1.1. CREDIT RISK

QUALITATIVE INFORMATION

1. GENERAL ASPECTS

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

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.

The 2018-2021 Business Plan includes – among other things – the ambition to excel in asset quality in which the effective management of non-performing loans is one of the first priorities. The transactions completed during the year included the disposal and securitisation of a portfolio of unlikely-to-pay Corporate and SME loans of the Intesa Sanpaolo Group amounting to around 2.7 billion euro of gross book value, in line with the carrying value. The main contents of these strategies and the results for the year are described in the "2018-2021 Business Plan" section of the Report on operations.

2. CREDIT RISK MANAGEMENT POLICIES

2.1. Organisation

Within the Intesa Sanpaolo Group, a fundamental role in managing and controlling credit risk is played by the corporate bodies, which, to the extent of their respective competences, ensure adequate coverage of credit risk by setting strategic guidelines and risk management policies, verifying that they remain constantly efficient and effective and assigning tasks and responsibilities to the company functions and units involved in the processes.

The coverage and governance of credit ensured by the corporate bodies is reflected in the current organisational structure, which identifies areas of central responsibility attributable to:
- Chief Lending Officer Governance Area
- Chief Risk Officer Governance Area
- Chief Financial Officer Governance Area

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

The Chief Lending Officer Governance Area, with the aid of its structures (BdT Lending Head Office Department, CIB Lending Head Office Department, ISB Credit Head Office Department, Credit Governance Head Office Department, Credit Value Control Head Office Department and NPE Head Office Department):
- makes material lending decisions, directly or submitting them to the relevant bodies in relation to the assumption and management of the Group's credit risks, authorising them directly within the scope of their responsibility, including through compliance opinions;
- ensures, for its area of responsibility, the proactive management of credit and guarantees the management and the monitoring of the Group's non-performing and bad loans kept within the Group's internal management;
- ensures the correct classification and valuation for financial reporting purposes of positions under its responsibility that are classified as non-performing loans;
- conceives and manages transactions for the sale of individual NPE positions or portfolios, credit exposures and other assets within scope, with the collaboration of other competent functions;
- performs monitoring and control on outsourced activities, including the monitoring of the performance KPIs of outsourcers, directly making decisions, or submitting them to the Competent Bodies, regarding proposals exceeding the powers delegated to the Outsourcers;
- contributes to the process of formulating the proposal of the Credit Strategies in the analysis of the impacts on the granting of loans and their definition in relation to the relevant credit management variables, without prejudice to the finalisation powers within the remit of the Chief Financial Officer Governance Area;
- coordinates the implementation of Credit Policies by the relevant Group business units, also in the various corporate contexts;
- analyses the evolution of the cost of credit within the Group, also taking into account the application of the aforesaid Credit Strategies;
- allocates and validates the ratings to the relevant positions, also providing support in the definition of the rating allocation processes and tools;

- defines the reference regulations on credit matters, the requirements for the development of credit instruments and contributing to the formulation of the proposals for the assignment of credit granting and management powers, without prejudice to the finalisation powers within the remit of the Chief Risk Officer Governance Area;
- promotes initiatives aimed at disseminating and developing a credit culture;
- ensures, consistently with the guidelines of the Chief Risk Officer Governance Area and in compliance with the Credit Policies, the first level systematic supervision of the relevant loan portfolio, identifying phenomena referring to specific credit aggregates characterised by high levels of anomalies for which to activate the appropriate risk mitigation measures.

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

- establishes the metrics for the measurement of credit risk - also with regard to the collective measurement of performing loans and the measurement of non-performing loans on a statistical basis;
- provides risk-adjusted pricing models and guidance on Expected Loss, Economic Capital (ECAP) and RWAs;
- monitors the absorption of capital relating to credit risk, supporting the Chief Financial Officer Governance Area in the active management of capital;
- makes proposals for the assignment of the Credit Granting and Management Powers;
- validates internal risk measurement systems;
- performs level 2 controls for credit risk.

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

With regard to the credit management policies, the Chief Financial Officer Governance Area

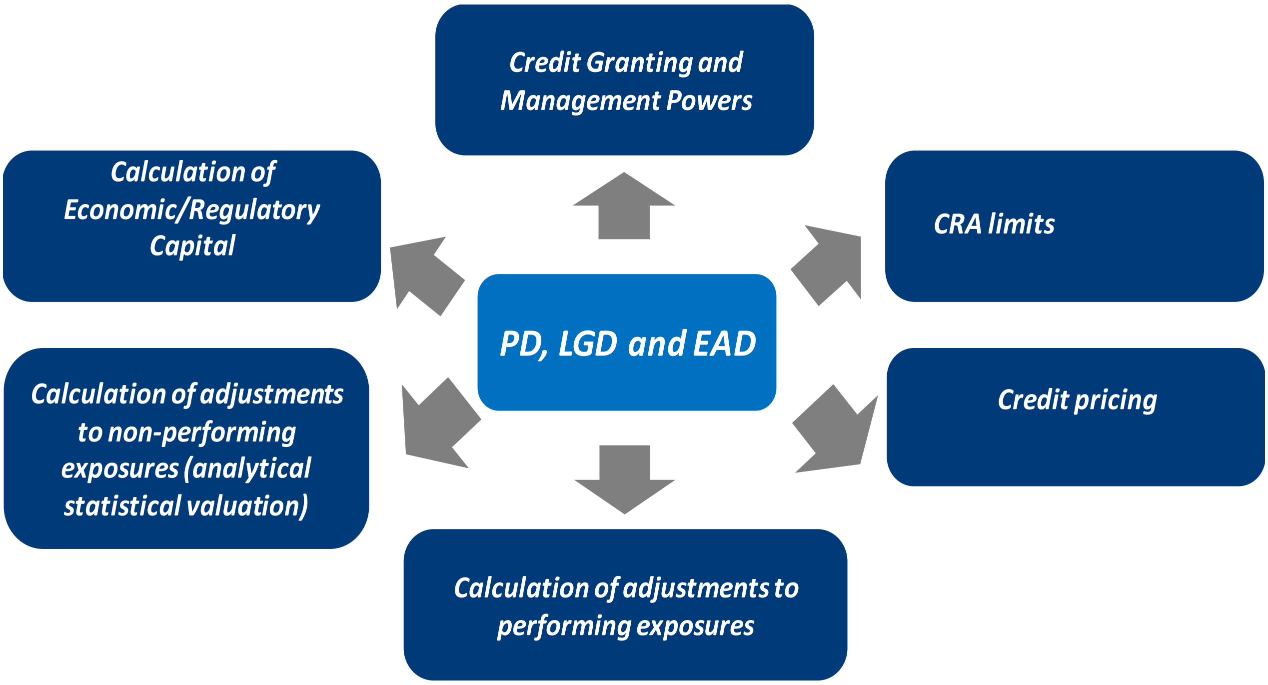
- assists the Corporate Bodies in defining, in accordance with the Group corporate strategies and objectives, the guidelines and policies on administration, planning and management control, studies and research, active management of the loan portfolio, relations with investors and rating agencies, and social and environmental responsibility;
- oversees Credit Portfolio Management at Group level, supporting the Divisions in the active management of credit risk, with the aim of improving the risk-return profile of the loan portfolio in order to create value for shareholders, through targeted credit strategies (including a specific incentive and disincentive mechanism) and participation in market operations on performing loans (including those being purchased) and non-performing loan portfolios.

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

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

2.2. Management, measurement and control systems

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



The Credit Risk Appetite is aimed at optimising the risk/return profile of the assets. The "Rules on Credit Risk Appetite" define the methods for applying the CRA and the methods for calculating the CRA colour class, with associated exposure limits, in order to pursue a growth in lending consistent with the risk appetite defined for the Group.

The objective of the calculation of the pricing of transactions is to define the suitability of the economic conditions based on the value generation with respect to the expressed riskiness and all the components that contribute to the calculation of the value, also including the costs allocated to the structures.
The capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. The calculation is made with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast macroeconomic scenario and on stress scenarios. Risk capital is a fundamental element in the assessment of the Group's capital adequacy and is calculated within the ICAAP process both with regard to the regulatory parameters and from a management perspective.
The levels of Powers set on terms of RWA delimit the decision-making power in the granting phase, specifying the authorised professional profiles and the decision-making procedures for the loans for the individual counterparties. In particular, where the granting of loans by the Group's subsidiaries exceeds certain thresholds, a request for a "Compliance Opinion" is made to the competent bodies of the Parent Company.
The credit granting phase is also regulated by metrics that are complementary to the RWAs, which define coordination mechanisms and support tools for the ongoing exercise of guidance, coordination and control responsibilities, in implementation of the corporate governance provisions. In particular, the company rules include the Granting and Management Rules, which specify the methods for taking on credit risk with customers, and the Rules on Credit Strategies, which are designed to direct the development and composition of the loan portfolio towards a risk/return profile that is recognised as optimal over the medium/long-term.
The credit risk management processes also envisage the periodic review of all the credit positions by the relevant head office or local structures and the assessment of customers not only at the initial lending stage, but also on a continuous basis, by means of a monthly monitoring process that interacts with credit management and control processes and procedures to ensure timely assessment of any signs of impairment, with an impact on the level of risk of the exposures. An Early Warning System is in place for the Corporate, Retail SME, Retail and Institutions portfolios, with adaptations introduced alongside the updates to the internal rating models. The system was developed on the basis of the indicators identified in the Asset Quality Review and consists of a statistical component and a qualitative component, plus manual triggers by event. The indicators are updated on a daily basis and, when they confirm a potential anomaly in the management of the relationship the related positions are detected and reported in the Proactive Management Process.
The valuation of the adjustments to the performing and non-performing exposures[30] is based on methods consistent with IFRS 9 and are described in detail in Part A - Section "A. 2 - Main financial statement captions" and in particular in the paragraph "Impairment of assets*".*

Country risk is an additional component of an individual borrower's insolvency risk, measured by credit risk control systems. This component is linked to losses potentially resulting from international lending operations caused by events in a country that are partly or entirely within the control of the government concerned, but not that of the individual residents of the country in question. Country risk therefore takes the form of both transfer risk for non-sovereign counterparties, due to the freezing of

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

international payments, and sovereign risk, which is measured through an assessment of the sovereign states' creditworthiness. This definition includes all forms of cross-border lending to entities residing in a given country, whether they are the government, a bank, a private enterprise or an individual.
The country risk component is used in the granting of credit to non-resident entities in order to obtain a preliminary evaluation of the absorption of country risk limits set on an ex-ante basis. These limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, set on an annual basis in the Group Risk Appetite Framework.

Counterparty risk is a particular kind of credit risk associated with OTC and SFT (Securities Financing Transactions namely repurchase agreements and securities lending transactions) derivative contracts, that refers to the possibility that a counterparty may default before the contract expires. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, in the case of default of the counterparty, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
With regard to counterparty risk, the Banking Group has an internal model for measuring this risk at regulatory level (which only excludes the banks of the International Subsidiary Banks Division) and at operational level.
Potential exposure (estimated with the actual average PFE - Potential Future Exposure) has been adopted by the entire Banking Group for the purposes of operational measurement of uses of credit lines for derivatives and SFTs. The Financial and Market Risks Head Office Department produces daily estimates for the counterparty risk measurements, for the measurement of the uses of credit lines for OTC derivatives and SFTs for the Parent Company, Banca IMI and Fideuram. It should be noted that the PFE method, in simplified form, is adopted for the banks of the International Subsidiary Banks Division, through the use of internally estimated add-ons.
In addition, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:
- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives and SFTs with margining agreements (CSA, GMRA and similar);
- periodic reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk;
- definition and periodic calculation of back-testing analyses to monitor the predictive performance over time of the model with respect to the movements of the risk factors underlying the transactions in the portfolio.

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

Through specific control, guidance and coordination activities, the Internal Validation and Controls Head Office Department within the Chief Risk Officer Governance Area oversees the credit granting and management processes for the performing loans portfolio at the Group level, and through controls on individual positions, assesses that loans are properly classified. It also assesses the compliance of the internal risk measurement and management systems over time as regards determination of the capital requirements with the regulatory provisions, company needs and changes in the relative market.

The Group's lending activity is focused on Italian customers (80% of the total) and is primarily aimed at households and small and medium enterprises.

The exchange of basic information flows between different Group entities is assured by the Group's Central Credit Register (exposure monitoring and control system) and by the "Posizione Complessiva di Rischio" (global risk position), which highlight and analyse credit risks for each counterparty/economic group both towards the Group as a whole and towards individual Group companies.
From the September 2018 monthly report – following the preparation of the input and generation architecture for the Anacredit reporting, aimed at supporting the "collection of granular credit and credit risk data" as defined by EU Regulation 2016/867 of 18 May 2016 – a new reporting system has been in place in compliance with the regulatory provisions established by the ECB and implemented by the related Central National Banks.

2.3. Methods for measuring expected losses

The expected loss is the product of exposure at default, probability of default and Loss Given Default.

In Intesa Sanpaolo, probability of default is measured by means of different rating models according to borrower segment (Corporate, Retail SME, Retail, Sovereigns, Public Sector Entities and Banks). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a consistent scale of reference.

