million euro (4,901 million euro as at 31 December 2017), of which 311 million euro (480 million euro as at 31 December 2017) referred to structured contracts.

Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,412 million euro as at 31 December 2018 (1,082 million euro as at 31 December 2017). The notional value of these derivatives totalled 24,649 million euro (22,846 million euro as at 31 December 2017). Of these, the notional value of plain vanilla contracts was 21,822 million euro (20,304 million euro as at 31 December 2017), while that of structured contracts was 2,827 million euro (2,542 million euro as at 31 December 2017).

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 2018, this led to a positive effect of 28 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 in Part A of 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.