1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

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

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).
The arrangement of a suitable control and management system for that specific risk has a fundamental role in maintaining stability, not only at the level of each individual bank, but also of the market as a whole, given that imbalances within a single financial institution may have systemic repercussions. Such a system must be integrated into the overall risk management system and provide for incisive controls consistent with developments in the context of reference.
Intesa Sanpaolo's internal control and management system for liquidity risk is implemented within the Group Risk Appetite Framework and in compliance with the tolerance thresholds for liquidity risk approved in the system, which establish that the Group must maintain an adequate liquidity position in order to cope with periods of strain, including prolonged periods, on the various funding supply markets, also by establishing adequate liquidity reserves consisting of marketable securities and refinancing at Central Banks. To this end, a balance needs to be maintained between incoming and outgoing funds, both in the short and medium-long term. This goal is implemented by the Group Liquidity Risk Management Guidelines approved by the Corporate Bodies of Intesa Sanpaolo, in implementation of the applicable regulatory provisions.
The provisions on liquidity introduced by the European Union in June 2013 and subsequently updated establish that banks are required to comply with: (i) the short-term liquidity coverage ratio (LCR), as set out in Art. 38 of Delegated Regulation (EU) 2015/61, as supplemented and amended (minimum level of 100% from 1 January 2018) and (ii) the net stable funding ratio (NSFR), the minimum level of which of 100% entered into effect in June 2021, following final approval and publication in the Official Journal, in May 2019, of the package of banking reforms containing Directive EU 2019/878 (CRD V) and Regulation 2019/876 (CRR II).
The Intesa Sanpaolo Group Liquidity Risk Management Guidelines, which already referred to Bank of Italy Circulars 263 and 285, and Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), have reflected all of the related regulatory provisions.
The Group Liquidity Risk Management Guidelines approved by Intesa Sanpaolo's Corporate Bodies illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. To this end, they include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies.
The key principles guiding the internal control and management system for liquidity risk defined by those Guidelines are as follows:

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

The Group Liquidity Risk Management Guidelines set out the task assigned to the Corporate Bodies and allocate several important responsibilities to senior management, including approving measurement indicators, defining the main assumptions underlying the stress scenarios and composing the early warning thresholds used to activate emergency plans.
In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company's Corporate Bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group's overall transactions and the liquidity risk to which it is exposed.
The corporate functions of the Parent Company responsible for ensuring the correct application of the Guidelines and the adequacy of the Group's liquidity position are the Group Treasury and Finance Head Office Department and the Planning and Control Department, responsible, within the Chief Financial Officer (CFO) Area, for liquidity management, and the Market and Financial Risk Management Head Office Department, which is directly responsible, within the Chief Risk Officer (CRO) Area, for measuring liquidity risk on a consolidated basis.
The Group's liquidity is managed by the aforesaid structures of the CFO area through thorough monitoring of cash flows and continuous liaison with the Business Units, within the framework of the relevant business plans drawn up in accordance with the following guidelines:

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

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

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

Impacts from the COVID-19 pandemic

All the necessary preventive management and control measures implemented from the outset of the COVID-19 emergency remain in place to detect any signs of potential exacerbation of liquidity conditions.
The Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained within the risk limits set out in the current Group Liquidity Policy for all of 2021. Both regulatory indicators, LCR and NSFR, were well above the regulatory requirements. In 2021, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average[77] of 184.5% (159.1% in December 2020). The NSFR was also significantly higher than 100%, supported by a solid base of stable deposits from customers, further increased during the year, adequate wholesale medium/long-term securities funding and the TLTRO funding from the ECB. At 31 December 2021, the Intesa Sanpaolo Group's NSFR, measured in accordance with regulatory instructions, was 127.3%. This indicator remains significantly higher than 100%, even excluding the positive contribution from TLTRO funding.