A number of rating models are used for the Corporate segment, which use all available information sources and incorporate the opinions of credit analysts and relationship managers:

- models differentiated according to the market (domestic or international) and size bracket of the company are applied to most businesses;
- specific models are in use for specialised lending, one for real-estate initiatives, one for project-finance transactions and one for LBO/acquisition-finance and asset-finance transactions.

The Corporate model is also used to calculate the resulting RWAs for the Equity portfolio of the Banking Book.

The models applied to the Retail portfolio are as follows:

- for the Retail SME segment, a highly-decentralised rating model by counterparty is used, in which the quantitative objective elements are supplemented by qualitative subjective elements;
- for the Retail segment, a counterparty rating model consisting of the Retail Mortgages segment and the Other Retail segment has been in use since September 2018.

With regard to the Institutions portfolio:

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

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

PD models have been adopted for the counterparties of the International Subsidiary Banks, partly derived from the Parent Company with adaptations to the local situation and partly developed entirely by the subsidiaries concerned in order to capture the specific features of the risk of the local counterparties. Some of these models are used for reporting purposes and others only for management purposes, as set out in the table below.

The LGD models are based on the concept of "Economic LGD", namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group, and consists, in brief, of the following elements:

- estimate of a Bad Loan LGD Model: starting from the LGD observed on the portfolio, namely "Workout LGD", determined on the basis of the recoveries and costs, a regression econometric model of the LGD is estimated on variables considered to be significant for the determination of the loss associated to the Default event;
- application of the Danger Rate, a multiplying correction factor, used to recalibrate the Bad Loan LGD with the information available on the other default statuses, in order to calculate an LGD representative of all the possible default statuses and their evolution;
- application of an additional correction factor, known as "Final Settlement Component": this component is used as an add-on to the estimate recalibrated for the Danger Rate in order to consider the loss rates associated with positions not evolved to the Bad Loan status (Unlikely to pay or Past Due positions).

LGD is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail, Factoring, Leasing, Public Entities and Banks). As in the case of the PD, the models that have been adopted for the LGD of the International Subsidiary Banks are partly derived from the Parent Company, with adaptations to the local situation.

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

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

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

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

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

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

The methodology for the estimation of the Expected Credit Loss (ECL), adopted for the determination of the impairment on loans in accordance with IFRS 9, is implemented at individual transaction or securities tranche level, based on the IRB modelling of the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate adjustments are made to ensure compliance with the requirements of the standard. A detailed description of the methods adopted by the Group is provided in Part A - Section "A. 2 - Main financial statement captions" and in particular in the paragraph "*Impairment of assets*", to which reference is made.

More specifically, the measurement of the financial assets reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the "risk" of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the "Most likely scenario+Add-on" approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely", in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Bank's Research Department using forecast models, also taking into account the forecasts of the main national and international bodies and institutions. Alternative upside and downside scenarios are determined through stress tests of the input variables of the forecasting models.

The macroeconomic scenario is described in Part B of the Notes to the financial statements with regard to the impairment testing of intangible assets with an indefinite useful life. In the period 2019-22, the most significant macroeconomic variables for the determination of the ECL and used for the most likely scenario indicate compound annual growth rates (CAGR) of +0.46% for Italy's Real GDP and +1.03% for Italy's Real Estate Prices. Italy's unemployment rate is expected to be 10.0% on average over the period. The forecasts for the financial markets indicate compound annual growth rates for the period of +2.62% for the DJ Eurostoxx and +1.12% for the S&P500, while the BTP-Bund Spread is expected to be 178 bps on average for the period.
The table[31] below shows these variables together with the estimates according to the best- and worst-case scenarios described above.

Macroeconomic variable	Most likely scenario	Upside scenario	Downside scenario
Italian real GDP growth rate *(CAGR 2019-2022)*	0.46%	0.67%	-0.48%
Italian real estate property prices growth rate *(CAGR 2019-2022)*	1.03%	1.66%	-1.39%
DJ Eurostoxx 50 growth rate *(CAGR 2019-2022)*	2.62%	4.72%	-7.45%
S&P 500 growth rate *(CAGR 2019-2022)*	1.12%	5.64%	-5.67%
Average unemployment rate in Italy *(Average 2019-2022)*	10.0%	9.8%	10.2%
Average Spread vs. Bund *(Average 2019-2022)*	178	160	268

The estimates of the future best- and worst-case scenarios compared to the most-likely scenario indicate the following differences: Italy's Real GDP +21 bps for the best-case scenario and -94 bps for the worst-case scenario, Italy's Real Estate Prices +63 bps for the best-case scenario and -242 bps for the worst-case scenario, Italy's Unemployment Rate -20 bps for the best-case scenario and +20 bps for the worst-case scenario, DJ Eurostoxx 50 stock index +210 bps for the best-case scenario and -1007 bps for the worst-case scenario, S&P 500 stock index +452 bps for the best-case scenario and -679 bps for the worst-case scenario, and BTP-Bund Spread -18 bps for the best-case scenario and +90 bps for the worst-case scenario.

The Group's Expected Credit Loss (ECL) for the year 2019, calculated in accordance with IFRS 9, was subject to sensitivity analysis aimed at analysing the variability with respect to the individual alternative scenarios. This analysis was carried out on the performing loan portfolio (Stage 1 & Stage 2) in relation to the Group's representative scope (Parent Company and banks of the CIB Division, which account for around 90% of the Group's total exposure), with a reference scenario consisting of the worst-case scenario, which, together with the best-case scenario, contributes to the calculation of the add-on. The sensitivity of the portfolio to the worst-case scenario shows an increase in 2019 ECL of approximately 7% with an increase in average coverage of 3 bps.

For the Group companies included in the roll out plan, the internal rating models and the EAD and LGD components are subject to independent validation by the Validation function and a level three control by the Internal Audit Department. At the end of these activities, a report is produced for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also verifies the actual deviation between the ex-ante forecast estimates and the actual ex-post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the compliance to the regulatory requirements.

The effectiveness of the IFRS 9 models is also monitored by the Validation function at least once a year on the risk parameters (staging criteria and PD, LGD and haircut models), both through model performance tests and in terms of model design, data treatment and code review. The results are presented, in the same way as described above, in the annual report on internal models used for management purposes. The analyses carried out in 2019 did not identify any particular critical issues and provided an opinion of general adequacy with respect to the areas analysed.

2.4. Credit risk mitigation techniques

The risk mitigation techniques include the instruments that contribute to reducing the loss the Bank would incur in the event of counterparty default, i.e. the LGD described in the paragraph above. In particular, they include guarantees and certain types of contracts that result in a reduction in credit risk.
The evaluation of the mitigating factors is performed through a procedure that assigns a loss given default to each individual exposure, assuming the highest values in the case of ordinary non-guaranteed financing and decreasing in accordance with the strength given to any mitigating factors present. The Loss Given Default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relation.

[31] The table mainly shows the indicators for Italy, as that country comprises over 80% of Group loans to customers.

During the credit granting and managing process, the acquisition of mitigating factors is encouraged for counterparties with non-investment grade ratings or some types of transactions, namely medium/long-term transactions.
The mitigating factors that have the greatest impact include pledges of financial assets and residential mortgages. Other forms of risk mitigation are pledges of non-financial assets and non-residential mortgages.
The strength of the personal guarantees issued by rated parties, typically banks/insurance companies, Credit Guarantee Consortia and corporations, is instead assessed on the basis of the type of guarantee and guarantor’s credit quality.
Detailed processes govern the material acquisition of individual guarantees, identifying the responsible structures as well as the methods for correct finalisation of guarantees, for filing documentation and for complete and timely reporting of the related information in the applications.
The set of internal regulations and organisational and procedural controls is aimed at ensuring that:

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

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

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value. The enforcement of the guarantee is handled by specialist departments, which are responsible for credit recovery.
In any case, the presence of collateral does not grant exemption from an overall assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee.
The assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments accepted as collateral.
For real-estate collateral, the prudential market value is considered; for properties under construction, the construction cost is considered, net of prudential haircuts according to the intended use of the property.
Assets are appraised by internal and external experts. The external experts are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties used as collateral for mortgage loans to private individuals is mainly assigned to specialised companies. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.
The experts are required to produce estimates on the basis of standardised expert reports, differentiated according to the valuation method to be applied and the characteristics of the asset, in accordance with the Property Valuation rules for credit purposes drawn up by the Bank. The internal rules are consistent with the “Guidelines for the valuation of properties securing credit exposures” promoted by the Italian Banking Association and with the European Valuation Standards.
Property valuations are managed through a specific integrated platform covering the entire expert analysis phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.
The market value of collateral property is recalculated periodically through various statistical valuation methods, which apply prices/ratios provided by an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.
Asset value is constantly monitored. The experts carry out inspections and verify the work progress for properties under construction. The valuation is duly updated in the event of limitation or splitting of the mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, according to the maturities established for the most significant exposures, or when there are real estate guarantees securing non-performing loans.
In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of a pledge when the assets decrease below their initial value or, for real estate guarantees, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property’s value. There is also an “umbrella” insurance policy that, with limited exceptions, covers damages on the entire portfolio of properties mortgaged as collateral for the loans granted. Guarantees are subject to accurate, regular control using a specific application, the CRM verifier, in which a series of tests have been implemented to confirm the effective compliance with the requirements set by prudential supervision regulations.
The support application verifies whether the guarantees received are eligible with regard to all three methods permitted by the regulations for calculating capital requirements (Standardised and Internal Rating Based). Based on the specifics of each category, the eligibility results are defined at the level of individual guarantee for unfunded guarantees (usually personal guarantees) or, for collateral, for each asset or financial instrument.

In addition, in recent years, the Bank has been heavily involved in the implementation of two integrated asset and guarantee management systems (PGA - Active Guarantees Portal and ABS - System Assets Archive) in order to improve the efficiency of collateral management. This has been accompanied by the development of a specific system for managing bad loans, to track the main legal actions and particularly those relating to the enforcement of real estate collateral (EPC - Ex Parte Creditoris).

In order to mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow the netting of claims and obligations if a counterparty defaults.
This is achieved by entering into International Swap Derivatives Association (ISDA) and International Securities Market

Association/Public Securities Association (ISMA/PSA) agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
In addition, the Group has collateral agreements in place, mainly with daily margining, to hedge OTC derivatives transactions (Credit Support Annexes), also due to the margin requirements for non-centrally cleared derivatives, established by the EMIR; for SFTs, the bank implements daily margining agreements (GMRAs - Global Master Repurchase Agreements and GMSLAs - Global Master Securities Lending Agreements).
With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

In 2019 the Parent Company continued its activities relating to the "GARC" (Active Credit Risk Management) Project, involving a platform for monitoring credit risk in performing portfolios. The initiative involves the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to companies.
The guarantees obtained provide hedging of default risk (past due, unlikely to pay and bad loan) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (including Regulation (EU) 575/2013 and Bank of Italy Circular 285/2013).

During the year – again as part of the "GARC" Project – a "Line B" portfolio was completed relating to a tranched cover synthetic securitisation on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2014-2020 Regional Operational Programme of the European Regional Development Fund – Axis III "Competitiveness of production systems" – Thematic Objective III.3 "Promoting competitiveness of SMEs" – "Measure to support access to credit for piedmontese SMEs through the establishment of the 2017 Tranched Cover Piemonte Fund".
For details of the transactions carried out in 2019 under the GARC Project, see the description provided in this chapter, paragraph C. Securitisations.
In order to optimise capital absorption, transactions were also entered into to hedge credit risk through financial guarantees on positions held in the Group's Banking Book, together with new transactions to hedge the risk of expropriation of the compulsory and unrestricted reserves of the ISP Group banks operating in Bosnia Herzegovina, Serbia and Moldova.

A project was started for International Subsidiary Banks with the aim of guaranteeing a consistent approach at Group level to the use of the credit risk mitigation techniques. With regard to the Covenant project in particular, the management through a dedicated application is now fully operational.

3. NON-PERFORMING CREDIT EXPOSURES

3.1 Management strategies and policies

On 19 March 2019, the Board of Directors approved the annual revision of the Group NPL Plan, carried out on the basis of the ECB Guidance to banks on non-performing loans, which was sent to the Supervisor at the end of March 2019. The 2018-2021 NPL Plan is consistent with both the 2018-2021 Business Plan, approved by the Board of Directors in February 2018, and the Risk Appetite Framework, and takes into account the observations and recommendations of the Supervisory Authority.
The Group NPL Plan is made up of a main document (2018-2021 Group NPL Plan) which includes a summary of the initiatives detailed in the "Operational Plans" (drawn up at Business Owner level, which include the targets for reducing the stock of non-performing loans, the detailed measures and the enablers, as well as the related costs and investments required to achieve the targets set) and the projections underlying the NPL Plan, with the granular level and in accordance with the requirements established by the ECB.
In the 2018-2021 Business Plan, de-risking is the first pillar through which the Group aims to reduce the level of gross non-performing loans as a proportion of total loans, at no cost to Shareholders. Over the Plan period, a 49% reduction in the stock of gross non-performing loans is envisaged with respect to the figure at the beginning of 2018, as well as a 50% reduction in the cost of credit with a target of 41 basis points in 2021 and the achievement of a gross NPL ratio of 6.0% (from 11.9% at the beginning of 2018 after the IFRS 9 FTA and including the two former Venetian banks). Following the signing, at the end of November 2019, of the agreement with Prelios concerning the loans classified as unlikely-to-pay (UTP), which adds to the strategic partnership concerning the bad loans entered into with Intrum in 2018, 83%[32] of the target of reducing the non-performing loans set in the Business Plan for the entire four-year period 2018-21 has been achieved. Non-performing loans before adjustments decreased by 14% year-on-year, bringing the ratio of non-performing loans (before adjustments) to total loans to 7.6%, and the cost of credit fell to 53 basis points at the end of 2019.

Non-performing financial assets include loans classified as bad loans, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/IFRS and the EU Supervisory Regulations.
The definition of non-performing loans as established by the Bank of Italy in Circular 272 of 2008 (and subsequent amendments) also coincides with the definition of "impaired" financial assets contained in IFRS 9, with the consequent recognition of all non-performing loans within Stage 3.

Based on the regulatory framework, supplemented by internal implementing rules, non-performing financial assets are classified into three categories, based on their level of severity: "bad loans", "unlikely to pay" and "past due":

[32] Excluding the non-recurring impact of a gross amount of 623 million euro for the adoption of the new Definition of Default (DoD) from November 2019

- bad loans: on- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Bank. This is irrespective, therefore, of whether any collateral or guarantees have been established to cover the exposures. Exposures whose anomalous situation may be attributed to Country risk are excluded from this category;
- unlikely-to-pay loans: exposures for which - according to the judgement of the creditor bank - full repayment is unlikely (in terms of capital or interest, and without considering recourse to actions such as enforcement of collateral arrangements). This assessment is conducted regardless of the presence of any amounts (or instalments) due and unpaid. As the assessment of unlikelihood of repayment is at the discretion of the Bank, it is not necessary to await an explicit symptom of anomaly (non-repayment), when there are elements that imply a risk of non-compliance by the borrower (for example, a crisis in the industrial sector in which the borrower operates). The set of on- and off-balance sheet exposures toward the same borrower in said situation is therefore classified under the category "unlikely to pay" (unless the conditions for classification of the borrower among bad loans exist). Loans classified as "unlikely to pay" should include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to listed debt securities, unless they meet the conditions for classification as bad loans. To this end the “grace period” established by the contract is recognised or, in its absence, the period recognised by the market listing the security.
  The Intesa Sanpaolo Group’s policy - in addition to what is expressly and specifically indicated by Circular 272 - envisages that exposures classified as unlikely-to-pay also include past due or overdrawn loans subject to restructuring and which, following restructuring, no longer have past due days[33]. As envisaged by the reference regulations, classification in the non-performing category is maintained for twelve months following completion of restructuring;
- past-due: on- and off-balance sheet exposures, other than those classified as bad loans or unlikely to pay that, as at the reporting date, are past due or overdrawn by over 90 days on a continuous basis. This is irrespective of whether any collateral or guarantees have been established to cover the exposures.

The Intesa Sanpaolo Group adopts a “per borrower” approach in identifying non-performing exposures. Accordingly, the entire counterparty in the credit relationship is assessed and subsequently classified, rather than the individual credit lines granted to that counterparty.

The type “exposures subject to concessions - forbearance” has also been established. These are exposures subject to renegotiation and/or refinancing due to financial difficulties (evident or in the process of becoming evident) of the debtor, which effectively constitute a subgroup of both non-performing exposures (non-performing exposures with forbearance measures) and performing exposures (other forborne exposures).
Non-performing exposures with forbearance measures do not represent a separate category of non-performing assets, rather, they are a sub-set of the above categories of non-performing assets.

In addition, from November 2019, the Group has early adopted the New Definition of Default. The new regulations – while still confirming the concepts of late payment and unlikely-to-pay status of the debtor – have also made several significant changes mainly relating to:
- “relative” and “absolute” materiality thresholds for the identification of past due for the verification of default, which is automatically calculated if two thresholds (relative and absolute) are exceeded jointly for 90 continuous days; specifically: the relative threshold is equal to 1% of the exposure (previously 5%), to be compared against the ratio of the total amount past due to the total amount of all the exposures recorded in the financial statements with the same debtor; and the absolute threshold is set at 100 euro for Retail exposures and 500 euro for Non-Retail exposures, to be compared against the total amount past due of the debtor;
- the inability of the Bank to offset past-due exposures existing on some of the debtor’s credit lines against available margins existing on other credit lines granted by the same debtor;
- the introduction of a 3-month probation period (starting from the time when the positions no longer meet the conditions to be classified as non-performing past-due exposures or unlikely-to-pay exposures, as applicable) before returning the loan to non-default status;
- specific thresholds as triggers for classification as non-performing loans relating to:
  - either distressed restructuring (default is assumed if the loss from renegotiation is more than 1%);
  - or sale with loss (default is assumed if the loss associated with the deterioration of the counterparty’s credit risk is greater than 5%).

Compared to the rules previously established by the Bank of Italy, the transition to stricter materiality thresholds and the elimination of the offsetting effect of past-due credit lines with margins available on other credit lines of the same debtor are more rigorous features that have led to increases in positions classified as non-performing loans, particularly during the initial phase of the new definition of default. Based on the observation of the rates of return to performing status of new past-due exposures under the new rules, the LGD applicable to this portfolio has been recalibrated for analytical/statistical purposes.
Specifically, following the early adoption of the New Definition of Default, the Group recorded an increase of 623 million euro (gross amounts) in non-performing exposures, compared to the time of transition to the new definition, of which 566 million euro relating to past-due exposures and 57 million euro to other non-performing loans. The past-due loans aggregate as at 31 December 2019 also includes 100 million euro of loans that are subject to the new 3-month probation period. With regard to the income statement effects associated with first-time application of the New Definition of Default, there has been an overall impact of around 60 million euro in higher adjustments.

[33] Maintenance of the restructured exposures in the categories of non-performing loans follows the provisions of the EBA's ITS, according to which a loan that is granted “forbearance measures” must be included under “non-performing” exposures for at least twelve months from the restructuring. This provision is valid solely for restructuring with borrowers having “non-performing” status upon restructuring or that become non-performing directly following restructuring.

Non-performing assets are subject to a measurement process resulting in the calculation of the expected loss for uniform categories (identified based on the risk status, duration of risk status and significance of the exposure represented) and the allocation of the value adjustment for each position.
Non-performing loans are measured using two methods:
- analytical-statistical measurement: for exposures equal to or lower than given thresholds, and for all past due exposures, based on the use of specific LGD grids;
- specific analytical measurement: for exposures above certain thresholds based on write-down estimates allocated by the relationship manager, following analyses and valuations based on pre-established criteria.

In addition to the valuation component determined through statistical valuation models or through individual expert evaluation, a component is calculated to take into account the evolution of the current operational variables, the future macroeconomic scenarios, and the incremental risk of the counterparty as long as it remains in the specific risk status for unlikely-to-pay exposures (vintage), as well as the sales prospects if present.

The measurement methods for non-performing loans are described in detail in Part A - Section “A. 2 - Main financial statement captions” and in particular in the paragraph “*Impairment of assets*”, to which reference is made.

The measurements are carried out upon classification of the exposures as non-performing loans and are reviewed periodically.
The measurement of the loans is reviewed whenever a new event occurs that could affect the prospects for recovery (e.g. change in the value of assets on which collateral has been acquired, developments in ongoing litigation, etc.).
In order to identify such events rapidly, the information set relative to borrowers and guarantors is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly monitored.

With reference to non-performing past-due loans and unlikely to pay loans, the local organisational units (at regional level) that perform specialist activities, or the Head Office Department structures which are responsible for the overall management and coordination of these matters, are identified as the structures responsible for their management, based on pre-determined thresholds of increasing materiality.

With regard to loans classified as unlikely-to-pay (UTP), since December 2019 the Group has adopted a new organisational arrangement, under which the recovery of a portfolio of UTP loans in the Corporate and SME segment of the Intesa Sanpaolo Group has been assigned to a specialist external servicer (Prelios), a market leader in UTP loans, with which a partnership has been established aimed at maximising the return of loans to performing status.
This partnership adds to the strategic partnership concerning bad loans entered into with Intrum in 2018 and will enable the Intesa Sanpaolo Group to focus on the proactive management of loans in the initial stages of impairment, through the use of the best external platforms for the management of subsequent stages, and to further speed up the achievement of the target set in the 2018-2021 Business Plan for the reduction of non-performing loans.
Within the CLO area, the NPE Head Office Department has the task of liaising with the Servicer in the operational management.
The activity performed by the external servicers is monitored by the designated internal units of the Group.

The classification of positions within non-performing financial assets is undertaken on proposal of both central and local territorial structure owners of the commercial relation or of specialised central and local territorial structures in charge of the monitoring and recovery of non-performing loans. Classification also involves the use of automatic mechanisms when given objective default conditions arise. This refers, for example, to past-due loans continuously above certain thresholds for certain periods, and to forborne performing positions that have not yet completed their 12-month probation period, if the conditions are identified for the reallocation of those exposures to non-performing loans through the verification of objective parameters.
Furthermore, automatic mechanisms detect any mismatches, thereby ensuring that material non-performing loans to counterparties shared between the Group’s various intermediaries are subject to the required uniform convergence of management decisions. Materiality is represented by exceeding a pre-established warning threshold for loans classified as at the greatest risk, with respect to the overall exposure.
Automatic mechanisms within the system also ensure that positions are allocated to the risk status most representative of their creditworthiness (bad loans excluded) as material default continues.

The return to performing status of non-performing exposures is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the Structures responsible for their management, upon verification that the critical conditions or state of default no longer exist.

Exposures classified amongst “past-due loans” automatically become performing when payment is received. The same mechanism is applied to exposures of moderate amounts previously classified as unlikely to pay when automatic mechanisms detect that the conditions that triggered reclassification no longer apply.

In any event, all the non-performing exposures, not subject to forbearance measures must continue to be classified as such for at least 3 months after they cease to meet the requirements for being classified as non-performing past-due exposures or unlikely-to-pay exposures, as applicable.

The Internal Validation and Controls Head Office Department of the Chief Risk Officer Governance Area performs the level two control on the individual counterparties with non-performing loans, to verify their correct classification and/or adequate provisioning.

3.2 Write-offs

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

a) uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
b) disposal of loans.
c) waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
d) no waiver of the credit claim. In order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value. Therefore, on a periodic basis, the Bank identifies the bad loan portfolios to be subject to total or partial write-offs:
   - when they jointly have a percentage cover of >95% and a vintage (understood as the period of time in "bad loan" status) of >5 years or >8 years, respectively, for non-mortgage and mortgage loans;
   - with similar characteristics that are different from those indicated above, but that relate to exposures that have a marginal possibility of recovering the amount of the provision, where the minimum amount of the provision is at least equal to the amount needed to bring the value of the exposures up to their fair value estimated based on the prices recorded in the latest sales of non-performing loans made by the Group.

In 2019, the Group carried out write-offs on gross non-performing loans for around 3.5 billion euro. Of this amount, around 3.3 billion euro regarded bad loans, for the most part using the allowance already set aside. More than 85% of these write-offs related to derecognised positions that are still subject to enforcement procedures, for which any recoveries from collections after the write-off will be recognised in the income statement as recoveries.

3.3 Purchased or originated credit-impaired financial assets

According to IFRS 9, loans considered as impaired already upon initial recognition in the financial statements, due to the high credit risk associated with them, are defined as Purchased or Originated Credit Impaired Assets (POCI). If these loans fall within the scope of impairment in accordance with IFRS 9, they are valued by allocating allowances - from the date of initial recognition - to cover losses for the entire residual life of the loan (lifetime Expected Credit Loss). Since these are non-performing loans, they are initially recognised within Stage 3, subject to the possibility of being transferred, over the course of their lives, to Stage 2 if, based on the credit risk analysis, they are identified as no longer being impaired.

4. RENEGOTIATED FINANCIAL ASSETS AND FORBORNE EXPOSURES

Forbearance measures are concessions made to a borrower that is facing, or could face, situations of difficulty in meeting their contractual commitments that would prevent them from meeting their original payment obligations (troubled debt).
The term “forbearance measures” indicates contractual modifications granted to the borrower undergoing financial difficulties (modification), as well as the disbursement of a new loan in order to satisfy the pre-existing obligation (refinancing). “Forbearance measures” include contractual modifications, which may be freely requested by a borrower with regard to a contract already signed, but only if the lender believes that there are circumstances indicating that the borrower is in financial difficulty (the so-called “embedded forbearance clauses”). The concept of “forborne” therefore does not include renegotiations carried out due to commercial reasons/practices, which do not take into account the financial difficulties of the borrower.

In many cases, a situation of financial difficulty is accompanied by a situation of economic instability of the borrower, consisting of the inability of the core business to remunerate all the production factors that the company needs, through the usual sources of cash and at normal market conditions.