At the end of December 2021, the exact value of total unencumbered HQLA reserves at the various Treasury Departments of the Group totalled 187 billion euro (170 billion euro at the end of 2020), approximately 72% of which consisted of cash as a result of higher temporary excess liquidity payments in the form of unrestricted deposits held at central banks compared to the end of 2020. Adding the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, the Group's unencumbered liquidity reserves amounted to a total of 192 billion euro.

[77] The figure shown refers to the simple average of the last 12 months of monthly observations, as per Regulation (EU) 2021/637.

(millions of euro)

	Unencumbered (net of haircut)	
	31.12.2021	**31.12.2020 (*)**
HQLA Liquidity Reserves	187,066	170,264
Cash and Deposits held with Central Banks (HQLA)	135,061	80,698
Highly liquid securities (HQLA)	52,005	89,566
Other eligible and/or marketable reserves	5,306	24,403
Total Group's Liquidity Buffer	**192,372**	**194,667**

(*) The figures include the UBI Group's contribution

Considering the high amounts of unencumbered liquidity reserves (liquid or eligible), also the stress tests, in a combined scenario of market and specific crises (with significant loss in customer deposits), yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.

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

QUANTITATIVE INFORMATION

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

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

Currency of denomination: Euro

(millions of euro)

Type/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**58,486**	**18,768**	**3,727**	**14,663**	**21,018**	**24,921**	**40,602**	**184,347**	**198,019**	**125,266**
A.1 Government bonds	29	12	267	144	424	1,636	3,823	16,826	47,183	-
A.2 Other debt securities	253	395	696	4,581	315	884	1,381	9,167	19,648	-
A.3 Quotas of UCI	3,461	-	-	-	-	-	-	1	-	8
A.4 Loans	54,743	18,361	2,764	9,938	20,279	22,401	35,398	158,353	131,188	125,258
- Banks	14,180	8,195	363	298	1,076	388	1,072	1,352	400	125,130
- Customers	40,563	10,166	2,401	9,640	19,203	22,013	34,326	157,001	130,788	128
B. Cash liabilities	**439,478**	**3,661**	**770**	**2,365**	**6,101**	**10,618**	**28,944**	**158,586**	**21,441**	**-**
B.1 Deposits and current accounts	406,496	1,570	393	1,249	1,174	4,260	1,923	6,829	846	-
- Banks	2,796	220	17	54	24	47	87	4,922	371	-
- Customers	403,700	1,350	376	1,195	1,150	4,213	1,836	1,907	475	-
B.2 Debt securities	28	1	49	921	4,300	5,534	9,240	38,530	17,036	-
B.3 Other liabilities	32,954	2,090	328	195	627	824	17,781	113,227	3,559	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	3,862	7,971	3,809	10,044	27,190	9,300	8,756	16,534	8,904	-
- Short positions	4,697	7,298	3,736	8,581	19,750	6,696	6,936	14,785	11,848	-
C.2 Financial derivatives without exchange of capital										
- Long positions	16,531	61	2	157	159	268	478	70	151	-
- Short positions	23,155	21	9	94	183	410	543	70	151	-
C.3 Deposits and loans to be settled										
- Long positions	49,554	-	-	-	-	-	-	-	-	-
- Short positions	-	49,454	-	-	100	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	3,600	24,169	9	100	952	453	715	16,856	2,345	-
- Short positions	48,378	-	8	49	32	98	134	162	220	-
C.5 Financial guarantees given	853	8	5	15	136	111	224	413	169	-
C.6 Financial guarantees received	175	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	75	20	-	498	774	-
- Short positions	-	-	-	-	75	20	-	498	774	-
C.8 Credit derivatives without exchange of capital										
- Long positions	1,571	-	-	-	-	-	-	-	-	-
- Short positions	1,611	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

(millions of euro)