The identification of “forborne assets” or “forborne exposures”, in line with the provisions of the EBA regulations and unlike the “per borrower” approach used by the Intesa Sanpaolo Group for the classification of non-performing exposures, necessarily takes place on a “per transaction” basis. The term “exposure” in this context refers to the renegotiated individual contract, rather than all the exposures to the same borrower.

More generally, the Intesa Sanpaolo Group’s policy, based on the instructions provided by the Supervisory Authorities, contains components for the identification of the financial difficulty (of the performing borrower) which, in the event of renegotiation/refinancing, entails the classification of one (or more) credit line(s) among those being granted, if at least one of the following conditions applies:

- a significant deterioration in the debtor’s rating identified in the previous three months;
- the presence of exposures past due by thirty days or more at the date of the measure;
- Early Warning System (EWS) traffic light at “red”, associated with a rating in the highest risk band.

The definition of forborne exposure applies transversally to the loan classification macro-categories (performing and non-performing). Forborne assets can therefore be included in both the stage 3 exposures (non-performing forborne loans or non-performing transactions subject to forbearance measures) and the stage 2 exposures.
When a forbearance measure is extended to a performing counterparty, for the purposes of allocation to stage 2 (classification by line) or stage 3 (classification by counterparty), reference is made to the quantitative (lower financial requirement indicator set at 1%) and/or qualitative assessments envisaged in the EBA Guidelines on the application of the definition of default pursuant to Article 178 of Regulation (EU) 575/2013.

According to the Intesa Sanpaolo Group’s interpretations, the identification of an exposure as forborne necessarily implies the existence of a “significant increase” in risk since the origination of the loan (and, therefore, a classification in stages 2 or 3, at the time of assignment of the forborne status).

Unlike the forbearance measures, which relate to loans to borrowers in financial difficulty, renegotiations for commercial reasons involve borrowers that are not in financial difficulty and include all transactions aimed at adjusting the cost of the debt to market conditions.
Transactions involving commercial renegotiations result in a change in the original conditions of the contract, usually requested by the borrower, which normally relate to aspects concerning the cost of the debt (or its duration), with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer would borrow from another intermediary and the bank would incur a decrease in *expected future revenues*.
These operations, under certain conditions, are treated for accounting purposes as an early repayment of the original debt and the opening of a new loan

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

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

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

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

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

(millions of euro)

Portfolios/risk stages	STAGE 1			STAGE 2			STAGE 3		
	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days
1. Financial assets measured at amortised cost	1,277	170	848	474	402	299	365	302	10,633
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Non-current financial assets held for sale	-	-	-	-	-	-	29	11	159
Total 31.12.2019	**1,277**	**170**	**848**	**474**	**402**	**299**	**394**	**313**	**10,792**
Total 31.12.2018	**1,226**	**342**	**702**	**864**	**506**	**742**	**455**	**260**	**11,987**

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

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS									
	Stage 1 assets					Stage 2 assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*
Initial total adjustments	**885**	**41**	**-**	***663***	***263***	**1,402**	**6**	**-**	***1,094***	***314***
Increases in purchased or originated financial assets	376	8	-	*241*	*143*	114	1	-	*8*	*107*
Derecognition other than write-offs	-283	-18	-	*-147*	*-154*	-181	-	-	*-99*	*-82*
Net losses/recoveries for credit risk (+/-)	-300	13	-	*-253*	*-34*	-145	13	-	*-118*	*-14*
Changes in contracts without derecognition	-62	-	-	*-*	*-62*	50	-	-	*-2*	*52*
Changes in the estimation methodology	-	-	-	*-*	*-*	-	-	-	*-*	*-*
Write-offs not recognised directly through profit or loss	-	-	-	*-*	*-*	-	-	-	*-*	*-*
Other changes	65	3	-	*2*	*66*	-86	-	-	*87*	*-173*
Final total adjustments	**681**	**47**	**-**	***506***	***222***	**1,154**	**20**	**-**	***970***	***204***
Recoveries on collection of financial assets previously written off	-	-	-	*-*	*-*	-	-	-	*-*	*-*
Write-offs recognised directly through profit or loss	-	-	-	*-*	*-*	-	-	-	*-*	*-*

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS						TOTAL PROVISIONS ON COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES GIVEN			TOTAL
	Stage 3 assets					Purchased or originated credit-impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*		Stage 1	Stage 2	Stage 3	
Initial total adjustments	**19,897**	**35**	**275**	**19,698**	**509**	**207**	**86**	**78**	**285**	**22,990**
Increases in purchased or originated financial assets	-	-	-	-	-	3	28	20	19	566
Derecognition other than write-offs	-1,493	-	-269	-1,626	-136	-2	-24	-12	-29	-2,309
Net losses/recoveries for credit risk (+/-)	2,038	-	-	2,018	20	25	-26	-8	16	1,601
Changes in contracts without derecognition	-5	-	-	-	-5	-	-	-	-	-17
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit or loss	-3,435	-	-	-3,370	-65	-41	-	-	-	-3,435
Other changes	159	-	88	95	152	1	10	-2	8	245
Final total adjustments	**17,161**	**35**	**94**	**16,815**	**475**	**193**	**74**	**76**	**299**	**19,641**
Recoveries on collection of financial assets previously written off	75	-	-	73	2	-	-	-	-	75
Write-offs recognised directly through profit or loss	-148	-	-	-131	-17	-	-	-	-	-148

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

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

(millions of euro)

Portfolios/risk stages	GROSS AMOUNTS/NOMINAL VALUE					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
1. Financial assets measured at amortised cost	39,201	25,775	3,241	790	891	272
2. Financial assets measured at fair value through other comprehensive income	521	4	-	-	-	-
3. Non-current financial assets held for sale	-	-	6	-	1	-
4. Commitments to disburse funds and financial guarantees given	16,358	10,506	247	170	175	66
Total 31.12.2019	**56,080**	**36,285**	**3,494**	**960**	**1,067**	**338**
Total 31.12.2018	**49,773**	**45,471**	**3,485**	**1,876**	**1,493**	**596**

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

(millions of euro)

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	4	X	-4	-	4
- of which: forborne exposures	-	*X*	-	-	-
b) Unlikely to pay	96	X	-14	82	-
- of which: forborne exposures	*96*	*X*	*-14*	*82*	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	*X*	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	*X*	-	-	-	-
e) Other performing exposures	X	57,119	-35	57,084	-
- of which: forborne exposures	*X*	-	-	-	-
Total (A)	**100**	**57,119**	**-53**	**57,166**	**4**
B. Off-balance sheet exposures					-
a) Non-performing	10	X	-	10	-
b) Performing	X	59,748	-8	59,740	-
Total (B)	**10**	**59,748**	**-8**	**59,750**	**-**
Total (A+B)	**110**	**116,867**	**-61**	**116,916**	**4**

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

(millions of euro)

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	19,525	X	-12,769	6,756	7,642
- of which: forborne exposures	*2,692*	*X*	*-1,635*	*1,057*	*359*
b) Unlikely to pay	11,610	X	-4,379	7,231	484
- of which: forborne exposures	*4,754*	*X*	*-1,540*	*3,214*	*332*
c) Non-performing past due exposures	886	X	-142	744	5
- of which: forborne exposures	*95*	*X*	*-14*	*81*	-
d) Performing past due exposures	X	3,560	-89	3,471	-
- of which: forborne exposures	*X*	*145*	*-10*	*135*	-
e) Other performing exposures	X	484,347	-1,778	482,569	-
- of which: forborne exposures	*X*	*5,782*	*-245*	*5,537*	-
Total (A)	**32,021**	**487,907**	**-19,157**	**500,771**	**8,131**
B. Off-balance sheet exposures					
a) Non-performing	2,344	X	-297	2,047	-
b) Performing	X	274,370	-146	274,224	-
Total (B)	**2,344**	**274,370**	**-443**	**276,271**	**-**
Total (A+B)	**34,365**	**762,277**	**-19,600**	**777,042**	**8,131**

The dealings between the Banking Group and other non-banking companies included within the scope of consolidation amounted to:

- 261 million euro, adjusted by 28 million euro, included among gross non-performing on-balance sheet exposures to customers;
- 7,923 million euro, adjusted by 20 million euro, included among gross performing on-balance sheet exposures to customers;
- 104 million euro, adjusted by 4 million euro, included among gross non-performing off-balance sheet exposures to customers;
- 7,548 million euro, adjusted by 14 million euro, included among gross performing off-balance sheet exposures to customers;

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

(millions of euro)

Reasons/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**4**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-
B. Increases	**-**	**99**	**-**
B.1 inflows from performing exposures	-	99	-
B.2 inflows from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures categories	-	-	-
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	-	-	-
- of which: business combinations			
C. Decreases	**-**	**-3**	**-**
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-3	-
C.4 profits on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposure categories	-	-	-
C.7 changes in contracts without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Final gross exposure	**4**	**96**	**-**
- of which: exposures sold not derecognised	-	-	-

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

(millions of euro)

Description/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**-**	**100**
- of which: exposures sold not derecognised	-	-
B. Increases	**99**	**-**
B.1 inflows from non-forborne performing exposures	-	-
B.2 inflows from forborne performing exposures	99	X
B.3 inflows from non-performing forborne exposures	X	-
B.4 inflows from forborne non-performing exposures	-	-
B.5 other increases	-	-
C. Decreases	**-3**	**-100**
C.1 outflows to non-forborne performing exposures	X	-
C.2 outflows to forborne performing exposures	-	X
C.3 outflows to non-performing forborne exposures	X	-99
C.4 write-offs	-	-
C.5 collections	-3	-1
C.6 profits on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Final gross exposure	**96**	**-**
- of which: exposures sold not derecognised	-	-

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

(millions of euro)

Reasons/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**21,827**	**15,687**	**473**
- of which: exposures sold not derecognised	*84*	*171*	*7*
B. Increases	**2,375**	**5,008**	**2,227**
B.1 inflows from performing exposures	120	2,503	2,117
B.2 inflows from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures categories	1,960	1,369	20
B.4 changes in contracts without derecognition	4	-	-
B.5 other increases	291	1,136	90
C. Decreases	**-4,677**	**-9,085**	**-1,814**
C.1 outflows to performing exposures	-37	-832	-310
C.2 write-offs	-3,294	-287	-2
C.3 collections	-871	-2,413	-163
C.4 profits on disposal	-115	-1,670	-
C.5 losses on disposal	-32	-38	-
C.6 transfers to other non-performing exposure categories	-99	-1,936	-1,314
C.7 changes in contracts without derecognition	-16	-	-
C.8 other decreases	-213	-1,909	-25
D. Final gross exposure	**19,525**	**11,610**	**886**
- of which: exposures sold not derecognised	*26*	*78*	*9*

The “other increases” mainly include the increases in the amounts for charges and the increase in the amounts in foreign currency due to changes in the exchange rate.
The “other decreases” mainly include the portfolio of loans classified as “unlikely to pay” sold under the partnership with Prelios.

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

(millions of euro)

Reasons/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**9,745**	**8,531**
- of which: exposures sold not derecognised	*80*	*282*
B. Increases	**2,012**	**3,130**
B.1 inflows from non-forborne performing exposures	54	1,979
B.2 inflows from forborne performing exposures	1,033	X
B.3 inflows from non-performing forborne exposures	X	506
B.4 inflows from forborne non-performing exposures	273	27
B.5 other increases	652	618
C. Decreases	**-4,216**	**-5,734**
C.1 outflows towards non-forborne performing exposures	X	-2,959
C.2 outflows towards forborne performing exposures	-506	X
C.3 outflows towards non-performing forborne exposures	X	-1,033
C.4 write-offs	-510	-
C.5 collections	-1,351	-1,424
C.6 profits on disposal	-804	-3
C.7 losses on disposal	-10	-
C.8 other decreases	-1,035	-315
D. Final gross exposure	**7,541**	**5,927**
- of which: exposures sold not derecognised	*89*	*214*

The “other increases” mainly include the increases in the amounts for charges.
The “other decreases” mainly include the portfolio of loans classified as “unlikely to pay” sold under the partnership with Prelios.

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

(millions of euro)

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

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

(millions of euro)

Reasons/Categories	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*
A. Initial total adjustments	**14,666**	**1,616**	**5,462**	**2,238**	**121**	**8**
- of which: exposures sold not derecognised	*25*	*2*	*49*	*39*	*-*	*-*
B. Increases	**2,470**	*546*	**2,256**	***739***	**405**	***42***
B.1 adjustments to purchased or originated credit-impaired assets	6	*X*	1	*X*	-	*X*
C.2 other adjustments	1,333	*260*	1,774	*611*	359	*42*
B.3 losses on disposal	32	1	38	19	-	-
B.4 transfers from other non-performing exposures categories	855	263	372	54	6	-
B.5 changes in contracts without derecognition	-	-	-	-	-	-
B.6 other increases	244	22	71	55	40	-
C. Decreases	**-4,367**	**-527**	**-3,339**	**-1,437**	**-384**	**-36**
C.1 recoveries on impairment losses	-380	-84	-398	-206	-16	-1
C.2 recoveries on repayments	-167	-16	-142	-89	-6	-
C.3 profits on disposal	-31	-4	-53	-28	-	-
C.4 write-offs	-3,294	-360	-287	-150	-2	-
C.5 transfers to other non-performing exposure categories	-46	-11	-849	-254	-338	-33
C.6 changes in contracts without derecognition	-	-	-10	*-10*	-	-
C.7 other decreases	-449	-52	-1,600	-700	-22	-2
D. Final total adjustments	**12,769**	**1,635**	**4,379**	**1,540**	**142**	**14**
- of which: exposures sold not derecognised	*9*	*3*	*34*	*30*	*1*	*-*

The “other increases” mainly include the collections of loans derecognised in full (through “recoveries on repayments”) and increases in the balances of allowances in foreign currency due to changes in the exchange rate.
The “other decreases” mainly include the portfolio of loans classified as “unlikely to pay” sold under the partnership with Prelios. This caption also includes the collections of overdue interest applied in previous years, losses on disposal not covered by the allowance, the decrease in allowances in foreign currency due to changes in the exchange rate and the reduction in the allowances for adjustment due to the passing of time.

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

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

The Intesa Sanpaolo Group uses the ratings supplied by the following external rating agencies for portfolios subject to reporting: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings e DBRS Morningstar Ratings.
These agencies are valid for all Group banks. In compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used, when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken.

(millions of euro)

Exposures	EXTERNAL RATING CLASSES						UNRATED	TOTAL
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortized cost	**21,624**	**24,425**	**58,198**	**12,305**	**8,282**	**4,330**	**358,587**	**487,751**
- Stage 1	21,307	21,785	50,279	8,476	7,786	3,736	291,467	404,836
- Stage 2	317	2,640	7,919	3,829	496	158	35,885	51,244
- Stage 3	-	-	-	-	-	436	31,235	31,671
B: Financial assets measured at fair value through other comprehensive income	**6,434**	**17,655**	**27,350**	**11,877**	**1,139**	**111**	**4,914**	**69,480**
- Stage 1	6,314	17,198	27,007	10,327	1,096	97	4,781	66,820
- Stage 2	120	457	343	1,550	43	-	111	2,624
- Stage 3	-	-	-	-	-	14	22	36
C. Non-current financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**7**	**468**	**475**
- Stage 1	-	-	-	-	-	-	107	107
- Stage 2	-	-	-	-	-	-	1	1
- Stage 3	-	-	-	-	-	7	360	367
Total (A+B+C)	**28,058**	**42,080**	**85,548**	**24,182**	**9,421**	**4,448**	**363,969**	**557,706**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	*684*	*684*
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	10,246	23,029	39,433	10,510	2,874	1,926	124,195	212,213
- Stage 2	134	772	4,975	1,916	767	202	15,432	24,198
- Stage 3	-	-	-	-	-	376	1,958	2,334
Total (D)	**10,380**	**23,801**	**44,408**	**12,426**	**3,641**	**2,504**	**141,585**	**238,745**
Total (A+B+C+D)	**38,438**	**65,881**	**129,956**	**36,608**	**13,062**	**6,952**	**505,554**	**796,451**

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

Mapping of long-term ratings issued by external rating agencies

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

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

Short-term ratings for exposures to supervised issuers and enterprises

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

Ratings for exposures to UCI

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

Standardised approach - Long-term ratings for exposures to securitisations

	ECAI	
	Moody's	Fitch Standard & Poor's
Credit quality step		
1	from Aaa to Aa3	from AAA to AA-
2	from A1 to A3	from A+ to A-
3	from Baa1 to Baa3	from BBB+ to BBB-
4	from Baa1 to Ba3	from BB+ to BB-
5	B1 and lower	B+ and lower

Standardised approach - Short-term ratings for exposures to securitisations

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

IRB approach - Long-term ratings for exposures to securitisations

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

IRB approach - Short-term ratings for exposures to securitisations

	ECAI		
	Moody's	**Fitch**	**Standard & Poor's**
Credit quality step			
1	P -1	F 1 +, F 1	A -1 + , A -1
2	P -2	F2	A -2
3	P -3	F3	A -3
All other credit quality steps	lower than P-3	lower than F3	lower than A -3

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

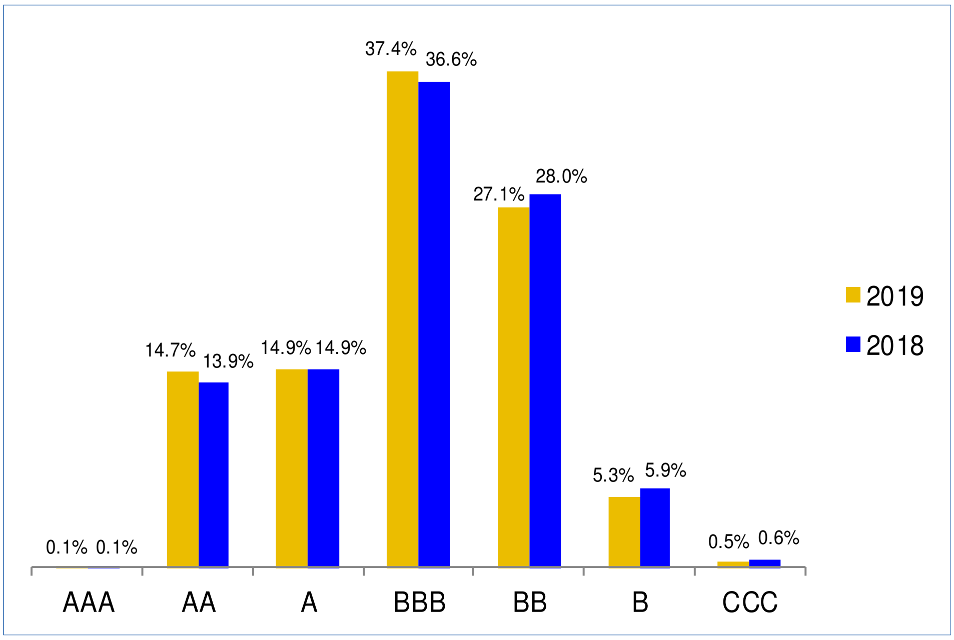
As indicated above in the paragraph entitled “Basel 3 Regulations”, the Intesa Sanpaolo Group has a set of ratings for the various operating segments of the counterparties (Corporate, Retail SME, Retail, Public Sector Entities and Banks).
The breakdown of exposures by internal rating classes shown in the following table is based on all ratings available in the credit risk management and control system, in addition to ratings for validated models. These ratings include credit ratings assigned by external agencies for counterparties in customer segments for which an internal model is not available.
Unrated exposures account for 7% of all exposures to performing counterparties and refer to customer portfolios for which a rating model is not available, to counterparties for which the roll-out of internal models is still underway (mainly international subsidiaries), as well as to Group companies whose mission is not related to credit and loans, which have been integrated into the credit risk management system, or to marginal exposures.

When unrated counterparties and non-performing loans are excluded, there is a high concentration of investment grade classes (classes 1, 2 and 3, representing ratings between AAA and BBB-) at 75.4% of the total, whilst 19.5% fall within the BB+/BB- range (class 4) and 5.1% fall under higher risk classes (of which 0.9% are below B-).

(millions of euro)

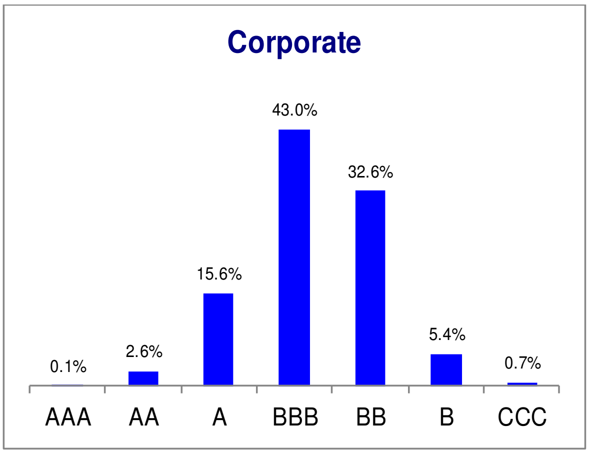
Exposures	Internal rating classes						UNRATED	TOTAL
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6		
A. Financial assets measured at amortized cost	**61,082**	**71,052**	**167,506**	**93,677**	**23,010**	**6,187**	**65,237**	**487,751**
- Stage 1	60,960	70,257	153,782	75,206	12,673	2,943	29,015	404,836
- Stage 2	122	795	13,724	18,471	10,337	1,144	6,651	51,244
- Stage 3	-	-	-	-	-	2,100	29,571	31,671
B. Financial assets measured at fair value through other comprehensive income	**13,137**	**18,464**	**28,002**	**2,959**	**50**	**173**	**6,695**	**69,480**
- Stage 1	13,063	18,198	26,358	2,622	50	144	6,385	66,820
- Stage 2	74	266	1,644	337	-	26	277	2,624
- Stage 3	-	-	-	-	-	3	33	36
C. Non-current financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**11**	**464**	**475**
- Stage 1	-	-	-	-	-	-	107	107
- Stage 2	-	-	-	-	-	-	1	1
- Stage 3	-	-	-	-	-	11	356	367
Total (A+B+C)	**74,219**	**89,516**	**195,508**	**96,636**	**23,060**	**6,371**	**72,396**	**557,706**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	*684*	*684*
D. Commitments and financial guarantees given								
- Stage 1	27,261	44,411	94,836	32,389	3,763	1,919	7,634	212,213
- Stage 2	494	679	7,466	9,410	2,628	448	3,073	24,198
- Stage 3	-	-	-	-	-	1,120	1,214	2,334
Total (D)	**27,755**	**45,090**	**102,302**	**41,799**	**6,391**	**3,487**	**11,921**	**238,745**
Total (A+B+C+D)	**101,974**	**134,606**	**297,810**	**138,435**	**29,451**	**9,858**	**84,317**	**796,451**

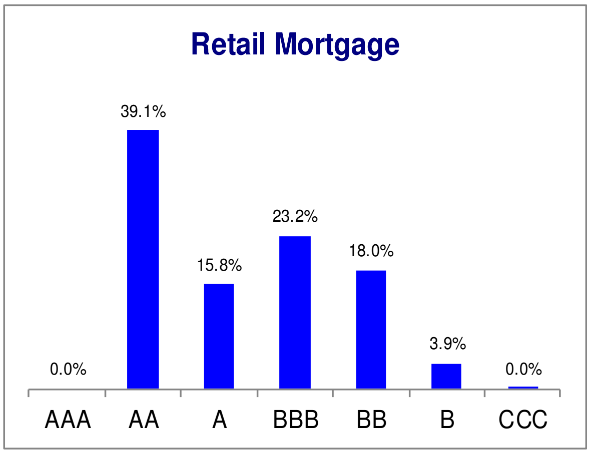
In addition to the tables required by the regulations, the rating allocation for performing loans to customers attributable to the main Group banks is shown below.
As at 31 December 2019, performing loans to customers assigned an individual rating internally or by an external agency accounted for 96% of the loans of the main Group banks.

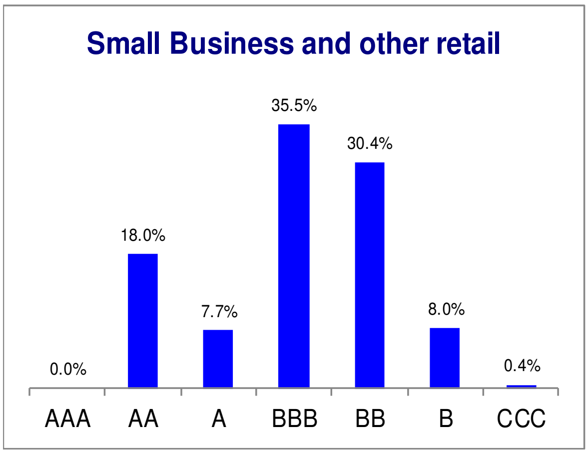


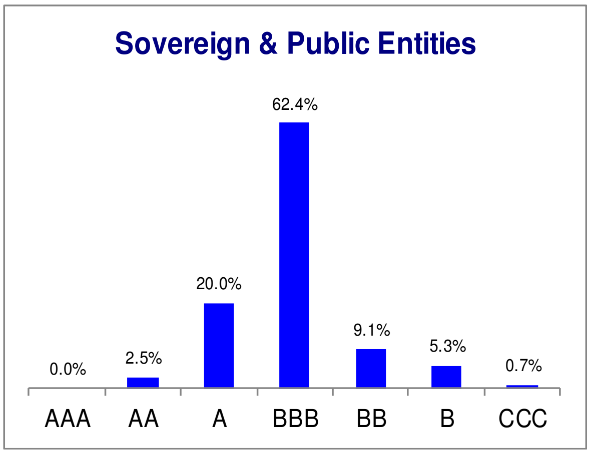
The allocation shows a high level of investment grade exposures (from AAA to BBB inclusive), at 67.1%, an improvement compared to the previous year (65.5%).
Movements between rating classes are mainly caused by changes in risk parameters as a result of the update of the models and an improvement in the credit quality.

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









Investment grade positions account for 61.3%, 78.1%, 61.2% and 84.9% of the above portfolios, respectively.