Type/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**3,619**	**7,318**	**1,364**	**3,512**	**6,090**	**4,743**	**6,255**	**30,389**	**16,233**	**1,788**
A.1 Government bonds	1	37	3	135	531	495	1,292	7,491	9,232	-
A.2 Other debt securities	39	27	41	230	144	231	137	3,606	1,584	5
A.3 Quotas of UCI	459	-	-	-	-	-	-	-	-	13
A.4 Loans	3,120	7,254	1,320	3,147	5,415	4,017	4,826	19,292	5,417	1,770
- Banks	549	5,527	458	816	1,750	924	1,135	582	79	1,753
- Customers	2,571	1,727	862	2,331	3,665	3,093	3,691	18,710	5,338	17
B. Cash liabilities	**24,236**	**6,444**	**5,655**	**4,639**	**5,605**	**1,170**	**2,661**	**11,839**	**6,825**	**-**
B.1 Deposits and current accounts	22,491	2,807	1,494	1,358	1,985	635	858	2,094	246	-
- Banks	1,160	1,260	694	655	620	69	99	956	85	-
- Customers	21,331	1,547	800	703	1,365	566	759	1,138	161	-
B.2 Debt securities	4	222	279	520	514	518	1,744	9,436	5,623	-
B.3 Other liabilities	1,741	3,415	3,882	2,761	3,106	17	59	309	956	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	97	13,713	7,974	13,123	17,789	9,539	11,493	19,844	12,319	-
- Short positions	336	14,648	8,473	14,054	26,921	12,916	12,519	21,531	7,537	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,490	8	112	72	54	73	215	228	-	-
- Short positions	1,434	39	71	47	69	69	183	229	1	-
C.3 Deposits and loans to be settled										
- Long positions	667	-	-	-	-	-	-	-	-	-
- Short positions	-	4	410	141	88	23	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	196	6	87	178	1,313	1,057	1,858	11,894	968	-
- Short positions	15,756	51	1	2	15	35	129	124	245	-
C.5 Financial guarantees given	675	7	4	33	98	198	256	413	255	-
C.6 Financial guarantees received	125	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	40	-	-
- Short positions	-	-	-	-	-	-	-	40	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	649	-	-	-	-	-	-	-	-	-
- Short positions	667	-	-	-	-	-	-	-	-	-

2. Self-securitisations

A brief illustration of the securitisations originated by Intesa Sanpaolo outstanding as at 31 December 2021 is shown below, in which the Bank subscribed all the securities issued by the related vehicle (self-securitisations), and which need not be shown in the tables of Part E, section C "Securitisations" of the Notes to the financial statements.

Adriano Lease SEC S.r.l.

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

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

Following the merger by incorporation, the securities originally purchased by Mediocredito Italiano S.p.A. were included in Intesa Sanpaolo. As at 31 December 2021, the senior securities came to 686 million euro and junior securities to 1,351 million euro.
The senior securities are eligible for use in the Eurosystem.

Brera Sec S.r.l.

In October 2017, a self-securitisation was structured, carried out through the sale of five loan portfolios to the vehicle company Brera Sec S.r.l. and originated by the Parent Company and by four banks of the Group subsequently incorporated into Intesa Sanpaolo (Banco di Napoli, Cassa di Risparmio di Forlì e della Romagna and Cassa di Risparmio del Friuli Venezia Giulia, incorporated in the second half of 2018 and Cassa di Risparmio in Bologna, incorporated in the first half of 2019). The underlying consisted of residential mortgage loans held by households and/or family businesses. This transaction was the Group's first Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance by the vehicle company of two tranches of securities:
- a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar);
- and an unlisted junior tranche without rating.

Both the senior and junior securities were subscribed pro rata by each individual selling bank based on the sale price of each portfolio.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with a corporate entity outside the Group (Dutch-registered foundation known as a Stichting).
The total sale consideration was 7.1 billion euro. The sale price of each portfolio sold was settled through the issuance of securities on 11 December 2017 for a total of 7.1 billion euro.
The senior securities, which are listed with an Aa3 Moody's and an A (High) DBRS Morningstar rating, have been subscribed by Intesa Sanpaolo.
A retrocession of 67 million euro was finalised in January 2021.
As at 31 December 2021, the value of the outstanding subscribed securities was 3,342 million euro for the senior securities and 1,067 million euro for the junior securities.