A.3. Breakdown of guaranteed credit exposures by type of guarantee

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

(millions of euro)

	Gross exposure	Net exposures	Collaterals (*) (1): Real estate assets - mortgages	Collaterals (*) (1): Real estate assets - finance leases	Collaterals (*) (1): Securities	Collaterals (*) (1): Other	Personal guarantees (*) (2) – Credit derivatives: CLN	Personal guarantees (*) (2) – Credit derivatives: Other derivatives – Central counterparties
1.Guaranteed on-balance sheet credit exposures:	**7,383**	**7,380**	**-**	**6**	**6,894**	**13**	**-**	**-**
1.1 totally guaranteed	7,297	7,294	-	6	6,893	13	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	86	86	-	-	1	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**5,098**	**5,098**	**-**	**-**	**1,507**	**2,922**	**-**	**-**
2.1 totally guaranteed	4,038	4,038	-	-	1,507	2,018	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	1,060	1,060	-	-	-	904	-	-
- of which non-performing	-	-	-	-	-	-	-	-

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

(millions of euro)

	Personal guarantees (*) (2) – Credit derivatives – Other derivatives: Banks	Other financial companies	Other counterparties	Commitments: Public Administration	Banks	Other financial companies	Other counterparties	Total (1)+(2)
1.Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**9**	**221**	**84**	**48**	**7,275**
1.1 totally guaranteed	-	-	-	3	207	82	46	7,250
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	-	-	-	6	14	2	2	25
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**62**	**344**	**-**	**28**	**4,863**
2.1 totally guaranteed	-	-	-	58	306	-	23	3,912
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	-	-	-	4	38	-	5	951
- of which non-performing	-	-	-	-	-	-	-	-

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

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

(millions of euro)

	Gross exposure	Net exposure	Collateral (*) (1)				Personal guarantees (*) (2)	
							Credit derivatives	
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	CLN	Other derivatives
								Central counterparties
1. Guaranteed on-balance sheet credit exposures:	**274,892**	**263,105**	**135,638**	**8,165**	**37,656**	**11,151**	**-**	**20**
1.1 totally guaranteed	238,014	228,874	133,021	8,126	36,421	8,961	-	20
- of which non-performing	*18,276*	*10,043*	*5,868*	*1,808*	*49*	*384*	*-*	*-*
1.2 partly guaranteed	36,878	34,231	2,617	39	1,235	2,190	-	-
- of which non-performing	*3,804*	*1,408*	*656*	*11*	*9*	*78*	*-*	*-*
2. Guaranteed off-balance sheet credit exposures:	**36,949**	**36,852**	**2,353**	**38**	**4,148**	**2,227**	**-**	**-**
2.1 totally guaranteed	30,808	30,739	1,780	20	4,066	1,712	-	-
- of which non-performing	*409*	*365*	*111*	*-*	*5*	*9*	*-*	*-*
2.2. partly guaranteed	6,141	6,113	573	18	82	515	-	-
- of which non-performing	*243*	*228*	*32*	*-*	*-*	*17*	*-*	*-*

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

(millions of euro)

	Personal guarantees (*) (2)							Total
	Credit derivatives			Commitments				
	Other derivatives			Public administration	Banks	Other financial companies	Other counterparties	(1)+(2)
	Banks	Other financial companies	Other counterparties					
1. Guaranteed on-balance sheet credit exposures	**45**	**25**	**-**	**14,403**	**786**	**2,515**	**29,812**	**240,216**
1.1 totally guaranteed	-	5	-	11,648	474	2,159	24,074	224,909
- of which non-performing	*-*	*-*	*-*	*145*	*9*	*309*	*1,405*	*9,977*
1.2 partly guaranteed	45	20	-	2,755	312	356	5,738	15,307
- of which non-performing	*-*	*-*	*-*	*53*	*-*	*60*	*227*	*1,094*
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**4,994**	**171**	**1,562**	**18,785**	**34,278**
2.1 totally guaranteed	-	-	-	4,749	158	1,508	16,647	30,640
- of which non-performing	*-*	*-*	*-*	*1*	*-*	*21*	*214*	*361*
2.2. partly guaranteed	-	-	-	245	13	54	2,138	3,638
- of which non-performing	*-*	*-*	*-*	*-*	*-*	*4*	*45*	*98*

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

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

(millions of euro)

	Derecognised credit exposure	Gross amount	Total adjustments	Book value	
					of which obtained during the year
A. Property and equipment	**285**	**309**	**-41**	**268**	**54**
A.1 Used in operations	2	2	-	2	2
A.2. Investment	78	68	-	68	7
A.3 Inventories	205	239	-41	198	45
B. Equities and debt securities	**355**	**355**	**-69**	**286**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets held for sale and discontinued operations	**14**	**17**	**-5**	**12**	**-**
D.1 Property and equipment	14	17	-5	12	-
D.2. Other assets	-	-	-	-	-
Total 31.12.2019	**654**	**681**	**-115**	**566**	**54**
Total 31.12.2018	**297**	**315**	**-56**	**259**	**53**

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

- Property and equipment used in operations: buildings (2 million euro);
- Investment property: buildings (52 million euro); land (16 million euro);
- Property and equipment – Inventories: buildings (193 million euro), land (4 million euro); other (1 million euro);
- Equities and debt securities:
  - equity investments of 76 million euro (72 million euro relating to the equity investment in Risanamento);
  - financial assets mandatorily measured at fair value of 149 million euro;
  - financial assets measured at fair value through other comprehensive income of 61 million euro.
    These are financial assets not previously provided by the borrower as security for pre-existing loans, but acquired under bilateral agreements with the borrower, following which the Group has derecognised the credit exposure. The inclusion – starting from 31 December 2019 - of this case in the table is also referred to in the recent clarifications in the ECB instructions on the NPE Stocktake and in the update of the FINREP rules that will come into force in 2020;
- Non-current assets held for sale and discontinued operations: buildings (11 million euro); land (1 million euro).

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

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

(millions of euro)

Exposures/Counterparts	Public administration		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans	177	-46	100	-287	-	-
- of which: forborne exposures	-	-	*17*	*-101*	-	-
A.2 Unlikely to pay	79	-54	231	-152	-	-
- of wich: forborne exposures	*29*	*-39*	*44*	*-72*	-	-
A.3 Non-performing past due exposures	9	-	2	-1	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	102,690	-185	76,507	-124	1,645	-
- of which: forborne exposures	*327*	*-6*	*184*	*-4*	-	-
Total (A)	**102,955**	**-285**	**76,840**	**-564**	**1,645**	**-**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	1	-5	73	-21	-	-
B.2 Performing exposures	34,292	-8	51,866	-25	11,627	-4
Total (B)	**34,293**	**-13**	**51,939**	**-46**	**11,627**	**-4**
Total (A+B) 31.12.2019	**137,248**	**-298**	**128,779**	**-610**	**13,272**	**-4**
Total (A+B) 31.12.2018	**113,337**	**-287**	**110,830**	**-648**	**10,425**	**-**

(millions of euro)

Exposures/Counterparts	Non-financial companies		Households	
	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures				
A.1 Bad loans	4,945	-9,762	1,534	-2,674
- of which: forborne exposures	*847*	*-1,354*	*193*	*-180*
A.2 Unlikely to pay	5,413	-3,556	1,508	-617
- of which: forborne exposures	*2,606*	*-1,279*	*535*	*-150*
A.3 Non-performing past due exposures	248	-46	485	-95
- of which: forborne exposures	*39*	*-8*	*42*	*-6*
A.4 Performing exposures	168,208	-1,015	138,635	-543
- of which: forborne exposures	*4,025*	*-204*	*1,136*	*-41*
Total (A)	**178,814**	**-14,379**	**142,162**	**-3,929**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	1,927	-262	46	-9
B.2 Performing exposures	176,292	-94	11,677	-19
Total (B)	**178,219**	**-356**	**11,723**	**-28**
Total (A+B) 31.12.2019	**357,033**	**-14,735**	**153,885**	**-3,957**
Total (A+B) 31.12.2018	**355,159**	**-17,780**	**150,850**	**-4,256**

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

(millions of euro)

Exposure/Geographical areas	Italy		Other european countries	
	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures				
A.1 Bad loans	6,500	-12,039	245	-589
A.2 Unlikely to pay	6,707	-3,984	396	-262
A.3 Non-performing past due exposures	679	-109	58	-31
A.4 Performing exposures	336,077	-1,288	106,125	-456
Total (A)	**349,963**	**-17,420**	**106,824**	**-1,338**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	1,956	-258	51	-32
B.2 Performing exposures	137,927	-78	94,622	-55
Total (B)	**139,883**	**-336**	**94,673**	**-87**
Total (A+B) 31.12.2019	**489,846**	**-17,756**	**201,497**	**-1,425**
Total (A+B) 31.12.2018	**492,683**	**-20,882**	**167,775**	**-1,663**

(millions of euro)

Exposure/Geographical areas	America		Asia		Rest of the world	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans	1	-53	1	-6	9	-82
A.2 Unlikely to pay	63	-90	5	-1	60	-42
A.3 Non-performing past due exposures	-	-	2	-	5	-2
A.4 Performing exposures	24,789	-45	11,539	-18	7,510	-60
Total (A)	**24,853**	**-188**	**11,547**	**-25**	**7,584**	**-186**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	29	-	-	-	11	-7
B.2 Performing exposures	29,558	-6	9,127	-6	2,893	-1
Total (B)	**29,587**	**-6**	**9,127**	**-6**	**2,904**	**-8**
Total (A+B) 31.12.2019	**54,440**	**-194**	**20,674**	**-31**	**10,488**	**-194**
Total (A+B) 31.12.2018	**46,822**	**-152**	**13,715**	**-25**	**9,181**	**-249**

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

(millions of euro)

Exposure/Geographical areas		North West		North East		Centre		South and islands	
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures									
A.1 Bad loans		1,996	-3,590	1,259	-2,668	1,622	-2,966	1,623	-2,815
A.2 Unlikely to pay		2,538	-1,565	1,278	-706	1,709	-1,127	1,182	-586
A.3 Non-performing past due exposures		212	-34	120	-18	136	-22	211	-35
A.4 Performing exposures		104,065	-502	61,378	-215	125,675	-322	44,959	-249
Total A		**108,811**	**-5,691**	**64,035**	**-3,607**	**129,142**	**-4,437**	**47,975**	**-3,685**
B. Off-balance sheet exposures									
B.1 Non-performing exposures		539	-65	544	-80	752	-103	121	-10
B.2 Performing exposures		54,295	-30	29,726	-15	43,977	-24	9,929	-9
Total B		**54,834**	**-95**	**30,270**	**-95**	**44,729**	**-127**	**10,050**	**-19**
Total (A+B)	**31.12.2019**	**163,645**	**-5,786**	**94,305**	**-3,702**	**173,871**	**-4,564**	**58,025**	**-3,704**
Total (A+B)	**31.12.2018**	**165,680**	**-6,946**	**95,392**	**-4,206**	**172,220**	**-5,411**	**59,391**	**-4,319**

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

(millions of euro)

Exposure/Geographical areas	Italy		Other european countries	
	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures				
A.1 Bad loans	-	-	-	-1
A.2 Unlikely to pay	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-
A.4 Performing exposures	18,962	-7	30,181	-14
Total (A)	**18,962**	**-7**	**30,181**	**-15**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	-	-	-	-
B.2 Performing exposures	8,022	-2	31,811	-4
Total (B)	**8,022**	**-2**	**31,811**	**-4**
Total (A+B) 31.12.2019	**26,984**	**-9**	**61,992**	**-19**
Total (A+B) 31.12.2018	**47,604**	**-67**	**56,942**	**-20**

(millions of euro)

Exposure/Geographical areas	America		Asia		Rest of the world	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans	-	-	-	-3	-	-
A.2 Unlikely to pay	82	-14	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-
A.4 Performing exposures	2,959	-4	2,638	-2	2,344	-8
Total (A)	**3,041**	**-18**	**2,638**	**-5**	**2,344**	**-8**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	10	-	-	-	-	-
B.2 Performing exposures	5,668	-	9,850	-1	2,786	-1
Total (B)	**5,678**	**-**	**9,850**	**-1**	**2,786**	**-1**
Total (A+B) 31.12.2019	**8,719**	**-18**	**12,488**	**-6**	**5,130**	**-9**
Total (A+B) 31.12.2018	**8,525**	**-3**	**12,346**	**-4**	**4,875**	**-5**

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

(millions of euro)

Exposure/Geographical areas		NORTH WEST		NORTH EAST		CENTRE		SOUTH AND ISLANDS	
		Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures									
A.1 Bad loans		-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-	-	-
A.4 Performing exposures		4,157	-2	669	-	14,105	-5	31	-
Total A		**4,157**	**-2**	**669**	**-**	**14,105**	**-5**	**31**	**-**
B. Off-balance sheet exposures									
B.1 Non-performing exposures		-	-	-	-	-	-	-	-
B.2 Performing exposures		5,605	-2	487	-	1,917	-	13	-
Total B		**5,605**	**-2**	**487**	**-**	**1,917**	**-**	**13**	**-**
Total (A+B)	**31.12.2019**	**9,762**	**-4**	**1,156**	**-**	**16,022**	**-5**	**44**	**-**
Total (A+B)	**31.12.2018**	**10,052**	**-16**	**831**	**-48**	**36,664**	**-3**	**57**	**-**

B.4 Large exposures

Large exposures	
a) Book value (millions of euro)	137,898
b) Weighted value (millions of euro)	21,705
b) Number	8

Based on the regulatory provisions, the number of large exposures presented in the table was determined by the reference to unweighted "exposures" in excess of 10% of eligible capital as defined by Regulation (EU) 575/2013 (CRR). The "exposures" are defined as the sum of on-balance sheet assets at risk and off-balance sheet transactions (excluding those deducted from eligible capital) with a customer or a group of related customers, without applying weighting factors. Such presentation criteria result in the inclusion in the financial statement table for large exposures of entities that - even with a weighting of 0% - present an unweighted exposure in excess of 10% of eligible capital for the purposes of large risks.
In accordance with the provisions of the EBA document "Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013", the supervisory reports have standard methods of presentation of groups of connected clients that (in the case of silos) require exposures to the central governments to be repeated within each corresponding economic group directly controlled by a central government or connected to it by economic dependence.
However, the amounts shown in points a) and b) and the number shown in point c) above include the exposure to the various central governments, to which the Intesa Sanpaolo Group is exposed, only once.

C. SECURITISATIONS

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

Qualitative information

The securitisations carried out in 2019 are summarised below:

GARC Securitisations

In 2019, the Parent Company continued its activities relating to the "GARC" (Active Credit Risk Management) Project, involving a platform for monitoring credit risk in performing portfolios. The initiative involves the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to Italian companies, in particular SMEs.

As part of these operations, during the year three synthetic securitisations, GARC SME-8, GARC Corp-2 and GARC Residential Mortgages-1, were completed through which the junior risk was sold to specialist investors relating respectively to (i) a total portfolio of 4.3 billion euro in loans to around 9,600 businesses in the Corporate and SME Corporate regulatory segments, valued by applying internal models (Advanced IRB); (ii) a portfolio of around 4 billion euro in loans to around 190 companies in the Corporate regulatory segment; and (iii) a portfolio of around 900 million euro of mortgage loans issued by Barclays to around 10,800 retail customers and purchased by Intesa Sanpaolo during 2019, valued using the standardised approach. The portfolios of the three transactions mainly consist of customers operating in Northern Italy.

"Tranched Cover Piemonte 2017 – Linea B" Securitisation

During the year – again as part of the "GARC" Project – a "Line B" portfolio was completed relating to a tranched cover synthetic securitisation on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2014-2020 Regional Operational Programme of the European Regional Development Fund – Axis III "Competitiveness of production systems" – Thematic Objective III.3 "Promoting competitiveness of SMEs" – "Measure to support access to credit for piedmontese SMEs through the establishment of the 2017 Tranched Cover Piemonte Fund". This transaction involves the issue of collateral on the junior tranche by Finpiemonte S.p.A. and on the mezzanine tranche by Ascomfidi Nord-Ovest Società Cooperativa, to cover the credit risk relating to a portfolio of around 7.5 million euro of loans to around 150 companies in Piedmont, for which the disbursements were completed in 2019.

Kerma Securitisation

As part of the strategy to reduce the risk profile envisaged in the 2018-2021 Business Plan, on 31 July 2019 Intesa Sanpaolo and Prelios signed a binding agreement to form a strategic partnership for loans classified as unlikely-to-pay (UTP), which provides – among other things (see the "UTP Partnership Project" section of the Executive summary for more details) – for the sale to a securitisation vehicle (below KERMA SPV s.r.l. or the SPV) of a portfolio of loans classified as UTP of the Corporate and SME segment of the Intesa Sanpaolo Group, with a Gross Book Value (GBV) of around 3 billion euro as at 31 March 2019 (cut-off date), at a price of around 2 billion euro, substantially in line with the Net Book Value (NBV) of the portfolio.

The sale was completed through a transaction that involved:

i) the transfer to KERMA SPV s.r.l. of a portfolio of medium/long-term and short-term loans and a portfolio of lease receivables;
ii) the transfer to a financial intermediary, belonging to the Prelios Group, of all the asset and liability legal relationships;
iii) the transfer of the asset and liability legal relationships arising from the lease contracts to a LeaseCo; and
iv) the transfer of the risks and rewards relating to all the existing and future exposures arising from short-term/revolving loan agreements, through a limited-recourse loan granted by KERMA SPV s.r.l. to Intesa Sanpaolo and secured by the assignment of the revolving exposures to the SPV as collateral.

With regard to the short-term/revolving portfolio, the risks and rewards have been transferred to the SPV by means of a limited recourse loan in accordance with Article 7(1)(a) of Law 130/99.

The securitised assets were broken down as follows by geographical area: 32.1% North-West; 27.9% Centre; 22.6% North-East; 15.2% South and Islands; and 2.2% Outside Italy.

The breakdown of the assigned debtors by economic sector was mainly concentrated in the following sectors:

- "Real estate business" at 26.8%;
- "Construction companies" at 21%;
- "Services" at 15.5%;
- and a residual amount in other business sectors (Distribution, Transport, Agriculture, Fashion Industry, Finance and Insurance, Utilities, and others).

The SPV financed the acquisition of the portfolio by issuing 4 classes of securities:
- senior notes of 1,258 million euro subscribed by Intesa Sanpaolo;
- mezzanine notes, divided into class B1 notes (15% of the nominal value) subscribed by Intesa Sanpaolo for 13 million euro and the remainder by a third party investor and class B2 notes (7.5% of the nominal value) subscribed by Intesa Sanpaolo for 7 million euro and the remainder by a third party investor;
- junior notes, subscribed by Intesa Sanpaolo for 7 million euro and the remainder by a third party investor.

Taking into account the retention of 100% of the Senior notes and 5% of the Junior and Mezzanine notes, the variability connected to the cash flows of the underlying portfolio retained by the Group enabled it to establish that the Group has substantially transferred all the risks and rewards of the financial assets transferred, meeting the conditions under point a) of IFRS 9.3.2.6, as a result of which it has derecognised the financial asset and recognised separately as assets or liabilities any rights and obligations originated from or maintained with the transfer.

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

The sale of the lease portfolio will be completed in 2020 and, accordingly, the related receivables were recognised under Discontinued operations as at 31 December 2019.

Quantitative information

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

On-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	**1,551**	**-5**	**256**	**2**	**319**	**11**
– Loans to businesses (including SMEs) (*)	1,546	-5	252	2	311	11
– Consumer credit	5	-	4	-	8	-
B. Partly derecognised	-	-	-	-	-	-
C. Not derecognised	**15,812**	**-27**	**402**	**-40**	**462**	**-14**
– Loans to businesses (including SMEs) (**) (***)	14,970	-27	197	-38	168	-7
– Residential mortgage loans (***)	842	-	205	-2	294	-7
TOTAL	**17,363**	**-32**	**658**	**-38**	**781**	**-3**

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

(**) The amounts include non-performing financial assets amounting to 29 million euro in Senior exposures, 196 million euro in Mezzanine exposures and 75 million euro in Junior exposures.

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

Off-balance sheet
This case was not present as at 31 December 2019.

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

On-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Leases	6	-	23	-	-	-
Commercial mortgage loans	128	-	21	-	-	-
Securitisations	165	-4	-	-	-	-
Trade receivables	430	-4	-	-	-	-
Consumer credit	595	1	29	5	-	-
Residential mortgage loans	1,024	3	117	1	-	-
Loans to businesses (including SMEs) (*)	1,131	-	321	-12	78	-9
Other assets (**)	6,154	-	94	-	1	-
TOTAL	**9,633**	**-4**	**605**	**-6**	**79**	**-9**

(*) The exposures include non-performing financial assets amounting to 5 million euro in Senior exposures, 116 million euro in Mezzanine exposures and 73 million euro in Junior exposures, respectively. The aggregate also includes debt securities issued by the securitisation vehicle set up as part of the sale of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato to Credit Agricole by the National Interbank Deposit Guarantee Fund - Voluntary Scheme, which the Bank participates in. The related Junior Notes were fully written down.

(**) The amount also includes the Romulus securities for 5,886 million euro, held by the Banking Group, generally represented among third-party securitisation. For more information regarding the type of underlying assets, reference is made to Section 4 – Risks of other companies, of this Part E.

Off-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
Duomo ABCP Conduit transactions	-	-	-	-	-	-	*6,211*	*-21*	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**6,211**	**-21**	**-**	**-**	**-**	**-**

C.3. Prudential consolidation - Stakes in securitisation vehicles

(millions of euro)

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION (a)	ASSETS (b)			LIABILITIES (b)		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l. (c)	Conegliano Veneto (TV)	(e)	2,789	-	184	1,550	-	1,351
Apulia Finance n. 4 S.r.l. (h)	Conegliano Veneto (TV)	(e)	(f)	(f)	(f)	(f)	(f)	(f)
Augusto S.r.l. (d)	Milano	(e)	1	-	2	13	-	-
Berica ABS 3 S.r.l. (h)	Vicenza	(e)	(f)	(f)	(f)	(f)	(f)	(f)
Berica ABS 4 S.r.l. (h)	Vicenza	Not consolidated	(f)	(f)	(f)	(f)	(f)	(f)
Berica ABS 5 S.r.l. (c) (h)	Vicenza	Not consolidated	441	-	35	325	60	52
BRERA SEC S.r.l. (c)	Conegliano Veneto (TV)	(e)	16,079	-	1,100	13,312	-	3,457
Claris Finance 2005 S.r.l (h)	Roma	(e)	(f)	(f)	(f)	(f)	(f)	(f)
Claris RMBS 2014 S.r.l (c) (h)	Conegliano Veneto (TV)	Not consolidated	333	-	16	135	-	176
Claris RMBS 2016 S.r.l. (c) (h)	Conegliano Veneto (TV)	Not consolidated	770	-	48	522	116	144
Colombo S.r.l. (d)	Milano	(e)	1	-	6	-	-	15
Diocleziano S.r.l. (d)	Milano	(e)	7	-	1	51	-	-
ISP CB Ipotecario S.r.l. (g)	Milano	Consolidated	18,873	-	4,824		22,298	
ISP CB Pubblico S.r.l. (g)	Milano	Consolidated	2,708	1,726	1,745		5,961	
ISP OBG S.r.l. (g)	Milano	Consolidated	39,476	-	6,191		45,463	
Trade Receivables Investment Vehicle S.a.r.l.	Lussemburgo	Not consolidated	(f)	(f)	(f)	(f)	(f)	(f)

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

(b) Figures gross of any intercompany relations.

(c) Self-securitisation vehicle described in Section 1.4 Banking Group - Liquidity Risk, Quantitative Information, paragraph 2.

(d) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2018).

(e) Vehicle consolidated at equity.

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

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

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

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

C.4 Prudential consolidation – Unconsolidated securitisation vehicles

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

(millions of euro)

	Trade Receivables Investment Vehicle Sarl (*)	Berica ABS 4 S.r.l. (*) (**)	CLARIS FINANCE 2005 S.r.l. (*)	BERICA ABS 3 S.r.l. (*)	Apulia Finance n. 4 S.r.l. emissione I and II (*)
A. Assets	**3**	**434**	**44**	**369**	**130**
A.1 Loans	3	434	43	369	130
A.2 Securities	-	-	-	-	-
A.3 Other assets	-	-	1	-	-
B. Use of cash and cash equivalents	**-**	**18**	**17**	**17**	**18**
B.1 Deposits with banks	-	-	-	-	18
B.2 Prepayments and accrued income	-	-	-	-	-
B.3 Other	-	18	17	17	-
B Liabilities	**3**	**386**	**49**	**343**	**117**
B.1 Class A Securities issued	-	168	1	106	14
B.2 Class B Securities issued	-	76	24	94	11
B.3 Class C Securities issued	-	47	10	-	19
B.4 Class J Securities issued	3	95	-	115	73
B.5 Other liabilities	-	-	14	28	-
C. Interest expense and other expenses	**8**	**7**	**-**	**8**	**9**
D. Interest income and other revenues	**8**	**15**	**-**	**13**	**9**

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

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

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

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

SERVICER	SPECIAL PURPOSE VEHICLE	SECURITISED ASSETS (end-of-period figure) (millions of euro)		COLLECTIONS OF LOANS IN THE YEAR (millions of euro)		PERCENTAGE OF REIMBURSED SECURITIES (period-end figure)					
						Senior		Mezzanine		Junior	
		Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing
Intesa Sanpaolo	BRERA SEC S.r.l. (*)	90	15,989	11	2,945	0%	19%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS FINANCE 2005 S.r.l.	12	31	1	8	0%	100%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS RMBS 2014 S.r.l. (*)	20	313	4	111	0%	81%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS RMBS 2016 S.r.l. (*)	9	761	3	139	0%	44%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 3 S.r.l.	11	358	4	58	0%	87%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 4 S.r.l.	5	429	3	65	0%	77%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 5 S.r.l. (*)	0	441	1	60	0%	36%	0%	0%	0%	0%
Intesa Sanpaolo	APULIA Finance n. 4 S.r.l. emissione I e II	28	102	-	24	0%	98%	0%	0%	0%	0%
Total		**176**	**18,424**	**26**	**3,411**						

(*) Vehicle used for self-securitisations

C.6. Prudential consolidation – Consolidated securitisation vehicles

There were no transactions that used consolidated securitisation vehicles during 2019.