Brera Sec S.r.l. (SME)

In October 2018, a self-securitisation was structured, implemented through the sale of three loan portfolios to the vehicle company Brera Sec S.r.l. and originated by the Parent Company and three of the Group banks subsequently incorporated by Intesa Sanpaolo (Banco di Napoli, incorporated in the second half of 2018 and Cassa di Risparmio di Bologna and Cassa di Risparmio di Firenze, incorporated in the first half of 2019). The underlying is made up of mortgage loans and other loans to small and medium enterprises and corporates (the latter only if the group turnover is less than 100 million euro).
This is a Group multi-Originator Asset Backed Security ("ABS") securitisation and the first with an underlying of SME loans. The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) and an unlisted junior tranche without rating. Both the senior and junior securities were subscribed pro rata by each individual selling bank based on the sale price of each portfolio.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
On origination, the total sale consideration was 5.3 billion euro. The sale price of each portfolio was settled through the issuance of securities on 14 December 2018 for a total of 5.3 billion euro.
The senior securities, which are listed with an Aa3 Moody's and an A (High) DBRS Morningstar rating, have been subscribed by Intesa Sanpaolo.
A retrocession of 23 million euro was finalised in January 2021.
As at 31 December 2021, the value of the outstanding securities was 447 million euro for the senior securities and 1,530 million euro for the junior securities.

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

In September 2019, a self-securitisation was structured, implemented through the sale of a loan portfolio originated by Intesa Sanpaolo to the vehicle company Brera Sec S.r.l. This transaction is the Group's second Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance on 27 November 2019 by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) and an unlisted junior tranche without rating.
Both the senior and junior securities were subscribed by Intesa Sanpaolo.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
The total sale consideration was 7.5 billion euro. The sale price of the portfolio was settled through the issuance of securities on 27 November 2019 for a total of 7.5 billion euro.
The senior securities, which are listed with an Aa3 Moody's and an A (High) DBRS Morningstar rating, have been fully subscribed by Intesa Sanpaolo.
A retrocession of 52 million euro was finalised in January 2021.
As at 31 December 2021, the value of the outstanding securities was 5,034 million euro for the senior securities and 860 million euro for the junior securities.

Brera Sec S.r.l. (SEC 3)

In October 2021, a new self-securitisation was structured, implemented through the sale of a loan portfolio originated by Intesa Sanpaolo to the vehicle company Brera Sec S.r.l. This transaction is the Group's third Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance on 1 December 2021 by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) and an unlisted junior tranche without rating.
Both the senior and junior securities were subscribed by Intesa Sanpaolo, so that the loans could remain in the balance sheet of Intesa Sanpaolo without derecognition.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
The total sale consideration was 7.7 billion euro. The sale price of the portfolio was settled through the issuance of securities on 1 December 2021 for a total of 7.7 billion euro.
The senior securities, which are listed with an A1 Moody's and an A (High) DBRS Morningstar rating, have been fully subscribed by Intesa Sanpaolo.
As at 31 December 2021, the value of the outstanding securities subscribed by Intesa Sanpaolo remained unchanged at 6,940 million euro for senior securities and 725 million euro for junior securities.

Clara Sec S.r.l.

In 2020, a revolving self-securitisation was structured involving receivables arising from performing personal loans within the consumer credit area and disbursed to consumer households, a transaction subject to periodic repurchase of the loans.
The transaction took place with the sale, in two tranches (April and May), of the portfolio of loans originated by Intesa Sanpaolo to the vehicle company Clara Sec S.r.l. and is the Group's second Asset Backed Security ("ABS") securitisation.
Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with an entity from outside the Group (Dutch-registered foundation known as a Stichting).
Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
The transaction involved the issuance by the vehicle company of two tranches of securities on 23 June 2020: a listed senior tranche with a rating assigned by two rating agencies (Moody's and DBRS Morningstar), and an unlisted junior tranche without a rating.
Both the senior and junior securities were subscribed by Intesa Sanpaolo.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
The total sale consideration was 7.6 billion euro. The sale price of the portfolio was settled through the issuance of securities on 23 June 2020 for a total of 7.2 billion euro.
The senior securities are listed with an A1 Moody's and an A DBRS Morningstar rating.
A retrocession of 61 million euro was finalised in January 2021, followed by a sale of 620 million euro in May.
As at 31 December 2021, the value of the outstanding securities was 6,350 million euro for the senior securities and 824 million euro for the junior securities.

Giada Sec S.r.l.

In November 2020, a self-securitisation was structured, implemented through the sale of a portfolio of loans, disbursed to companies belonging to the small business, SME and Corporate segment and originated by Intesa Sanpaolo, to the vehicle company Giada Sec S.r.l.. This is the Group's third Asset Backed Security ("ABS") securitisation and the second with an underlying of SME loans.
Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with a corporate entity outside the Group (Dutch-registered foundation known as a Stichting).
The securitisation is a revolving transaction and Intesa Sanpaolo will have the option to sell the vehicle further portfolios of loans with similar characteristics and quality, which the Vehicle will purchase by drawing on the receipts generated by the portfolio segregated over time.
The total sale consideration was 10.1 billion euro.
The sale price of the portfolio was settled through the issuance of securities on 21 December 2020 for the same amount.
The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) and an unlisted junior tranche without rating.
Both the senior and junior securities were subscribed by Intesa Sanpaolo.
The listed senior security issued through the transaction, with a Moody's A1 and a DBRS Morningstar A rating.
Intesa Sanpaolo takes care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
A retrocession of 81 million euro was finalised in January 2021, followed by a sale of 1,439 million euro in June and a sale of 891 million euro in November.
As at 31 December 2021, the value of the outstanding securities was 6,610 million euro for the senior securities and 3,485 million euro for the junior securities.

UBI SPV Lease 2016

The UBI SPV Lease 2016 self-securitisation derives from the business combination of the former UBI Banca Group into the Intesa Sanpaolo Group in the third quarter of 2020. The self-securitisations was carried out on portfolios of UBI Leasing in 2016, for the purpose of generating eligible assets for refinancing operations with the European Central Bank.
For the transaction, a special purpose vehicle was established, UBI SPV Lease 2016 Srl, to which performing loans were transferred along with the related leases for 3,065 million euro (in terms of principal). The assignment was finalised on 23 June 2016, with accounting and economic effectiveness on the previous 31 May.
The transaction involved the issuance by the vehicle company of two tranches of securities on 28 July 2016:
- Class A securities (senior tranches): nominal value of 2,100 million euro, floating rate, maturity in 2050, assigned an A1 rating by Moody's (A2 as at 31 December 2021) and an A (low) by DBRS Morningstar (A as at 31 December 2021);
- Class B securities (junior tranches): nominal value of 1,001 million euro, maturity in 2050, unrated, with yield equal to the additional return of the operation.

The subscription of the junior notes also enabled the creation of a Cash Reserve within the operation of 31.5 million euro, still fully available at the reference date of these Notes.
The amortisation of the Class A notes began in 2021.
As at 31 December 2021, the securitised portfolio, which continued to be posted under the originator's assets, amounted to 2,181 million euro of residual capital debt.