D. SALES

A. Financial assets sold not fully derecognised

Qualitative information

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

Quantitative information

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

(millions of euro)

	Financial assets sold fully recognised				Related financial liabilities		
	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*	*of which: non-performing*	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*
A. Financial assets held for trading	**2,395**	**-**	***2,395***	***X***	**2,397**	**-**	***2,397***
1. Debt securities	2,395	-	*2,395*	*X*	2,397	-	*2,397*
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	*X*	-	-	-
4. Derivatives	-	-	-	*X*	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**24,457**	**-**	***24,457***	**-**	**24,404**	**-**	***24,404***
1. Debt securities	24,457	-	*24,457*	-	24,404	-	*24,404*
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**5,501**	***686***	***4,758***	***69***	**5,334**	***411***	***4,879***
1. Debt securities	4,815	-	*4,758*	-	4,923	-	*4,879*
2. Loans	686	*686*	-	*69*	411	*411*	-
TOTAL 31.12.2019	**32,353**	***686***	***31,610***	***69***	**32,135**	***411***	***31,680***
TOTAL 31.12.2018	**34,968**	***1,577***	***33,391***	***188***	**34,010**	***1,032***	***32,978***

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

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

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

These are not present in the Intesa Sanpaolo Group.

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

(millions of euro)

	Fully recognised	Partly recognised	31.12.2019	31.12.2018
A. Financial assets held for trading	**2,395**	**-**	**2,395**	**2,478**
1. Debt securities	2,395	-	2,395	2,478
2. Equities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**24,457**	**-**	**24,457**	**28,064**
1. Debt securities	24,457	-	24,457	28,064
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	**5,605**	**-**	**5,605**	**4,376**
1. Debt securities	4,885	-	4,885	2,794
2. Loans	720	-	720	1,582
Total financial assets	**32,457**	**-**	**32,457**	**34,918**
Total related financial liabilities	**32,279**	**-**	**32,279**	**34,014**
Net value 31.12.2019	**178**	**-**	**178**	**X**
Net value 31.12.2018	**904**	**-**	**X**	**904**

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

B. Financial assets sold fully derecognised with recognition of continuing involvement
This type of exposure did not exist as at 31 December 2018.

C. Financial assets sold and fully derecognised

Qualitative information

Multioriginator sale transactions involving loan portfolios – classified as unlikely to pay in particular – attributable to the sale of loans to a mutual investment fund with the assignment of the units in the fund to the selling intermediaries

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

FI.NAV. Fund
In pursuit of the de-risking activities provided for in the 2018-2021 Business Plan, in the fourth quarter of 2018 the Intesa Sanpaolo Group launched the contribution to the FI.NAV. Fund (a closed-end Italian securities umbrella fund) of a portfolio of non-performing secured and unsecured loans attributable to the shipping sector. The Fund, reserved for institutional investors, is managed by the asset management company Davy Investment Fund Service Limited, not a member of the ISP Group, based in Ireland, and is divided into two autonomous sub-funds: FI.NAV. Sub-fund A – Loans, in which the loans contributed by the ISP Group, Unicredit were included and FI.NAV. Sub-fund B - New Finance, in which the capital of third-party investors will be included to relaunch the "repossessed" ships.
The transaction, formulated in 2018, was closed in 2019 through a sale without recourse for total gross consideration of 155 million euro and a net exposure equal to the price of 102 million euro, with the price of sale set off against the price of subscription of the Fund units, without any effects on the income statement for the year.
Pursuant to IFRS 9, for the ISP Group the transaction entailed the derecognition of the loans sold since the Fund has become solely responsible for managing them following the sale; the ISP Group therefore derecognised the loans concerned, while recognising the corresponding fair value of the units of the Fund assigned.
The Group companies involved in the transaction were ISP (including the units of the former subsidiaries CR Bologna and Mediocredito acquired within the framework of the merger transactions) and Banca IMI.
At 31 December 2019, the ISP Group held a 42% stake in the FI.NAV. Fund, classified among investments subject to significant influence, for a book value of 104.5 million euro.

IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-fund
In 2018, the Intesa Sanpaolo Group (specifically Intesa Sanpaolo and the banks subsequently merged into Intesa Sanpaolo: CR Veneto, CR Firenze, CR Friuli Venezia Giulia, CR Bologna and Mediocredito) participated in the closed-end Italian fund IDEA, managed by Dea Capital Alternative Funds S.G.R. and dedicated to the recovery of mid-size Italian companies in situations of financial tension but with solid industrial fundamentals. The transaction was undertaken by contributing non-performing loans with a nominal value of 59 million euro and a net exposure to the price of 39.2 million euro, with the price of sale offset against the subscription price, of equal amount, of the units of the IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-fund.
At 31 December 2019, the ISP Group held a 11.3% stake in the IDEA Fund, classified among Financial assets mandatorily measured at fair value, for a book value of 31.4 million euro.

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

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

The first programme, launched in in 2009, has a maximum amount of 20 billion euro (the original maximum amount was 10 billion euro). The guarantor of the Covered Bonds is the vehicle ISP CB Pubblico, to which a portfolio of performing loans and securities to the public sector, originated by the former subsidiary Banca Infrastrutture Innovazione e Sviluppo, now Intesa Sanpaolo, was transferred. The Bank gradually sold the vehicle assets with a total original nominal value of 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro). The last sale (amounting to around 1 billion euro) took place in April 2013.
As at 31 December 2019, loans and securities sold to the vehicle had a book value of 4.4 billion euro.
Against these sales, Covered Bonds were issued over time for a total nominal value of 24.2 billion euro (16.6 billion euro relating to issues acquired in full by the Parent Company and subject to early redemption or matured and 3.5 billion euro relating to an exchange offer to investors during 2012, of which 2 billion euro that matured in the second quarter of 2017).
In 2019, the tenth and thirteenth series of covered bonds were partially redeemed in advance in the amounts of 0.1 and 0.6 billion euro, respectively.

Therefore, as at 31 December 2019, a total nominal amount of 4.9 billion euro of issues made as part of the Covered Bond programme of the vehicle ISP CB Pubblico was outstanding, of which 4.8 billion repurchased and 0.1 billion placed with third party investors.

In the second programme, launched in 2010, amounting to a maximum of 25 billion euro (the original maximum amount was 20 billion euro), the guarantor of the covered bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans and, initially bonds issued by Adriano Finance S.r.l., originated by Intesa Sanpaolo, were transferred. The Bank gradually sold the vehicle mortgage loans with an original total nominal value of 32.5 billion euro (net of retrocessions). During 2019, Intesa Sanpaolo also transferred residential mortgage loans with an original total nominal value of 1.67 billion euro to the vehicle in March, and retrocessions of non-performing loans with a nominal value of 0.4 billion euro were closed in October. As at 31 December 2019, the loans sold to the vehicle had a book value of 19 billion euro.
Over time, against the sale of these assets, Intesa Sanpaolo carried out issues of covered bonds for a total nominal value of approximately 31.7 billion euro (of which 8.2 billion euro subject to early redemption in 2012, 1 billion euro matured in the fourth quarter of 2015, 2.5 billion euro matured in the third quarter of 2016, 1.86 billion euro matured in the second quarter of 2017 and 0.75 billion euro matured in the third quarter of 2018).
During 2019:
- the twelfth series of CB, with a nominal value of 1 billion euro, reached maturity in September;
- in March, series 25 of CB was placed on the market, in the form of a fixed-rate bond (0.50%), for a nominal value of 1 billion euro, with a 5-year maturity, listed on the Luxembourg Stock Exchange with Moody’s Aa3 rating;
- in April, series 26 of CB was issued in the form of a variable-rate bond, with a 9-year maturity, for a nominal value of 0.5 billion euro, listed on the Luxembourg Stock Exchange with a Moody’s Aa3 rating. The bond was entirely subscribed by the Parent Company.

As at 31 December 2019, a total nominal amount of 17.9 billion euro of issues made as part of the covered bond programme of the vehicle ISP CB Ipotecario was outstanding, of which 11.9 billion placed with third party investors and 6 billion subscribed by Intesa Sanpaolo.

The third multi-originator CB issue programme, launched in 2012, is secured by mortgages for a maximum amount of 50 billion euro (the original maximum amount was 30 billion euro). The programme aims to achieve retained issues.
The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli (merged into Intesa Sanpaolo in November 2018), Cassa di Risparmio del Veneto (merged into Intesa Sanpaolo in July 2018), Cassa di Risparmio in Bologna and Banca CR Firenze (merged into Intesa Sanpaolo in February 2019). Over time, the Intesa Sanpaolo Group sold mortgages to the vehicle for an original total nominal value of 51.1 billion euro (net of exclusions).
The following sales were carried out in 2019: in May for a total of 7 billion euro, in June for a total of 2.8 billion euro and in November for a total of 2.4 billion euro. In October 2019, Intesa Sanpaolo closed retrocessions of non-performing loans with a nominal value of 0.9 billion euro.
As at 31 December 2019, the loans sold to the vehicle by Intesa Sanpaolo had a book value of 39.5 billion euro.
Over time, against the sales of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 61.2 billion euro (of which 31.2 billion euro subject to early redemption and reimbursed).
During 2019:
- in February, the securities of series 13 and 14 were redeemed in advance for a total of 2.75 billion euro;
- in February, series 32 of CB was issued with a nominal value of 1.65 billion euro. This is a 5-year, floating-rate bond;
- in February, series 33 of CB was issued with a nominal value of 1.65 billion euro. This is a 13-year, floating-rate bond.
- in June, series 34 of CB was issued with a nominal value of 1.6 billion euro. This is an 8-year, floating-rate bond;
- in June, series 35 of CB was issued with a nominal value of 1.6 billion euro. This is a 10-year, floating-rate bond.
- in June, series 36 of CB was issued with a nominal value of 1.8 billion euro. This is a 14-year, floating-rate bond.
- in December, series 37 of CB was issued with a nominal value of 1.25 billion euro. This is a 13-year, floating-rate bond.

All the securities issued as part of the programme are listed on the Luxembourg Stock Exchange and have a DBRS A (High) rating. The characteristics of the issues make them eligible for Eurosystem refinancing operations. As at 31 December 2019, the issues made under the programme guaranteed by the vehicle ISP OBG had a total nominal amount of 36.8 billion euro, fully subscribed by Intesa Sanpaolo and subsequently used in repurchase agreements for 250 million euro.

The key figures for ISP CB Pubblico, ISP CB Ipotecario and ISP OBG as at 31 December 2019 are shown in the table below.

(millions of euro)

COVERED BONDS		VEHICLE DATA		SUBORDINATED LOAN [1]	COVERED BONDS ISSUED	
		Total assets	Cumulated write-downs on securitised portfolio	amount	Nominal amount (2)	Book value (2) (3)
ISP CB PUBBLICO	Performing public sector loans and securities	6,179	9	5,962	147	154
ISP CB IPOTECARIO (3)	RMBSs (Performing residential mortgages)	23,696	37	22,298	11,963	12,676
ISP OBG	Mortgages	45,668	112	45,463	250	250

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

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

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

In addition to this type of Covered Bonds, provided for by Italian law (Law 80/2005), there are some mortgage bonds issued by the Slovak investee VUB. These are securities whose nominal value and returns are guaranteed by mortgage loans, i.e. loans with maturity of four to thirty years, backed by a pledge on property located in the Slovak Republic, including property under construction, at least 90% of the value of which is financed by the issue of these securities.
Each issue has specific coverage, and the entire nominal value of the issue, including interest, must be backed by mortgages on local properties on at least 90% of their nominal value, and the remaining 10% by liquidity, deposits with the National Bank of Slovakia or with other resident banks, by government securities or other mortgage bonds.
As at 31 December 2019, the subsidiary VUB had issued 3.1 billion euro in this type of securities, booked in the financial statements at a value of approximately 3.1 billion euro.

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

As at 31 December 2019, the expected loss on performing loans to customers (which takes account of cash and unsecured loan types) was 0.41%, down by around 3 basis points on the figure at the end of 2018. The reduction was mainly attributable to the general improvement in credit quality, particularly in the Corporate and Retail SME segments.

Overall economic capital amounted to 2.36% of the disbursed loans, an increase on the figure for 2018 (+0.09%), mainly due to concentration risk, as a result of higher transaction levels in the Corporate segment and of investments in HTC/HTCS securities.

The figures for the indicators as at 31 December 2018 were reassessed according to the ICAAP 2019 approach.

For the companies included in the roll out plan, the LGD and EAD internal rating models are subject to a second level of control by the Validation function, as described in paragraph 2.3 of this Section, and a third level of control by the Internal Auditing function. The control functions produce an annual report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also includes a verification on the deviations of the ex-ante estimates and the effective ex post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms compliance with the regulatory requirements.