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

(millions of euro)

Vehicle		Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2021
ADRIANO LEASE SEC S.r.l.					
of which issued in euro					**2,037**
	Class A	Senior	Receivables from lease payments	Moody's A1 / DBRS Morningstar A	686
	Class B	Junior	Receivables from lease payments	no rating	1,351
BRERA SEC S.r.l.					
of which issued in euro					**4,409**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa3 / DBRS Morningstar AH	3,342
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	1,067
BRERA SEC S.r.l. (SME)					
of which issued in euro					**1,977**
	Class A Asset Backed F/R Notes	Senior	Receivables from SME and large corporate customers	Moody's Aa3 / DBRS Morningstar AH	447
	Class B Asset Backed Fixed Rate and Additional Return Notes	Junior	Receivables from SME and large corporate customers	no rating	1,530
BRERA SEC S.r.l. (SEC 2)					
of which issued in euro					**5,894**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa3 / DBRS Morningstar AH	5,034
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	860
BRERA SEC S.r.l (SEC 3)					
of which issued in euro					**7,665**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's A1 / DBRS Morningstar AH	6,940
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	725
CLARA SEC S.r.l.					
of which issued in euro					**7,174**
	Class A Asset Backed F/R Notes	Senior	Personal loans	Moody's A1 / DBRS Morningstar A	6,350
	Class B Asset Backed Fixed Rate and Additional Return Notes	Junior	Personal loans	no rating	824
GIADA SEC S.r.l.					
of which issued in euro					**10,095**
	Class A Asset Backed F/R Notes	Senior	Receivables from Smal business, SME and corporate customers	Moody's A1 / DBRS Morningstar A	6,610
	Class B Asset Backed Fixed Rate and Additional Return Notes	Junior	Receivables from Smal business, SME and corporate customers	no rating	3,485
UBI SPV LEASE 2016 S.r.l.					
of which issued in euro					**2,436**
	Class A	Senior	Leases	Moody's A2 / DBRS Morningstar A	1,435
	Class B	Junior	Leases	no rating	1,001
TOTAL					**41,687**

The Apulia Finance 4 S.r.l. self-securitisation was extinguished in 2021.

OTHER INFORMATION ON FINANCIAL RISKS

SOVEREIGN RISK EXPOSURE BY COUNTRY OF RESIDENCE OF THE COUNTERPARTY

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

(millions of euro)

	DEBT SECURITIES					LOANS
	BANKING GROUP			INSURANCE COMPANIES	TOTAL	
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss			
EU Countries	**22,493**	**35,693**	**-1,454**	**68,852**	**125,584**	**10,967**
Austria	-	71	-96	241	216	-
Belgium	758	2,747	224	503	4,232	-
Bulgaria	-	-	-2	67	65	-
Croatia	147	751	151	230	1,279	1,247
Cyprus	-	-	-	99	99	-
Czech Republic	-	-	-	-	-	-
Denmark	-	-	-	-	-	-
Estonia	-	-	-	-	-	-
Finland	-	-	-38	30	-8	-
France	2,365	3,985	-761	3,327	8,916	27
Germany	510	395	-496	1,624	2,033	-
Greece	-	-	47	6	53	-
Hungary	199	770	34	56	1,059	113
Ireland	137	364	10	96	607	-
Italy	14,279	16,141	460	57,447	88,327	9,099
Latvia	-	-	3	21	24	27
Lithuania	-	-	-	-	-	-
Luxembourg	-	134	59	-	193	-
Malta	-	-	-	-	-	-
The Netherlands	52	120	50	327	549	-
Poland	52	69	-	26	147	-
Portugal	83	310	-127	620	886	-
Romania	66	369	22	435	892	5
Slovakia	-	895	-	-	895	169
Slovenia	1	193	-23	42	213	225
Spain	3,844	8,360	-971	3,655	14,888	55
Sweden	-	19	-	-	19	-
Non-EU Countries						
Albania	181	400	-	53	634	1
Egypt	-	1,839	1	127	1,967	391
Japan	-	3,004	-	-	3,004	-
Russia	-	50	-	21	71	-
Serbia	7	730	10	107	854	70
United Kingdom	-	192	1	66	259	-
U.S.A.	1,358	4,841	95	7	6,301	-

Management accounts

As illustrated in the table, the exposure to Italian government securities at the end of 2021 totalled approximately 88 billion euro (90 billion euro at the end of 2020), in addition to around 9 billion euro represented by loans (10 billion euro at the end of 2020).

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products came to 3,621 million euro as at 31 December 2021, a net increase of 892 million euro compared to the stock of 2,729 million euro as at 31 December 2020. The exposure includes investments in ABSs (Asset-Backed Securities) of 2,000 million euro, in CLOs (Collateralised Loan Obligations) of 1,545 million euro and, to a residual extent, in CDOs (Collateralised Debt Obligations) of 76 million euro, which continued to be a marginal activity also in 2021.

(millions of euro)

Accounting categories	31.12.2021				31.12.2020	Changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	408	641	-	**1,049**	**849**	200	23.6
Financial assets mandatorily measured at fair value	-	3	-	**3**	**4**	-1	-25.0
Financial assets measured at fair value through other comprehensive income	768	933	-	**1,701**	**1,119**	582	52.0
Financial assets mesured at amortised cost	369	423	76	**868**	**757**	111	14.7
Total	**1,545**	**2,000**	**76**	**3,621**	**2,729**	**892**	**32.7**

In this disclosure, structured credit products include debt securities held by the Group divided into tranches upon issue consisting of various degrees of subordination and not issued within the framework of transactions originated by entities of the Intesa Sanpaolo Group or by public entities, in addition to transactions whereby the Group finances its corporate and financial institution customers (operations implemented by the Group through the subsidiary Duomo Funding Plc).
The strategy for transactions in structured credit products shows a prevalence of investments aimed at exploiting market opportunities over disposals of the portfolio during the period.
The exposure in ABSs and CLOs measured at fair value went from 1,972 million euro in December 2020 to 2,753 million euro in December 2021, a net increase of 781 million euro, mainly attributable to operations on positions of the IMI Corporate & Investment Banking Division, in the assets measured at fair value through other comprehensive income portfolio and to a lesser extent in the assets held for trading portfolio.
The exposure to debt securities classified as assets measured at amortised cost amounted to 868 million euro in December 2021, compared with an exposure of 757 million euro in December 2020 for an increase of 111 million euro.
From a profit or loss perspective, a profit of +10 million euro was posted as at 31 December of 2021, a significant improvement on -5 million euro recorded in 2020.
The profit on trading – caption 80 of the income statement – amounts to +9 million euro and relates to the exposures in ABSs and CLOs, as a result of valuation effects of +4 million euro and realised gains of +5 million euro. The stronger performance highlights the segment's recovery in 2021 compared to 2020, when the result was -6 million euro, due essentially to valuation impacts.
The profit from financial assets mandatorily measured at fair value was +1 million euro, compared to a loss of 1 million euro as at 31 December 2020.
The exposures to debt securities classified as assets measured at fair value through other comprehensive income recorded a net increase in fair value of +3 million euro in 2021 through a shareholders' equity reserve (from a reserve of -4 million euro in December 2020 to -1 million euro in December 2021); on the other hand, there was no impact from sales from the portfolio as at 31 December 2021, against an impact of +4 million euro as at 31 December 2020.
The result recognised on the debt securities classified as assets measured at amortised cost was nil overall as at 31 December 2021 (-1 million euro on ABS exposures and +1 million euro on CDO exposures) compared to an impact of -2 million euro as at 31 December 2020, essentially relating to valuation components.

(millions of euro)

Income statement results broken down by accounting category	31.12.2021				31.12.2020	Changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	2	7	-	**9**	**-6**	15	-
Financial assets mandatorily measured at fair value	-	1	-	**1**	**-1**	2	-
Financial assets measured at fair value through other comprehensive income	-	-	-	**-**	**4**	-4	-
Financial assets mesured at amortised cost	-	-1	1	**-**	**-2**	-2	-
Total	**2**	**7**	**1**	**10**	**-5**	**15**	**0.0**

INFORMATION ON LEVERAGED TRANSACTIONS

In 2017, the ECB published specific Guidance on Leveraged Transactions, which applies to all the significant entities subject to direct supervision by the ECB. The stated purpose of the guidance is to strengthen company controls over "leveraged" transactions, in view of the global increase in leveraged finance activities and the highly competitive market, characterised by a prolonged period of very low interest rates and the ensuing search for yields.

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

As at 31 December 2021, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions as per the ECB Guidance amounted to approximately 35.3 billion euro, relating to 2,332 credit lines.
In accordance with the requirements of the ECB Guidance, as part of the Credit Risk Appetite a specific limit for the outstanding stock of leveraged transactions and limits on new transaction flows were submitted for approval to the Board of Directors, in line with the Bank's risk appetite on these types of operations.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Parent Company's hedge fund portfolio as at 31 December 2021 amounted to 27 million euro for the trading book and 200 million euro for the banking book, compared to 39 million euro and 277 million euro respectively as at 31 December 2020.
The investments in the banking book are recognised under financial assets mandatorily measured at fair value and pertain to funds that adopt medium/long-term investment strategies and redemption times that are longer than those of UCITS (Undertakings for Collective Investment in Transferable Securities) funds.
In 2021, the stock of these investments decreased by 89 million euro compared to 31 December 2020. Of this decrease, 77 million euro concerned the banking book, mainly due to the disposals in the period, while 12 million euro concerned the trading segment.
In terms of income statement effects, a total profit of +14 million euro was recorded in 2021 (compared to a loss of -3 million euro in 2020). This result comprised +9 million euro attributable to the valuation of the funds in the portfolio, and +5 million euro attributable to sales during the year. In particular, the profits (losses) on trading – caption 80 of the income statement (trading book) – showed a loss of -7 million euro as at 31 December 2021 and refers to valuation losses, compared with the loss of -21 million euro in 2020, mainly attributable to sales during the period.
On the other hand, the net profit (loss) on financial assets mandatorily measured at fair value – caption 110 of the income statement (banking book portfolio) as at 31 December 2021 – recorded a profit of +21 million euro and is attributable to net profits on valuation of +16 million euro and net profits on sales during the period of +5 million euro. As at 31 December 2020, the profit came to +18 million euro, entirely attributable to valuations during the period.
Within the Intesa Sanpaolo Group, Eurizon Capital SGR recorded hedge funds of 53 million euro as at 31 December 2021 (with an impact of +2 million euro on the income statement in 2021). Hedge funds are held in portfolio according to a seeding approach that involves setting up a service portfolio consisting of shares of mutual funds for which marketing has begun in support of the funds.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 31 December 2021, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 6,917 million euro (8,934 million euro as at 31 December 2020). The notional value of these derivatives totalled 64,254 million euro (75,296 million euro as at 31 December 2020).
In particular, the notional value of plain vanilla contracts was 59,649 million euro (69,636 million euro as at 31 December 2020), while that of structured contracts was 4,605 million euro (5,660 million euro as at 31 December 2020).
The positive fair value of contracts outstanding with the 10 customers with the highest exposures was 4,416 million euro (5,802 million euro as at 31 December 2020).
Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 2,192 million euro as at 31 December 2021 (1,460 million euro as at 31 December 2020). The notional value of these derivatives totalled 34,378 million euro (19,222 million euro as at 31 December 2020).
In particular, the notional value of plain vanilla contracts was 31,493 million euro (17,809 million euro as at 31 December 2020), while that of structured contracts was 2,885 million euro (1,413 million euro as at 31 December 2020).
The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 31 December 2021, this led to a positive effect of 97 million euro being recorded under "Profits (Losses) on trading" in the income statement.
As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs of the section on accounting policies in the Notes to the consolidated financial statements.
Please note that contracts made up of combinations of more elementary derivative instruments have been considered "structured" and that the aforesaid figures do not include fair value of derivatives embedded in structured bond issues as well as the relative hedges agreed by the Group.